

Date: 17/4/2017
No. : f.c.d /153 /2017

Jordan Securities Commission
Amman Stock Exchange

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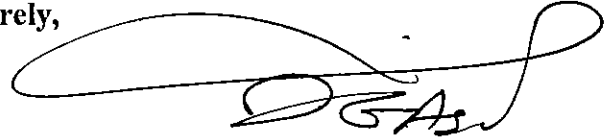
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Subject: Audited Financial Statements for the Fiscal Year ending in 31/12/2016

Dear Sir,

Attached please find the Audited Financial Statements of Islamic International Arab Bank PLC for the fiscal year ending in 31/12/2016 after being approved by Central Bank of Jordan.

Your sincerely,



Iyad Asali

General Manager

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

ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
DECEMBER 31, 2016

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In the Name of Allah, the Beneficent, the Merciful

Independent Auditor's Report

AM/ 30233

To the Shareholder of
Islamic International Arab Bank
(A Public Shareholding Limited Company)
Amman – The Hashemite Kingdom of Jordan

Report on Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Islamic International Arab Bank "the Bank", which comprise the statement of financial position as of December 31, 2016, and the statements of Income, comprehensive Income, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Islamic Accounting Standards Issued by the Accounting and Auditing Organization for Islamic Financial Institutions which are consistent with the Bank's Articles of Association and aligned with Sharia rules and principles that are determined by Sharia Supervisory Board of the Bank.

Basis for Opinion

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

Explanatory Paragraph

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

Key Audit Matters

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

Distribution of Total Revenue of Joint Investment Accounts (Investment Pool) Scope of Audit to Address the Risk

Distribution of total revenue of joint investment accounts is a significant audit matter, whereby the Bank is required to calculate gross revenue generated from joint investment operations and distribute them periodically according to rates determined and announced among the owners of the joint investment accounts, shareholders, and investment risks fund related to those revenue.

Audit procedures included understanding the calculation and distribution of total revenue among the owners of the joint investment accounts, shareholders, and investment risks fund. Our procedures also included examination of the adopted internal control system and re-calculation and distribution of a selected sample by a team specialized in the audit of electronic systems to study the Bank's system computational processes and mechanism of revenue distribution.

Adequacy of the Provision for Impairment of Deferred Sales Receivables and Other Receivables, Ijara (Lease-to-Own) Assets and Al - Qard Al - Hassan Loans

The provision for impairment of deferred sales receivables and other receivables, Ijara (lease-to-own) assets, and Al - Qard Al - Hassan loans is a significant matter for the financial statements. Its calculation requires assumptions, management's use of estimates for the decline in credit rating, probabilities of non-collection resulting from the deterioration of some debtors' financial and economic conditions and inadequate guarantees. Moreover, deferred sales receivables and other receivables, Ijara (lease-to-own) assets, and Al - Qard Al - Hassan loans granted by the Bank totaled JD 1,201,029,679, representing 61% of total assets as of December 31, 2016.

The nature and characteristics of those receivables, assets, and loans granted to debtors differ from sector to sector. Consequently, the calculation method of the impairment provision differs due to the varied sectors and difference in evaluating the related risks.

Scope of Audit to Address the Risk

The adopted audit procedures included understanding deferred sales receivables and other receivables, Ijara (lease-to-own) assets, and Al - Qard Al - Hassan loans. They also included examination of the internal control system related to credit granting, credit monitoring, and evaluation of the reasonableness of management's estimates of the impairment provision. Moreover, we studied and understood the Bank's policy relating to the calculation of provisions. We also studied a sample of those receivables, assets, and loans, at the Bank's level as a whole, regarding the calculation of the provision such as available guarantees, customers' solvency, management's estimates of the expected cash flows, and regulatory requirements issued by the Central Bank of Jordan. Furthermore, we discussed those factors with executive management to verify the adequacy of the provisions taken and recalculated the provision to be taken for that sample.

Evaluation of Investments in Real Estate

The Bank should re-evaluate the Investment in real estate at the time of preparation of the financial statements to determine their fair value and reflect the effect of Impairment on the Investments Risks Fund according to the Standards Issued by the Accounting and Auditing Organization for Islamic Financial Institutions and in compliance with the Central Bank of Jordan's resolutions.

Scope of Audit to Address Risks

The adopted audit procedures included understanding the Bank's procedures relating to the evaluation of Investment in real estate and examination of the internal control system. Moreover, we studied a sample of those evaluations, which included real estate appraisers' reports. In addition, we reviewed a sample of those evaluations, including calculating the average fair value of that sample as well as calculating the impairment amount. We also focused on the adequacy of disclosures and the disclosure on the fair value of Investment in real estate.

Other Information

Management is responsible for the other Information. The other Information comprises the Information stated in the Annual Report and does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the financial statements does not cover the other Information, and we will not express any form of assurance conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Islamic Accounting Standards Issued by the Accounting and Auditing Organization for Islamic Financial Institutions, which are consistent with the Bank's Articles of Association and aligned with the Sharia rules and principles determined by Sharia Supervisory Board of the Bank, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



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

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

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

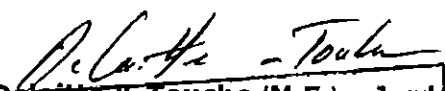
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

The Bank maintains proper accounting records that are consistent with the financial statements, and we recommend that they be approved.

**Amman – Jordan
February 7, 2017**


Deloitte & Touche (M.E.) – Jordan
Deloitte & Touche (M.E.)
Public Accountants
Amman - Jordan

ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF FINANCIAL POSITION

ASSETS	Note	December 31,	
		2016	2015
		JD	JD
Cash and balances at the Central Bank	4	642,618,706	702,356,176
Balances at banks and financial Institutions	5	22,343,142	22,686,521
Deferred sales receivables and other receivables – Net	6	613,132,971	513,828,255
Deferred sales receivables through statement of income	7	-	-
Ijara (lease-to-own) assets – Net	8	568,938,389	489,738,214
Financing Investments	9	255,367	9,170,558
Financial assets at fair value through shareholders' equity	10	5,519,852	5,507,159
Financial assets at amortized cost – Net	11	33,857,822	8,040,337
Investments in real estates	12	21,023,966	19,458,673
Al – Qard Al – Hasan loans – Net		18,958,319	10,200,682
Property and equipment – Net	13	19,829,354	21,217,903
Intangible assets – Net	14	495,065	1,044,878
Deferred tax assets	20/c	2,606,134	2,485,361
Other assets	15	20,238,624	2,849,193
TOTAL ASSETS		1,969,817,711	1,808,583,910
LIABILITIES			
Banks and financial Institutions accounts	16	113,743	338,171
Customers' current accounts	17	715,422,218	627,166,818
Cash margin	18	28,738,283	26,196,383
Other provisions	19	2,462,395	2,268,647
Provision for Income tax	(20/a)	10,204,258	6,742,519
Deferred tax liabilities	(20/c)	234,557	969,033
Other liabilities	21	37,266,915	25,502,862
TOTAL LIABILITIES		794,442,369	689,184,433
Joint Investment Accounts Holders' Equity			
Unrestricted Investment accounts	22	993,700,279	958,734,821
Total Joint Investment Accounts Holder's Equity		993,700,279	958,734,821
INVESTMENT RISKS FUND			
Investment Risks Fund	23	23,596,813	18,647,935
Provision for Income tax on Investment Risks Fund	23	2,279,185	2,148,821
		25,875,998	20,796,756
SHAREHOLDERS' EQUITY			
Authorized and paid-up capital	24	100,000,000	100,000,000
Statutory reserve	25	21,383,327	17,919,041
Voluntary reserve	25	4,262,322	4,262,322
General banking risks reserve	25	882,000	882,000
Fair value reserve – Net	26	435,605	427,355
Retained earnings	27	28,835,811	16,377,182
Total Shareholders' Equity		155,799,065	139,867,900
Total Liabilities, Joint Investment Accounts Holders and Shareholders' Equity		1,969,817,711	1,808,583,910
Restricted Investments		118,177,657	123,947,608
Wakalah Investments		17,679,879	8,880,376
Chairman		General Manger	

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (54) CONSTITUTE AN INTEGRAL PART OF
THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM AND WITH
THE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF INCOME

	Note	For the Year Ended December 31,	
		2016	2015
		JD	JD
Deferred sales revenue	28	39,507,008	33,967,242
Revenue from financing Investments	29	181,702	264,848
Revenue from financial assets at amortized cost	30	554,049	179,201
Net (expense) revenue from Investment in Real Estate	31	(583,420)	323,818
Revenue from Ijara (lease-to-own) assets	32	41,517,882	37,627,939
Net gain (loss) from foreign currencies	37	3,321	(22,971)
Total Revenue from Joint Investments Accounts		81,180,542	72,340,077
Unrestricted Investment accounts share	33	(19,023,501)	(22,212,747)
Investment risks fund share	23	(8,118,054)	(7,234,008)
Bank's Share in income from Joint Investment as Mudarib and Fund Owner (Rab Al-Mal)	34	54,038,987	42,893,322
Bank's revenue from its own Investments	35	438,223	533,387
Bank's share in restricted investment profit as Mudarib	36/a	108,065	59,739
Bank's share in restricted investment profit as agent (Wakeel)	36/b	112,506	28,670
Gains from foreign currencies	37	1,641,434	1,815,481
Banking services revenue	38	8,282,039	7,218,905
Other revenue	39	344,170	342,910
Gross Income		64,965,424	52,892,414
Expenses			
Employees' expenses	40	17,424,272	16,059,006
Depreciation and amortization	13&14	3,668,397	2,487,705
Other expenses	41	8,467,648	8,327,630
Depreciation of Ijara (lease-to-own) assets	8	376,534	451,436
Provisions for Impairment of deferred sales receivables	6	53,000	368,000
Other provisions	19	332,713	188,878
Total Expenses		30,322,564	27,882,655
Income for the Year before Tax		34,642,860	25,009,759
Income tax	(20/b)	(11,629,945)	(8,372,095)
Income for the Year		23,012,915	16,637,664
Earnings per Share - Basic / Diluted	42	0/2301	0/1664

Chairman

General Manger

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ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF COMPREHENSIVE INCOME

	For the Year Ended December 31,	
	2016	2015
	JD	JD
Profit for the year	23,012,915	16,637,664
Comprehensive Income Items:		
Items that will not be reclassified subsequently to Statement of Income:		
Net change in the fair value reserve	8,250	(165,964)
Total Comprehensive Income for the Year	23,021,165	16,471,700

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ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Authorized and Paid-up	Reserves					Fair Value Reserve Net	Retained Earnings *	Total
			Statutory	Voluntary	General Banking Reserve **	JD	JD			
For the Year Ended December 31, 2016										
Balance at the beginning of the year		100,000,000	17,919,041	4,262,322	882,000		427,355		16,377,182	139,867,900
Income for the year		-	-	-	-	-	-	-	23,012,915	23,012,915
Net change in the fair value reserve after tax	26	-	-	-	-	-	8,250	-	-	8,250
Total comprehensive income		-	-	-	-	-	-	-	23,012,915	23,012,915
Transfer to reserves		-	3,464,286	-	-	-	8,250	-	(3,464,286)	-
Distributed dividends ***		-	-	-	-	-	-	-	(7,090,000)	(7,090,000)
Balance at the End of the Year		100,000,000	21,383,327	4,262,322	882,000		435,605		28,835,811	155,799,065
For the Year Ended December 31, 2015										
Balance at the beginning of the year		100,000,000	15,418,065	5,537,312	882,000		593,319		8,055,504	130,486,200
Income for the year		-	-	-	-	-	-	-	16,637,664	16,637,664
Net change in the fair value reserve after tax	26	-	-	-	-	-	(165,964)	-	-	(165,964)
Total comprehensive income		-	-	-	-	-	(165,964)	-	16,637,664	16,471,700
Transferred to reserves		-	2,500,976	-	-	-	-	-	(2,500,976)	-
Distributed dividends ***		-	-	(1,274,990)	-	-	-	-	(5,815,010)	(7,090,000)
Balance at the End of the Year		100,000,000	17,919,041	4,262,322	882,000		427,355		16,377,182	139,867,900

* Retained earnings includes an amount of JD 2,348,792 as of December 31, 2016 that cannot be utilized based on the instructions of the Central Bank of Jordan. This amount represents the amount of deferred tax assets relating to the Bank's own operations.

** The General Banking Risks Reserve amounting to JD 882,000 as of December 31, 2016 cannot be utilized without prior approval of the Central Bank of Jordan.

*** On April 7, 2016, the General Assembly of Shareholders approved the distribution of cash dividends of JD 7,090,000 to the sole shareholder (Arab Bank plc.), representing 7.09% of the authorized and paid-up capital from distributable retained earnings.

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ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF CASH FLOWS

	Note	For the Year Ended December 31,	
		2016	2015
		JD	JD
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Income before tax		34,642,860	25,009,759
<u>Adjustments to Non- Cash Items:</u>			
Depreciation and amortization	13&14	3,668,397	2,487,705
Depreciation of investment in real estate	12	750,425	203,977
Depreciation of Ijara (lease-to-own) assets		57,891,632	50,502,716
Provision for impairment of deferred sales receivables and self-financing	6	53,000	368,000
Investment Risks Fund	23	8,118,054	7,234,008
Other provisions	19	332,713	188,878
(Gains) from sale of property and equipment		(2,585)	(3,961)
Effect of exchange rate fluctuations on cash and cash equivalents		3,321	(22,971)
Profit before Changes in Working Capital		105,457,817	85,968,111
(Increase) In deferred sales receivables and other receivables		(99,694,958)	(47,385,708)
Decrease (Increase) In financing investments		8,915,191	(8,357,204)
(Increase) In Ijara (lease-to-own) assets		(137,091,807)	(127,580,073)
(Increase) In other assets		(17,380,044)	(154,219)
(Increase) in Al - Qard Al - Hasan loan		(8,757,637)	(2,891,092)
Increase in customers' current accounts		88,255,400	77,005,367
Increase in cash margins		2,541,900	2,878,052
Increase in other liabilities		12,047,455	3,592,195
Net Cash (used In) Operating Activities before Tax and Provisions Paid		(45,706,683)	(16,924,571)
Provisions paid	19	(138,965)	(251,008)
Tax paid	20&23	(12,022,257)	(8,742,693)
Net Cash (used in) Operating Activities		(57,867,905)	(25,918,272)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Decrease in financial assets through shareholders' equity		-	24,000
(Increase) decrease in financial assets at amortized costs - Net		(25,817,485)	780,205
Sale (purchase) of investment in real estates		(2,315,718)	2,064,577
(Purchase of) property and equipment		(1,715,572)	(2,525,681)
(Purchase of) intangible assets	14	(65,483)	(358,967)
Proceed from sale of property and equipment		53,605	36,243
Net Cash (used in) from Investing Activities		(29,860,653)	20,377
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>			
Increase in joint investment accounts holders' equity		34,965,458	140,887,599
Distributed dividends		(7,090,000)	(7,090,000)
Net Cash Flows from Financing Activities		27,875,458	133,797,599
Effect of exchange rate fluctuations on cash and cash equivalents		(3,321)	22,971
Net (Decrease) Increase In Cash and Cash Equivalents		(59,856,421)	107,922,675
Cash and Cash Equivalents - beginning of the Year		724,704,526	616,781,851
Cash and cash equivalents - End of the Year	43	664,848,105	724,704,526
<u>Non-Cash Operations:</u>			
Transfer of Owned Real Estates from Other Assets to Investment in Real Estates		-	347,048

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ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF SOURCES AND USES OF AI - QARD AI - HASAN FUND

	For the Year Ended December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	<u>10,086,347</u>	<u>7,138,883</u>
<u>Resources of Fund's Assets From:</u>		
Shareholders' equity	(20,273,935)	(12,838,588)
Total Resources of Fund's Assets during the Year	<u>(20,273,935)</u>	<u>(12,838,588)</u>
<u>Uses of Fund's Assets On:</u>		
Personal advances	2,749,360	1,033,441
Visa Revolving Card	<u>25,970,520</u>	<u>14,752,611</u>
Total Used during the Year	<u>28,719,880</u>	<u>15,786,052</u>
 Total balance	 18,532,292	 10,086,347
Currents and overdraft accounts	665,085	300,938
<u>Less: Impairment provision</u>	<u>(239,058)</u>	<u>(186,603)</u>
Balance at the End of the Year – Net	<u>18,958,319</u>	<u>10,200,682</u>

ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF CHANGES IN RESTRICTED INVESTMENTS

	International Murabaha		Ijara (Lease-to-own) Assets		Local Murabaha (Real Estate Financing)		Cash Balances		Total	
	For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Investments at the beginning of the year	116,805,777	131,826,796	269,000	447,000	101,088	274,624	6,771,743	3,007,689	123,947,608	135,556,109
add: Deposits	35,173,889	46,657,661	-	-	-	-	-	3,764,054	35,173,889	50,421,715
less: Withdrawals	(40,580,774)	(61,890,693)	(76,847)	(196,175)	(74,810)	(174,548)	(686,115)	-	(41,418,546)	(62,261,416)
Bank's fees as Mudarib	(104,642)	(53,055)	(1,618)	(6,332)	(1,805)	(352)	-	-	(108,065)	(59,739)
add: Investment gains	571,211	265,068	5,465	24,507	6,095	1,364	-	-	582,771	290,939
Investments at the End of the Year	111,865,461	116,805,777	196,000	269,000	30,568	101,088	6,085,628	6,771,743	118,177,657	123,947,608
Revenues received in advance	-	-	-	-	3,343	9,438	-	-	3,343	9,438
Provision for depreciation	-	-	97,531	154,371	-	-	-	-	97,531	154,371
Provision for investment risks	-	-	-	-	260,639	259,483	-	-	260,639	259,483
Provision for distribution	382	9,260	-	-	2,885	6,462	-	-	3,267	15,722
Total	382	9,260	97,531	154,371	266,867	275,383	-	-	364,780	439,014

ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
STATEMENT OF CHANGES IN RESTRICTED WAKALAH INVESTMENT

	Local Murabaha		Cash Balances		Total	
	For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Investments at the beginning of the year	5,981,628	2,063,610	2,898,748	3,436,390	8,880,376	5,500,000
<u>Add: Deposits</u>	16,302,478	6,508,524	-	-	16,302,478	6,508,524
Less: Withdrawals	(7,043,616)	(2,590,506)	(459,359)	(537,642)	(7,502,975)	(3,128,148)
<u>Add: Investments' gains</u>	347,683	143,806	-	-	347,683	143,806
<u>Less: Bank's fees as Agent (Wakeel)</u>	(112,506)	(28,670)	-	-	(112,506)	(28,670)
<u>Less: Client's share</u>	(235,177)	(115,136)	-	-	(235,177)	(115,136)
Investments at the End of the Year	15,240,490	5,981,628	2,439,389	2,898,748	17,679,879	8,880,376
Revenue received in advance	704,966	257,877	-	-	704,966	257,877
Suspended in revenue	-	6	-	-	-	6
	704,966	257,883	-	-	704,966	257,883

ISLAMIC INTERNATIONAL ARAB BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – THE HASHEMITE KINGDOM OF JORDAN
NOTES TO THE FINANCIAL STATEMENTS

1. General

- The Islamic International Arab Bank Is a Jordanian Public Shareholding Company with headquarters in Amman – the Hashemite Kingdom of Jordan. The Bank was established on March 30, 1997 according to the Companies Law No. 22 for 1997.
- The Bank provides all banking, financial, and investment activities that comply with the provisions of Islamic Shari'a through its headquarters and its 41 branches inside the Kingdom. The Bank's activities are subject to the provisions of the Banks' Law in force.
- The Islamic International Arab Bank is wholly owned by the Arab Bank.
- The financial statements have been approved by the Bank's Board of Directors in its Meeting Session No. (1) on January 30, 2017.
- The Bank's Shari'a Supervisory Board has reviewed the Financial Statements in its Meeting Session No. (1) on January 30, 2017 and has issued its Shari'a Report in respect thereof.

2. Significant Accounting Policies

Bases of Financial Statements Preparation

- The Bank's financial statements have been prepared in accordance with the standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions and local laws in force, and the instructions of the Central Bank of Jordan. In the event that there are no standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions relating to the financial statements' items, the International Financial Reporting Standards and related interpretations are applied in conformity with the Shari'a Standards, pending the promulgation of Islamic Standards therefor.
- The financial statements are prepared on the historical cost basis except for financial assets at fair value through shareholders' equity and sales receivables through the statement of income, which are recognized at fair value at the date of the financial statements.
- The financial statements have been presented in Jordanian Dinar, which is the main currency at the Bank.
- The Bank adopted the principle of mixing owner's equity with the accounts of the holders of joint investment as from the beginning of May 2013, maintaining the existing investments financed by the holders of equity (self) until maturity.
- Amounts are deducted from the Investment Risks Fund to cover the impairment in receivables and financings, the impairment in investments in real estate, and any other investments financed from the joint investments accounts.
- The general banking risk reserve cannot be utilized without prior approval of the Central Bank of Jordan.

- The Bank invests the assets of the Investment Risks Fund, and the return realized from such investments is included in the profits of the investment pool and distributed as per the determined rates for the distribution of dividends. As of July 1, 2015, investments are no longer made out of the Fund, as the Bank has liquidity surpluses.
- The accounting policies adopted in preparing the financial statements for the year ended December 31, 2016 are consistent with those adopted in preparing the financial statements for the year ended December 31, 2015.

Sectors' Information

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

Bases of Dividends Distribution among Owners of Shareholders' Equity and Holders of the Joint Investment Accounts

	Rate	
Share of Joint Investment Accounts Holders	40%	Which is 3.021% and 2.965% for the 1st and 2nd halves of 2016, respectively on the Jordanian Dinar (compared with 3.629% and 3.184% for the 1st and 2nd halves of 2015, respectively) and 0.34% and 0.44% on the US Dollar for the 1st and 2nd halves of 2016, respectively (compared with 0.24% and 0.22% for 2015, respectively)
Share of Shareholders' Equity	50%	
Share of the Investment Risks Fund	10%	

- The Bank donated a maximum of 5% of the share of the shareholders' equity as per the categories announced to customers at the branches for the deposits participating in profits, for the first period of 2015 (from January 1, 2015 until June 30, 2015). Moreover, the Bank stopped donations on July 1, 2015.
- The Bank grants priority in investment to the holders of the joint investment accounts. These accounts are charged with the advertisement and publicity expenses in respect of the products that the Bank releases. Such expenses are life insurance premiums in respect of those financed by Ijara (lease-to-own) contracts and the expenses related to investment in real estate, which are invested from the deposits accounts that participate in profits.
- The rate of dividends distributed to the holders of the restricted investment deposits in US Dollars ranged from 0.41% to 0.60% for the year 2016 (compared with 0.17% and 0.25% for the year 2015).

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

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

Zakah

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

Deferred Sales Receivables

Murabaha Contracts

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

- The Bank applies the principle of commitment of promise in the sale contracts of Murabaha to purchase order, but in the event of abstention, the Bank sells the commodity and refers to the commander of purchase to compensate for the actual losses.
- Murabaha receivables are recorded upon their occurrence at their nominal value. They are measured at the end of the financial year at the net cash value expected to be realized.
- The profits are recorded upon concluding the cash Murabaha contracts or to a period not exceeding the financial year.
- Income of deferred sales for a period exceeding the financial year is recorded by distributing it over the future financial years for the term, whereby a share of the profits is allocated for each financial year regardless of whether or not it is a cash delivery.

Al Ju'alah

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

Al Istisna'

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

- Cost of Istisna' includes direct and indirect costs related to Istisna' contracts. Such costs do not include general and administrative, marketing expenses and costs of research and development.
- The costs of Istisna' process and the costs prior to signing the contract are recorded in the financial year under the item Istisna' under process at the amounts disbursed by the Bank. The invoices sent to Al Mustasnee (the buyer) by the Bank are recorded under Istisna' receivables account and deducted from the account of Istisna' under process in the statement of financial position.
- Istisna' revenue is recorded upon concluding the contract either through completion of execution or expiry of the contract, whichever is earlier.

- In the event that Al Mustasnee (the buyer) does not fully pay the agreed upon price and reach an agreement to pay in installments during the contract execution or after its completion, deferred profits are recorded and deducted from the balance of Istisna' receivables account in the Bank's statement of financial position. This is carried out whether the method followed in recording Istisna' revenues is the percentage of completion method or the completed contract method. Moreover, the deferred profits distribution is made over the future financial years whereby a share of the profits is allocated for each financial year, whether the settlement is made by cash or not.
- In the event that the Bank retains the manufactured item for any reason, such assets are measured at the expected cash value to be realized or at cost, whichever is lower. The difference (if any) is recorded as a loss in the statement of income in the financial year in which it is realized.

Assets Available for Deferred Payment Sale

- These are assets which the Bank acquires for the purpose of future sale (by installments). The sale of such assets is called Musawamah sale by installments in order to differentiate it from Murabaha to purchase order.
- The assets available for deferred payment sale are recorded at cost at the time of contracting and measured on a cost basis (purchase value and any direct expenses which are acquisition-related).
- The assets available for deferred payment sale are measured at the end of the financial period at fair value. The amount of change resulting from the re-valuation process (if any) is measured on the basis of book value compared with fair value, and the unrealized profit (loss) is recorded in the investments fair value reserve.
- Profits from the deferred payment sale operations are recorded according to the maturity principle distributed over the financed periods for the contract term. The profits for deferred payment sale are recorded in the revenues of future sales account.
- Receivables of deferred payment sale are recorded upon contracting at par value (the contracted for).

Financing Investments

Mudaraba Financing

It is a partnership in profit regarding money and work, and it is instituted between the holders of investment accounts (Arbab Al Mal) and the Bank (Mudarib). The Bank announces the general acceptance of such funds for the investment thereof and the division of gain as agreed, whereby losses are charged to Rab Al-Mal except in the events of infringement of the Bank (Al Mudarib), its default, or violation of the conditions. In such cases, the Bank bears the consequences arising therefrom. The partnership is also instituted between the Bank in its capacity as the capital holder in its own name or on behalf of the holders of investment accounts and craftsmen and other business owners such as farmers and industrialists. Such Mudaraba is different from the traditional speculation that involves adventure and taking risks in sale and purchase activities.

- Mudaraba finance is recorded upon delivering the capital to Al Mudarib or putting it under his control. The provided capital is measured by the paid amount or at fair value if in-kind. If a difference results from the valuation of the in-kind item between the fair value and the book value, it is recognized as a profit (loss) in the statement of income. At the end of the financial year, the amount the Bank redeems from the Mudaraba capital is deducted.
- The Bank's share of the gains (losses) arising and expiring during a financial year is recorded after the settlement of the Mudaraba process. In events where Mudaraba process continues for more than a financial year, the Bank's share of the profits is recorded upon realization of the profits by accounting for them, in whole or any part thereof, in the financial year in which the profits occur to the extent of distributed profits. Moreover, losses for that year are recorded to the extent of losses by which the Mudaraba capital is reduced.
- If losses are incurred due to Mudareb infringement or default, such losses are recorded as receivables debited to Mudareb's account.

Musharaka Financing

It is the provision of funds by the Bank and customer equally or differently in order to set up a new project or participate in an existing one, whereby each of them would own a share in the capital either on a fixed or diminishing basis and would be entitled to its share of the gains. Losses are divided proportionate to the partner's share in capital, whereby it would be inappropriate to stipulate otherwise.

- The Bank's share in Musharaka capital is recorded upon delivery to the managing partner or when it is deposited in Musharaka account, as it is measured at the cash paid value or at fair value if in-kind. If a difference results from the evaluation of the in-kind item between fair value and book value, it is recognized as a profit (loss) in the statement of income.
- The capital in the diminishing Musharaka is measured at the end of the financial year at the historical value less the historical value of the share sold at the agreed upon fair value, and the difference between both values is recorded as a profit or loss in the statement of income.
- The Bank's share of the gains or (losses) of Musharaka financing which arises or expires during the financial year is recorded after settlement. In the event that Musharaka continues for more than a financial year, the Bank's share of the profits is recorded upon their realization by accounting for them, in whole or any part thereof, between the Bank and the partner in the financial year in which the profits occur to the extent of the distributed profits. Moreover, losses for a financial year are recorded in that year to the extent of the losses by which the Bank's share in the Musharaka capital is reduced.
- An impairment provision for the deferred sales receivables and other receivables are made, if the amounts due to the Bank become uncollectible and when there is an objective evidence that an event has adversely affected the future cash flows of the deferred sales receivables and other receivables. Such impairment is recorded in the statement of income when it becomes measurable.
- At the end of the financial year, the financing assets are recorded at cost or at cash value expected to be realized, whichever is lower, and the difference is recorded as a financing impairment provision.
- The income from future sales and non-performing financing granted to customers is held in suspense in accordance with the Central Bank's instructions.
- The deferred sales receivables and funding financed from the joint investment accounts are written off in case efforts relating to their collection are not successful against the Investment Risks Fund (except for what has been granted / financed and then written off of the deferred sales receivables and finances in the same year whereby they are recorded in the statement of income within investment income). Any amounts collected from the previously written-off receivables and finances are added to the Investment Risks Fund, except for what has been recorded in the statement of income within investment income. Moreover, deferred sales receivables and funding financed from the Bank's own funds for which an impairment provision is taken are written off, if the related collection procedures are not successful, and deducted from the impairment provision. Any surplus in the total impairment provision is transferred to the statement of income, and any amounts of the previously written-off receivables and finances collected are added to income.

Financial Assets at Amortized Cost

These represent financial assets the Bank's Management aims to hold according to its business model to collect their contractual cash flows. Moreover, they represent fixed or determinable payments for their capital and gains.

These assets are recorded at cost upon purchase plus acquisition costs, and they are re-valued at the end of the current period based on the effective profit method. Any profits or losses resulting from the amortization process are recognized in the statement of income, and any impairment in value is recorded in the statement of income.

The amount of impairment in the value of these assets represents the difference between the book value and present value of the expected cash flows discounted at the original effective profit rate whereby any provisions resulting from impairment in the value of these assets are deducted. Moreover, any financial assets may not be reclassified to/ from this item.

If any of these assets financed from the Bank's own funds is sold before maturity, the result of the sale is recorded in a separate item within the statement of comprehensive income and disclosed accordingly.

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

- These assets represent investments in equity instruments financed from the Bank's funds for retaining them for the long term.
- These assets are recorded upon purchase at fair value plus acquisition costs. Subsequently, these assets are re-valued at fair value. The change in fair value is recognized under the fair value reserve within shareholders' equity.
- If such assets or any part thereof is sold, gains or losses resulting therefrom are recorded in retained earnings.
- The impairment loss previously recorded in the statement of income may be recovered if it is objectively found that the increase in fair value occurred in a period subsequent to recording the impairment losses through the fair value reserve recognized within shareholders' equity accounts.
- Gains generated from such financial assets are recorded on the date of the declaration of their distribution in the statement of income.
- Gains or losses resulting from foreign currency exchange differences relating to these assets are recorded in the fair value reserve.
- Financial assets whose fair value cannot be reliably determined are recognized at cost, and the impairment test is carried out at the end of every financial period. Moreover, the impairment in their value is recorded in the statement of income and may not be recovered during subsequent periods.

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

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

Ijara (Lease to Own)

It is a benefit contract for a compensation which expires by the lessee's acquisition of the leased assets.

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

Investment in Real Estate

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

a. Investment in Real Estate Held-for-Use

The cost or fair value model is applied as follows:

- **Cost Model**
Investments in real estate are recorded at cost less accumulated depreciation and impairment (if any). In the event that the Bank decides to apply this model, it has to apply it to all investments in real estate.
- **Fair Value Model**
Investments are measured at fair value, and the increase in value is recorded in the fair value reserve. Moreover, any decrease in fair value is deducted from previously recorded increase. If there is no increase in the previously recorded value, the difference is recognized in the statement of income. Furthermore, if the Bank decides to apply this model, it has to apply it to all investments in real estate.

b. Investments in Real Estate Held-for-Sale

Investments in real estate are recorded at the book value or fair value less costs of sale, whichever is lower. Moreover, these investments are not depreciated. The difference is recorded in the statement of income.

Real estates may be transferred from the investment portfolio to the property and equipment portfolio or vice versa if the change in the purpose of their utilization can be established. The transfer is made at cost less depreciation if the Bank uses the cost model in measuring the portfolio's real estates. If the Bank uses the fair value model, real estates are transferred at their fair value at the date of transfer.

If real estate is transferred from the Bank's property and equipment to the investment in real estate portfolio, the transfer is made at the cost of the real estate less depreciation and impairment provision (if any) as at the date of cessation of use.

Provisions

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

Investment Risk Fund

- The Bank deducts at least 10% of the gross profits of the joint investment realized on various ongoing operations through the year in accordance with the Banks Law. The rate is increased based on the instructions of the Central Bank of Jordan. The amended rate, after being increased, becomes valid in the financial year subsequent to the year in which the amendment is decided.
- The balance of the investment risks fund is transferred to the Zakat Fund after covering all expenses and losses for which the fund was established to cover or amortize. Thereof, it can be inferred that investors in the Bank have no right to the deducted amounts, at the determined rate, which accrue in the investment risks fund. Rather, these amounts are allocated to cover the losses which the joint investment activities may incur.

- If losses occur in some joint investment activities that begin and end in a certain year, such losses are covered from the gains realized by the other joint investment activities which begin and end in the same year. If the losses are greater than the gains in the same year, loss is covered from the Investment Risks Fund.
- Yet, if the joint investment activities began and continued in past years, and it was ultimately found out during a certain year that such investment activities resulted in losses, the losses are covered from the Investment Risks Fund.

Fair Value of Financial Assets

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

Impairment of Financial Assets

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

Property and Equipment

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

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

- The useful lives of property and equipment are reviewed at the end of each financial year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, being a change in estimates.
- When the recoverable amount of any property and equipment is less than their net carrying value, their value is reduced to the recoverable amount, and the impairment loss is taken to the statement of income.

Intangible Assets

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

End-of-Service Indemnity Provision

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

Income Tax

- Tax expenses represent accrued taxes and deferred taxes.
- Tax expenses are accounted for on the basis of taxable income which differs from income declared in the financial statements because the latter includes non-taxable revenue or taxable expenses disallowed in the current year but deductible in subsequent years, accumulated losses acceptable by the tax law, and items not accepted for tax purposes or subject to tax.
- Taxes are calculated on the basis of the tax rates according to the prevailing laws, regulations and instructions of the Hashemite Kingdom of Jordan.
- Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of the assets and liabilities in the financial statements and the value of the taxable amount. Deferred taxes are calculated, using the financial position liability method. Moreover, these deferred taxes are calculated according to the tax rates expected to be applied upon settling the tax liability or the realization of the deferred tax assets.
- Deferred tax assets are reviewed at the date of the financial statements and reduced when it is no longer probable to benefit from these tax assets partially or totally.

Accounts Managed on Behalf of Customers

These represent the accounts managed by the Bank on behalf of its customers but do not represent part of the Bank's assets. The fees and commissions for managing these accounts are recognized in the statement of income.

Accounts Managed by Wakalah

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

Realization of Income and Recognition of Expenses

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

Recognition Date of Financial Assets

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

Foreign Currencies

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

Cash and Cash Equivalents

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

3. Accounting Estimates

- Preparation of the financial statements and application of accounting policies require the Bank's Management to perform estimates and assumptions that affect the amounts of financial assets and financial liabilities, fair value reserve and disclosure of contingent liabilities. These estimates and assumptions also affect the revenue, expenses and provisions as well as the changes in fair value reported in the statement of comprehensive income. In particular, the Bank's Management is required to make significant judgments for estimating the amounts and timing of future cash flows. Moreover, the said assessments are necessarily based on several assumptions and factors with varying degrees of consideration and uncertainty. Furthermore, the actual results may differ from the estimates due to the changes resulting from the conditions of such estimates in the future. In the opinion of management, the estimates used in the financial statements are reasonable.
- A provision for lawsuits raised against the Bank is taken based on a legal study prepared by the Bank's legal advisor. Moreover, the study highlights potential risks that the Bank may encounter in the future. Such legal assessments are reviewed periodically.
- A provision for impairment in the facilities self-financed by the Bank is taken based on assumptions approved by the Bank's Management in respect of estimating the provision. Moreover, the results of these bases and assumptions are compared with the provision to be taken by virtue of the instructions of the Central Bank of Jordan. The more stringent results are approved in compliance with the Islamic Accounting and Auditing Organization of Financial Institutions.
- The financial year is charged with its share of the income tax expense in accordance with the accounting regulations, laws and standards; and the necessary tax provision is calculated.

- Management carries out a periodical review of financial assets recorded at cost to estimate any impairment in their value. This Impairment (if any) is recorded in the statement of Income for the year.
- **Fair value measurement:** The standard requires determination and disclosure of the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRSs. The difference between level (2) and level (3) of the fair value measurements, i.e., assessing whether the inputs are observable and whether the unobservable inputs are significant. This may require judgement and careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.
- **Useful lives of tangible and intangible assets:** Management estimates the useful lives of tangible and intangible assets upon initial recognition. Moreover, Management periodically re-assesses the useful lives of tangible and intangible assets to calculate annual depreciation and amortization based on the general status of such assets and the estimates of the productive activities expected in the future. The Impairment loss (if any) is charged to the statement of income.

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

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

During the year ended December 31, 2016, the Bank amended the useful lives of some of the tangible and intangible assets, in line with the Arab Bank Group policy, using the following percentages:

<u>Item</u>	<u>Previous Percentage</u>	<u>Current Percentage</u>
Buildings	2%	2%
Furniture, fixtures & equipment	2.5%-15%	2%-15%
Vehicles	15%	20%
Computers	10%-25%	25%
Improvements & decorations	10%	15%
Programs	10%-25%	25%

This amendment increased total depreciation and amortization expenses and decreased net profit by an approximate amount of JD 930 thousand for the year ended December 31, 2016. The financial impact of this change is as follows:

	<u>JD</u>
Increase in depreciation and amortization expenses for the year ended December 31, 2016	<u>929,817</u>
Increase (decrease) in depreciation and amortization expenses:	
2017 - 2025	10,304,258
2026 - 2064	(11,234,075)
	<u>(929,817)</u>

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

During 2016, the Bank amended the depreciation rates for properties in the investments in real estate portfolio to become 10% instead of (2% to 10%). This amendment increased the depreciation expense of the buildings in the portfolio by approximately JD 409 thousand for the year ended December 31, 2016. The financial impact of this change assuming that the investments in real estate will remain up to the end of their useful life is as follows:

	JD
Increase in depreciation expenses for the year ended December 31, 2016	<u>408,957</u>
Increase (decrease) in depreciation expenses:	
2017 - 2025	3,680,611
2026 - 2061	(4,089,568)
	<u>(408,957)</u>

4. Cash and Balances at the Central Bank

The details of this item are as following:

	December 31,	
	2016	2015
	JD	JD
Cash in vaults	24,545,935	25,097,242
Balances at the Central Bank		
Current and call accounts	513,057,283	582,326,054
Statutory cash reserve	105,015,488	94,932,880
Total	<u>642,618,706</u>	<u>702,356,176</u>

- Except for the mandatory cash reserve, there are no restricted cash balances as at December 31, 2016 and 2015.

5. Balances at Banks and Financial Institutions

The details of this item are as following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Current and call accounts	17,791,150	17,500,544	4,551,992	5,185,977	22,343,142	22,686,521
	<u>17,791,150</u>	<u>17,500,544</u>	<u>4,551,992</u>	<u>5,185,977</u>	<u>22,343,142</u>	<u>22,686,521</u>

- There are no restricted cash balances as at December 31, 2016 and 2015.

6. Deferred Sales Receivables and other Receivables - Net

The details of this Item are as follows:

	Joint		Self		Total	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Individuals (retail)						
Murabaha to purchase order	191,851,793	149,700,191	-	-	191,851,793	149,700,191
Ju'alah guarantees	1,929,597	1,596,451	-	-	1,929,597	1,596,451
Receivables – Ijara (lease-to-own)	845,823	609,229	-	-	845,823	609,229
Real estate finances	118,423,940	89,796,055	-	-	118,423,940	89,796,055
Large companies						
International Murabaha	129,824,536	124,219,633	453,881	457,828	130,278,417	124,677,461
Murabaha to purchase order	164,286,119	152,074,513	3,565,743	4,619,977	167,851,862	156,694,490
Receivables – Ijara (lease-to-own)	1,539,708	1,277,274	-	1,288,328	1,539,708	2,565,602
Small and Medium Companies						
Murabaha to purchase order	67,534,040	49,673,026	-	-	67,534,040	49,673,026
Deferred payment sale	40,621	99,680	-	-	40,621	99,680
Ju'alah guarantees	6,307	2,860	-	-	6,307	2,860
Receivables – Ijara (lease to own)	748,400	318,912	16,468	16,810	764,868	335,722
Total	677,030,884	569,367,824	4,036,092	6,382,943	681,066,976	575,750,767
Less: Deferred revenue	55,212,370	46,946,085	3,083	6,718	55,215,453	46,952,803
Impairment provision	8,325,938	8,791,123	3,497,350	4,728,852	11,823,288	13,519,975
Revenues in suspense	880,159	789,980	15,105	659,754	895,264	1,449,734
Net Deferred Sales Receivables and Other Receivables	612,612,417	512,840,636	520,554	987,619	613,132,971	513,828,255

- The movement on the deferred payment sale was as follows:

	Deferred Sale Receivables	Deferred Revenue	Impairment Provision
	JD	JD	JD
Balance at the beginning of the year	99,680	34,555	-
Additions	-	-	-
Disposals	(59,059)	(22,907)	-
Balance at the End of the Year	40,621	11,648	-

Impairment Provision for Deferred Sales Receivables, Financing Investment, Ijara (lease-to-own) and Qard Hasan - Self Owned

The following is the movement on the provision for impairment:

<u>December 31, 2016</u>	<u>Individuals</u>	<u>Large Companies</u>	<u>Small and Medium Companies</u>	<u>Total</u>
	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>
Balance at the beginning of the year	89,029	4,826,426	-	4,915,455
Deducted from the profits	-	53,000	-	53,000
Used during the year (written-off) *	-	(1,232,047)	-	(1,232,047)
Settlements during the year	50,857	(140,715)	89,858	-
Balance at the End of the Year	139,886	3,506,664	89,858	3,736,408
Provision for Impairment of non- performing sales receivables on a single client basis	139,162	3,502,160	85,437	3,726,759
Provision for impairment of under watch-list sales receivables on a single client basis	724	4,504	4,421	9,649
Balance at the End of the Year	139,886	3,506,664	89,858	3,736,408

- * During the year ended December 31, 2016, the Bank settled the debt of some accounts (related), according to the Board of Directors' Decision No. (5) dated July 27, 2016, by breach of Ijara (lease-to-own) contracts granted to the accounts' holders at debt value. The total of this debt is higher than the market value of these real estates. Furthermore, the difference was recorded as debts written- off from the self-provision for deferred sales receivables, whereby financing was self-owned. The real estates have also been recorded at market value in the joint Investment portfolio of real estates after taking into account the said Impairment amount.

<u>December 31, 2015</u>	<u>Individuals</u>	<u>Large Companies</u>	<u>Small and Medium Companies</u>	<u>Total</u>
	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>
Balance at the beginning of the year	64,647	4,482,808	-	4,547,455
Deducted from the profit	24,382	343,618	-	368,000
Balance at the End of the Year	89,029	4,826,426	-	4,915,455
Provision for Impairment of non- reforming sales receivables on a single client basis	88,788	4,810,004	-	4,898,792
Provision for impairment of watch list sales receivables on a single client basis	241	16,422	-	16,663
Balance at the End of the Year	89,029	4,826,426	-	4,915,455

- The total general banking risks reserve for receivables and self-financing amounted to JD 882,000 as at December 31, 2016 (JD 882,000 as at December 31, 2015).
- The total provisions prepared for debts calculated on the single client basis have been disclosed.

- The amount of the provisions no longer required due to settlements or re-payment of debts and transferred against receivables and other finances amounted to JD 2,626,791 as at December 31, 2016 (compared to JD 1,334,417 as at December 31, 2015).

Revenues In Suspense

The following is the movement on the revenue in suspense:

	Self	
	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	659,754	478,917
<u>Add</u> : Revenue in suspense during the year	122,165	199,367
<u>Less</u> : Revenue In suspense transferred to Income	-	(18,530)
Revenue In suspense written-off *	(766,814)	-
Balance at the End of the Year	15,105	659,754

- * As per the Board of Directors' Decision No. (5) dated July 27, 2016, approving the settlement as mentioned in the previous page.

	Joint				
	Corporates				
	Individuals	Real Estate Finances	Large	Small & Medium	Total
	JD	JD	JD	JD	JD
<u>December 31, 2016</u>					
Balance at the beginning of the year	94,303	55,377	301,431	338,869	789,980
<u>Add</u> : Revenue suspended during the year	53,481	9,877	17,662	163,536	244,556
<u>Less</u> : Revenue In suspense reversed to Income	(27,264)	(19,818)	-	(94,826)	(141,908)
Revenue In suspense written-off	-	-	-	(12,469)	(12,469)
Settlements during the year	-	-	-	-	-
Balance at the End of the Year	120,520	45,436	319,093	395,110	880,159
<u>December 31, 2015</u>					
Balance at the beginning of the year	79,221	222,966	656,136	82,225	1,040,548
<u>Add</u> : Revenue suspended during the year	44,045	7,045	51,490	32,955	135,535
<u>Less</u> : Revenue In suspense reversed to Income	(66,750)	(8,166)	(172,817)	(117,260)	(364,993)
Revenue in suspense Written-off	-	-	(21,110)	-	(21,110)
Settlements during the year	37,787	(166,468)	(212,268)	340,949	-
Balance at the End of the Year	94,303	55,377	301,431	338,869	789,980

7. Deferred Sales Receivables through the Statement of Income

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

8. Ijara (lease-to-own) Assets - Net

The details of this item are as follows:

December 31, 2016	Joint			Self			Total		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
	JD	JD	JD	JD	JD	JD	JD	JD	JD
Ijara (lease-to-own) Assets-Real Estate	692,282,017	(129,913,393)	562,368,624	1,338,000	(950,272)	387,728	693,620,017	(130,863,665)	562,756,352
Ijara (lease-to-own) Assets- Machinery	11,515,900	(6,118,014)	5,397,886	-	-	-	11,515,900	(6,118,014)	5,397,886
Ijara (lease-to-own) Assets - Vehicles	3,437,040	(2,652,889)	784,151	-	-	-	3,437,040	(2,652,889)	784,151
Total	707,234,957	(138,684,296)	568,550,661	1,338,000	(950,272)	387,728	708,572,957	(139,634,568)	568,938,389

December 31, 2015

Ijara (lease-to-own) Assets-Real Estate	580,300,130	(105,932,229)	474,367,901	5,275,000	(1,529,805)	3,745,195	585,575,130	(107,462,034)	478,113,096
Ijara (lease-to-own) Assets- Machinery	14,581,280	(4,799,722)	9,781,558	-	-	-	14,581,280	(4,799,722)	9,781,558
Ijara (lease-to-own) Assets - Vehicles	3,530,540	(1,686,980)	1,843,560	-	-	-	3,530,540	(1,686,980)	1,843,560
Total	598,411,950	(112,418,931)	485,993,019	5,275,000	(1,529,805)	3,745,195	603,686,950	(113,948,736)	489,738,214

- Total due Ijara installments amounted to JD 3,150,399 as at December 31, 2016 (JD 3,510,553 as at December 31, 2015). Moreover, due Ijara balances were disclosed within the deferred sales receivables and other receivables (Note 6).

- Non-performing Ijara (lease-to-own) amounted to JD 1,823,186 - i.e., 0.3% of the balance of Ijara lease-to-own as at December 31, 2016 (JD 2,846,709 i.e., 0.6% as at December 31, 2015).

- Non-performing Ijara (lease-to-own) after deducting profits in suspense amounted to JD 1,326,034 - i.e. 0.2% of the balance of Ijara (lease-to-own) as at December 31, 2016 (JD 1,846,362 - i.e. 0.4% as at December 31, 2015).

9. Financing Investments

The details of this item are as follows:

	Joint	
	December 31,	
	2016	2015
	JD	JD
Large companies		
Mudaraba	255,367	9,170,558
Net Financing Investments	255,367	9,170,558

- Non-performing deferred sales receivables and other receivables, financings, Ijara (lease-to-own) and Al - Qard Al - Hasan amounted to JD 13,845,455 - i.e. 1.1% of the balance of deferred sales receivables and other receivables, financings, Ijara (lease-to-own) and Al - Qard Al - Hasan for the year (JD 16,316,348 - i.e. 1.5% of the balance granted at the end of the previous year).
- Non-performing deferred sales receivables and other receivables, financings, Ijara (lease-to-own) and Al - Qard Al - Hasan after deducting revenues in suspense amounted to JD 12,950,191 - i.e. 1% of the balance of deferred sales receivables and other receivables, financings, Ijara (lease-to-own) and Al - Qard Al - Hasan after deducting revenues in suspense (JD 14,866,614 - i.e. 1.4% of the balance granted at the end of the previous year).

10. Financial Assets at Fair Value through Shareholders' Equity

The details of this item are as follows:

	Self	
	December 31,	
	2016	2015
	JD	JD
Financial assets quoted in the Market		
Investment portfolios managed by third parties *	5,519,852	5,507,159
Total Financial Assets at Fair Value through Shareholders' Equity	5,519,852	5,507,159

- * This item represents the investments portfolios managed by Al - Arabi Investment Group Company and comprises external shares and Islamic Sukuk.
- There was no transfer of retained earnings under shareholders' equity relating to financial assets through shareholders' equity.

11. Financial Assets at Amortized Costs - Net

The details of this item are as follows:

	Joint		Self		Total	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Islamic Sukuk quoted in the Market	32,028,822	7,575,056	-	465,281	32,028,822	8,040,337
Islamic Sukuk not quoted in the Market	1,829,000	-	-	-	1,829,000	-
Total	33,857,822	7,575,056	-	465,281	33,857,822	8,040,337

- The above assets have fixed and determinable payments and mature within the period from 2017 until the end of the year 2021.
- No impairment provisions for the financial assets at amortized cost were taken.

12. Investments in Real Estates

The details of this item are as follows:

Investment In Real Estate for the purpose of utilization:

	Joint	
	December 31,	
	2016	2015
	JD	JD
Investments in real estate	26,303,595	23,350,821
Accumulated depreciation	(1,148,611)	(423,217)
Impairment provision	(4,131,018)	(3,468,931)
Total	21,023,966	19,458,673

Buildings within the real estate portfolio above are depreciated according to the straight-line method at a rate of 10%. During 2016, the Bank amended the depreciation rates for the investments in real estate portfolio to be in line with the recently adopted investment in real estate policy. Previously, these buildings were depreciated at a rate of 2% similar to the Bank's assets.

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

<u>2016</u>	Balance at the Beginning of the Year	Additions/Transfers during the Year *	Sales during the Year	Balance at the End of the Year
	JD	JD	JD	JD
Investments in real estate	23,350,821	4,385,160	(1,432,386)	26,303,595
Accumulated depreciation	(423,217)	(750,425)	25,031	(1,148,611)
Total	22,927,604	3,634,735	(1,407,355)	25,154,984
Real estate impairment provision	(3,468,931)	(778,420)	116,333	(4,131,018)
Net	19,458,673	2,856,315	(1,291,022)	21,023,966

<u>2015</u>	Balance at the Beginning of the year	Additions/Transfers during the year *	Sales during the year	Balance at the End of the year
	JD	JD	JD	JD
Investments in real estate	24,801,530	347,048	(1,797,757)	23,350,821
Accumulated depreciation	(441,303)	(203,977)	222,063	(423,217)
Total	24,360,227	143,071	(1,575,694)	22,927,604
Real estate impairment provision	(2,633,000)	(835,931)	-	(3,468,931)
Net	21,727,227	(692,860)	(1,575,694)	19,458,673

The fair value of investments in real estate portfolio amounted to JD 22,027,117 as at December 31, 2016 (JD 20,445,923 as at December 31, 2015).

During the year ended December 31, 2016, the Bank settled the debt of some accounts (related), according to the Board of Directors' Decision No. 5 dated July 27, 2016, by breach of Ijara (lease-to-own) contracts granted to the accounts' holders at debt value which is higher in total than the market value of these real estates. Furthermore, the difference was recorded as debts written off from the self-provision for deferred sales receivables, whereby financing was self-owned. Moreover, these real estates were recorded at market value of around JD 4.759 million in the joint investment in real estate portfolio after taking into account the above-mentioned impairment amount.

- * One of the real estates at a carrying value of JD 374 thousand with an average valuation of JD 322 thousand was transferred from the joint investments in real estate portfolio to the self-portfolio at the carrying value of the real estate. Subsequently, the real estate was ceded to one of the customers within the above-mentioned group of accounts (related) according to the debt settlement agreement.

13. Property and Equipment - Net

The details of this Item are as follows:

	Land	Buildings	Furniture, Fixtures and Equipment	Vehicles	Computers	Improvements & Decorations	Total
<u>2016</u>	JD	JD	JD	JD	JD	JD	JD
Cost:							
Balance at the beginning of the year	7,152,508	4,796,693	6,886,906	257,308	5,666,239	11,005,480	35,765,134
Additions / Capitalization	-	-	460,951	21,900	1,148,148	214,397	1,845,396
Disposals	-	-	(528,328)	-	(1,363,591)	-	(1,891,919)
Adjustments during the year		21,975	-	-	-	-	21,975
Balance at the End of the Year	<u>7,152,508</u>	<u>4,818,668</u>	<u>6,819,529</u>	<u>279,208</u>	<u>5,450,796</u>	<u>11,219,877</u>	<u>35,740,586</u>
Accumulated Depreciation:							
Accumulated depreciation at the beginning of the year	-	1,164,806	3,639,268	190,618	4,353,922	6,292,629	15,641,243
Depreciation of the year	-	100,969	705,590	36,442	857,417	1,352,683	3,053,101
Disposals	-	-	(505,548)	-	(1,335,351)	-	(1,840,899)
Adjustments during the year		21,975	-	-	-	-	21,975
Accumulated depreciation at the end of the year	<u>-</u>	<u>1,287,750</u>	<u>3,839,310</u>	<u>227,060</u>	<u>3,875,988</u>	<u>7,645,312</u>	<u>16,875,420</u>
Net Book Value for Property and Equipment	<u>7,152,508</u>	<u>3,530,918</u>	<u>2,980,219</u>	<u>52,148</u>	<u>1,574,808</u>	<u>3,574,565</u>	<u>18,865,166</u>
Projects under Process	-	44,154	-	-	787,490	132,544	964,188
Net Property and Equipment at the End of The Year	<u>7,152,508</u>	<u>3,575,072</u>	<u>2,980,219</u>	<u>52,148</u>	<u>2,362,298</u>	<u>3,707,109</u>	<u>19,829,354</u>
Annual depreciation rates %	-	2	2-15	20	25	15	
<u>2015</u>							
Cost:							
Balance at the beginning of the year	7,152,508	4,796,693	5,902,837	257,308	4,962,371	10,515,212	33,586,929
Additions / Capitalization	-	-	1,151,975	-	748,761	490,268	2,391,004
Disposals	-	-	(167,906)	-	(44,893)	-	(212,799)
Balance at the End of the Year	<u>7,152,508</u>	<u>4,796,693</u>	<u>6,886,906</u>	<u>257,308</u>	<u>5,666,239</u>	<u>11,005,480</u>	<u>35,765,134</u>
Accumulated Depreciation:							
Accumulated depreciation at the beginning of the year	-	1,063,837	3,209,217	158,079	3,784,130	5,404,441	13,619,704
Depreciation of the year	-	100,969	576,372	32,539	603,988	888,188	2,202,056
Disposals	-	-	(146,321)	-	(34,196)	-	(180,517)
Accumulated Depreciation at the End of the Year	<u>-</u>	<u>1,164,806</u>	<u>3,639,268</u>	<u>190,618</u>	<u>4,353,922</u>	<u>6,292,629</u>	<u>15,641,243</u>
Net Book Value for Property and Equipment	<u>7,152,508</u>	<u>3,631,887</u>	<u>3,247,638</u>	<u>66,690</u>	<u>1,312,317</u>	<u>4,712,851</u>	<u>20,123,891</u>
Projects under Process	-	-	3,000	-	1,087,007	4,005	1,094,012
Net Property and Equipment at the End of the Year	<u>7,152,508</u>	<u>3,631,887</u>	<u>3,250,638</u>	<u>66,690</u>	<u>2,399,324</u>	<u>4,716,856</u>	<u>21,217,903</u>
Annual depreciation rates %	-	2	2.5-15	15	10-25	10	

- The cost of fully depreciated property and equipment amounted to JD 6,995,854 as at December 31, 2016 (JD 5,047,665 as at December 31, 2015).
- During the year ended December 31, 2016, the Bank amended the useful lives of some of the property and equipment to be in line with the Arab Bank Group's policy. This amendment caused an increase in the total depreciation expense and a decrease in net income of JD 641 thousand for the year ended December 31, 2016.

- During the year ended December 31, 2016, the Bank disposed of some property and equipment with a net book value of JD 33,026 based on the Disposal Committee's Decision.

14. Intangible Assets – Net

The details of this Item are as follows:

	Systems and Software	
	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	1,044,878	971,560
Additions	65,483	358,967
Amortization for the Year *	(615,296)	(285,649)
Balance at the End of the Year	495,065	1,044,878
Annual Amortization Rates %	25	10 - 25

- * During the year, the Bank amended the useful lives of some intangible assets from (10%-25%) to 25% in line with the Arab Bank Group's policy. This amendment resulted in an increase in the amortization expense for the year and a decrease in net income of around JD 289 thousand for the year ended December 31, 2016.

15. Other Assets

The details of this Item are as follows:

	December 31,	
	2016	2015
	JD	JD
Clearing cheques	16,394,496	-
Prepaid expenses	1,174,022	1,407,729
Accrued revenue	249,048	69,067
Assets seized by the Bank against due debts	1,913,060	842,554
Others	507,998	529,843
Total	20,238,624	2,849,193

The following is a summary of the movement on the assets seized by the Bank against due debt:

	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	842,554	347,048
Additions	1,078,670	842,554
Sales	-	(347,048)
Impairment losses in real estate	(8,164)	-
Balance at the End of the Year *	1,913,060	842,554

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

16. Banks and Financial Institutions Accounts

The details of this item are as follows:

December 31,						
	2016			2015		
	Inside Kingdom	Out Side Kingdom	Total	Inside Kingdom	Out Side Kingdom	Total
	JD	JD	JD	JD	JD	JD
Current and call accounts	9,622	104,121	113,743	60,482	277,689	338,171
Total	9,622	104,121	113,743	60,482	277,689	338,171

17. Customers' Current Accounts

The details of this item are as follows:

December 31, 2016					
	Individuals	Large Companies	Small and Medium Companies	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts	525,449,363	46,805,135	139,804,717	3,363,003	715,422,218
Total	525,449,363	46,805,135	139,804,717	3,363,003	715,422,218

December 31, 2015					
	Individuals	Large Companies	Small and Medium Companies	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts	463,145,653	26,866,047	133,285,683	3,869,435	627,166,818
Total	463,145,653	26,866,047	133,285,683	3,869,435	627,166,818

- The deposits of the Government of Jordan and public sector inside the Kingdom amounted to JD 3,363,003 as at December 31, 2016- i.e. 0.47% of the total customers' current accounts (JD 3,869,435 as at December 31, 2015 i.e. 0.62%).
- Restricted deposits amounted to JD 4,881,748 as at December 31, 2016 - i.e. 0.68% of the total customers' current accounts (JD 5,171,325 as at December 31, 2015 - i.e. 0.8%).
- Dormant accounts amounted to JD 8,843,836 as at December 31, 2016 (JD 8,684,622 as at December 31, 2015).

18. Cash Margins

The details of this Item are as follows:

	December 31,	
	2016	2015
	JD	JD
Cash margins against sales receivables and financings	21,261,451	19,704,243
Cash margins against indirect credit facilities	5,905,476	5,179,630
Other cash margins	1,571,356	1,312,510
Total	28,738,283	26,196,383

19. Other Provisions

The movement on the other provisions is as follows:

	Balance at the Beginning of the Year	Provision for the Year	Paid during the Year	Balance at the End of the Year
<u>2016</u>	JD	JD	JD	JD
Provision for end-of-service indemnity	2,241,647	328,213	138,965	2,430,895
Provision for lawsuits against the Bank	27,000	4,500	-	31,500
Total	2,268,647	332,713	138,965	2,462,395

	Balance At The Beginning Of The Year	Provision For The Year	Paid During The Year	Balance At The End Of The Year
<u>2015</u>	JD	JD	JD	JD
Provision for end-of-service indemnity	2,323,777	168,878	251,008	2,241,647
Provision for lawsuits against the Bank	7,000	20,000	-	27,000
Total	2,330,777	188,878	251,008	2,268,647

20. Provision for Income Tax**a. Provision for Income Tax**

The movement on the Income tax provision is as follows:

	2016	2015
	JD	JD
Balance at the beginning of the year	6,742,519	5,421,533
Income tax paid during the year	(8,952,078)	(6,322,181)
Income tax paid for previous years	(44,257)	(9,097)
Accrued Income tax expense for current year's income	12,458,074	7,652,264
Balance at the End of the Year	10,204,258	6,742,519

b. The income tax balance presented in the statement of income consists of the following:

	2016	2015
	JD	JD
Accrued income tax expense for the year	12,458,074	7,652,264
Deferred tax assets for the year	(182,755)	(127,358)
Amortization of deferred tax assets	93,545	108,270
(Amortization) addition deferred tax liabilities for the year	(738,919)	738,919
Total	11,629,945	8,372,095

- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2014. Moreover, the tax return for the year 2015 was submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department.
- The accrued Income tax for the year ended December 31, 2016 was calculated in accordance with the Income Tax Law in force.
- In the opinion of the Management and the tax consultant, no further provisions are required for the year ended December 31, 2016.

C. Deferred Tax Assets / Liabilities - Self - Joint

Accounts Included	December 31, 2016				December 31, 2015	
	Beginning Balance	Released Amounts	Added Amounts	Ending Balance	Deferred Tax	Deferred Tax
1. Deferred Tax Assets - Joint	JD	JD	JD	JD	JD	JD
Revenue in suspense	645,082	154,377	244,556	735,261	257,342	225,779
	<u>645,082</u>	<u>154,377</u>	<u>244,556</u>	<u>735,261</u>	<u>257,342</u>	<u>225,779</u>
2. Deferred Tax Assets - Self						
Provision for end-of-service indemnity	2,241,647	138,965	328,213	2,430,895	850,814	784,577
Impairment provision for self-financings	1,342,848	-	-	1,342,848	469,997	469,997
Provision for fees for lawsuits against the Bank	27,000	-	4,500	31,500	11,025	9,450
Impairment in the financial assets at fair value through shareholders' equity	2,727,786	-	-	2,727,786	954,725	954,725
Unacceptable tax expenses and deferred for years to come	116,667	118,070	179,207	177,804	62,231	40,833
Watch-list provision for the year 2014	-	10,237	10,237	-	-	-
	<u>6,455,948</u>	<u>267,272</u>	<u>522,157</u>	<u>6,710,833</u>	<u>2,348,792</u>	<u>2,259,582</u>
Grand Total	7,101,030	421,649	766,713	7,446,094	2,606,134	2,485,361

The joint-deferred tax assets of JD 257,342 as at December 31, 2016 resulting from time differences of the revenue in suspense against unacceptable joint financing and deferred for years to come have been calculated at a tax rate of 35%. In the Management's opinion, these tax benefits from the Investment risk fund will be utilized in the future.

The self-deferred tax assets of JD 2,348,792 as at December 31, 2016 resulting from time differences of the provision for end-of-service indemnity, provision for impairment in self-financings, provision for fees on lawsuits against the Bank, impairment in financial assets, and unacceptable tax expenses and deferred for years to come have been calculated at a tax rate of 35%. In the Management's opinion, these tax benefits from profits will be utilized in the future.

	December 31, 2016				December 31, 2015	
	Beginning Balance	Released Amounts	Added Amounts	Ending Balance	Deferred Tax	Deferred Tax
3. Deferred Tax Liabilities - Self	JD	JD	JD	JD	JD	JD
Financial assets at fair value through shareholders' equity	657,469	-	12,693	670,162	234,557	230,114
Difference in assets depreciation	2,111,198	2,111,198	-	-	-	738,919
	2,768,667	2,111,198	12,693	670,162	234,557	969,033

- The deferred tax liabilities of JD 234,557 as at December 31, 2016 (JD 969,033 as at December 31, 2015) resulted from gains from valuation of financial assets presented within the fair value reserve of shareholders' equity.
- The "depreciation difference" calculated in 2015 has been excluded from deferred tax liabilities because property and equipment were not depreciated according to the rates declared by the Income and Sales Tax Department. On that time, the difference between the rates used by the Bank and the rates declared by the Income and Sales Tax Department has been considered when calculating Taxable Income. On April 17, 2016, Regulations No. (70) for the Year 2016 were issued regarding expenses, provisions, depreciations, and exemptions. These regulations granted the taxpayer the right to use his own appropriate depreciation rates provided that they are used consistently. Accordingly, the deferred tax liabilities and the impact of the difference upon calculating taxable income have been released.

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

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
Balance at the beginning of the year	225,779	-	313,478	-
Additions during the year	85,595	-	47,437	-
Amortized during the year	(54,032)	-	(135,136)	-
Balance at the End of the Year	257,342	-	225,779	-

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

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
Balance at the beginning of the year	2,259,582	969,033	2,240,494	319,479
Additions during the year	182,755	4,443	127,358	738,919
Amortized during the year	(93,545)	(738,919)	(108,270)	(89,365)
Balance at the End of the Year	2,348,792	234,557	2,259,582	969,033

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

	2016	2015
	JD	JD
Accounting Income	34,642,860	25,009,759
Add: Unacceptable tax expenses	9,928,827	8,774,506
Tax-exempt Income	(154,375)	(386,103)
Other adjustments	863,482	(3,199,494)
Taxable Income	45,280,794	30,198,668
Effective income tax rate	35%	35%
Income Tax Provision - Net	15,848,278	10,569,534
Attributable to:		
Declared provision – Bank	12,458,074	7,652,264
Declared provision – Investment Risks Fund	2,872,883	2,670,984
Declared provision – Mutual Insurance fund *	517,321	246,286
	15,848,278	10,569,534

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

21. Other Liabilities

The details of this item are as follows:

	December 31,	
	2016	2015
	JD	JD
Certified cheques	11,789,842	9,276,604
Promissory notes, bills of collection and inward transfers	7,067,987	4,953,878
Accrued and unpaid expenses	98,653	198,653
Customers' share of revenues from joint investments	6,102,496	4,215,941
Commissions received in advance	409,848	435,190
Temporary deposits and others *	11,334,520	6,192,945
Tax of mutual insurance fund	438,569	204,651
Board of Directors' remunerations	25,000	25,000
	37,266,915	25,502,862

- * Includes intermediate accounts of JD 9,024,613 as of December 31, 2016, representing accepted L/C's and deferred bills from customers and transferred to deferred sales receivables. This amount will be paid on the maturity date.

22. Unrestricted Investment Accounts

The details of this Item are as follows:

December 31, 2016					
	Individuals	Large Companies	Small and Medium Companies	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Saving accounts	251,566,602	782,555	4,167,671	44,404	256,561,232
Time deposits *	540,510,633	96,282,626	53,082,252	30,126,590	720,002,101
Total	792,077,235	97,065,181	57,249,923	30,170,994	976,563,333
Depositors' share of the investment returns	13,183,563	2,778,841	516,119	658,423	17,136,946
Total Joint Investment Accounts	805,260,798	99,844,022	57,766,042	30,829,417	993,700,279

December 31, 2015					
	Individuals	Large Companies	Small and Medium Companies	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Saving accounts	184,763,511	974,266	2,033,508	40,280	187,811,565
Time deposits	582,052,638	82,648,285	57,267,214	26,132,334	748,100,471
Total	766,816,149	83,622,551	59,300,722	26,172,614	935,912,036
Depositors' share of the investment returns	17,949,938	2,488,147	1,690,285	694,415	22,822,785
Total Joint Investment Accounts	784,766,087	86,110,698	60,991,007	26,867,029	958,734,821

* Time deposits include JD 7,432,990 (net after tax) as of December 31, 2016 (JD 4,564,871 as of December 31, 2015). This item is the balance of the Mutual Insurance Fund established during 2013 to cover defaults on repayments of financings due to the death or total disability of the customers as per the Fund's Articles of Association approved by the Central Bank of Jordan (Note 23/C).

- The joint investment accounts participate in profits based on the following:
- 30% from the monthly balance of saving accounts.
- 85% of the lowest balance of time deposits.
- The general rate of profit on the Jordanian Dinar for the first and second halves of the year 2016, i.e. 3.021% and 2.965%, respectively (3.629% and 3.184% in the previous year).
- The general rate of profit on USD for the first and second halves of the year 2016, i.e. 0.34% and 0.44%, respectively (0.24% and 0.22% in the previous year).
- The restricted accounts amounted to JD 1,226,547 as at December 31, 2016 (JD 2,033,787 as at December 31, 2015).

- The joint Investment accounts of the Government of Jordan and Public Sector Inside the Kingdom amounted to JD 30,829,417 as at December 31, 2016- I.e. at 3.1% of the total joint Investment accounts (JD 26,867,029 as at December 31, 2015- I.e. 2.8%).
- Dormant accounts amounted to JD 2,403,259 as of December 31, 2016 (JD 2,551,892 as at December 31, 2015).

23. Investment Risk Fund

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

	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	30,907,989	25,809,164
<u>Add:</u> Transferred from joint Investment revenue for the year – statement of income	8,118,054	7,234,008
Investment profits of the Fund**	-	647,944
Amortized losses for the period *	(120,973)	(21,694)
<u>Less:</u> Income tax	(2,841,320)	(2,758,683)
Difference in translation of foreign currencies	(1,817)	(2,750)
Balance at the End of the Year	<u>36,061,933</u>	<u>30,907,989</u>

The Fund's Income tax item represents the following:

	2016	2015
	JD	JD
Accrued Income tax on the transferred amounts from Investment revenues	2,872,883	2,444,204
Deferred tax assets	(85,595)	(47,437)
Amortization of deferred tax assets	54,032	135,136
Accrued Income tax on the fund's Investments profit **	-	226,780
	<u>2,841,320</u>	<u>2,758,683</u>

* Losses on the sale of a real estate within the Investment in real estate portfolio were amortized for JD 120,973 in the Investment Risk Fund after approval by the Shar'i'a Supervisory Board.

** Starting July 1, 2015, the Bank has stopped investing the funds of the Investments Risks Fund due to liquidity surpluses. Accordingly, no taxes are due on the Investments income.

b. The Balance of the Investment Risk Fund is distributed as follows:

	December 31,	
	2016	2015
	JD	JD
Against Impairment of deferred sales receivables (Note 6)	8,325,938	8,791,123
Against Impairment in Investments in real estate (Note 12)	4,131,018	3,468,931
Against Impairment in assets seized against debts (Note 15)	8,164	-
Remaining Balance	23,596,813	18,647,935

- Deduction of 10% of the gross revenue of the joint Investment accounts continues to be made until the Investment Risk Fund balance reaches 200% of the Bank's authorized and paid-up capital.
- The remaining balance represents the undistributed portion over the joint investments accounts.

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

	2016	2015
	JD	JD
Balance at the beginning of the year	2,148,821	1,721,518
<u>Less:</u> Income tax paid	(2,742,519)	(2,243,682)
<u>Add:</u> Accrued Income tax for the year	2,872,883	2,670,985
Balance at the End of the Year	2,279,185	2,148,821

- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2014. Moreover, the tax return for the year 2015 was submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department.

c. Mutual Insurance Fund

The movement on the mutual Insurance fund is as follows:

	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	4,564,871	2,380,894
<u>Add:</u> Fund Investment profits for the year	348,532	149,934
Insurance premiums during the year	3,307,827	2,480,836
<u>Less:</u> Fund's Income tax for the year	(517,321)	(246,286)
Fund accountant's reward	(1,800)	(1,800)
Subscribers' compensation during the year	(235,988)	(175,510)
Revenue stamps' during the year	(33,131)	(23,197)
Balance at the End of the Year	7,432,990	4,564,871

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

	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the Year	204,651	126,098
<u>Less:</u> Income tax paid	(283,403)	(167,733)
<u>Add:</u> Accrued Income tax for the year	517,321	246,286
Balance at the End of Year	<u>438,569</u>	<u>204,651</u>

- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2014. Moreover, the tax return for the year 2015 was submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department.
- The bylaws of the Mutual Insurance Fund are based on Paragraph No. (D/3) of Article (54) of the Banks' Law No. 28 for the Year 2000.
- The Central Bank of Jordan's approval is required in case any amendment to the Mutual Insurance Fund is to be made.
- In case the Mutual Insurance Fund ceases its activities, the Board of Directors decides on the manner of disbursing of the Fund's cash for charitable causes.
- Compensation for Participants to the Fund is made as follows:
 - Participant's death.
 - Participant's totally and permanent physical disability.

24. Authorized Capital (Paid-up)

The authorized and paid-up capital at the end of the fiscal year amounted to JD100 million divided into 100 million shares at a par value of JD 1 per share as at December 31, 2016 (100 million shares at a par value of JD 1 per share as at the end of the previous year).

25. Reserves

- Statutory Reserve

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

- Voluntary Reserve

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

- **General Banking Risk Reserve**

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

- The restricted reserves are as follows:

<u>Reserve Name</u>	<u>December 31,</u>		<u>Nature of restriction</u>
	<u>2016</u>	<u>2015</u>	
	<u>JD</u>	<u>JD</u>	
Statutory reserve	21,383,327	17,919,041	Requirement of the Law
General Banking Risk Reserve	882,000	882,000	Central Bank's Instructions

- **Proposed Dividends to Shareholders**

During its meeting Session No. (1) held on January 30, 2017, the Board of Directors recommended the distribution of JD 10,000,000 to the sole shareholder (Arab Bank) - i.e. equivalent to 10% of authorized and paid-up capital from distributable retained earnings, subject to the approval of the Shareholders' General Assembly.

The percentage of dividends from authorized and paid-up capital was 7.09% for the previous year - i.e. equivalent to JD 7,090,000.

26. Fair Value Reserve - Net

The details of this item are as follows:

	<u>Self</u>	
	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>JD</u>	<u>JD</u>
Financial assets at fair value through shareholders' equity	435,605	427,355
Balance at the End of the Year	<u>435,605</u>	<u>427,355</u>

The movement on the fair value reserve was as follows:

	<u>Self</u>	
	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>JD</u>	<u>JD</u>
Balance at the beginning of the year	427,355	593,319
Unrealized gains (losses)	12,693	(255,329)
Deferred tax liabilities	-	-
(Added) realized from the deferred tax liabilities	(4,443)	89,365
Balance at the End of the Year	<u>435,605</u>	<u>427,355</u>

The fair value reserve is stated at net (after deducting deferred tax liabilities-self) of JD 435,605 as at December 31, 2016 (JD 427,355 as at December 31, 2015).

27. Retained Earnings

The details of this Item are as follows:

	December 31,	
	2016	2015
	JD	JD
Balance at the beginning of the year	16,377,182	8,055,504
Profit for the year	23,012,915	16,637,664
(Transferred) to the statutory reserve	(3,464,286)	(2,500,976)
Dividends *	(7,090,000)	(5,815,010)
Balance at the End of the Year **	28,835,811	16,377,182

* On 7/4/2016, the Shareholders' General Assembly approved the distribution of cash dividends to the sole shareholder (Arab Bank plc.) at an amount of JD 7,090,000, representing 7.09% of authorized and paid-up capital from the distributable retained earnings.

** The retained earnings balance includes JD 2,348,792, restricted against deferred tax benefits related to the Bank's self operations as at December 31, 2016 (JD 2,259,582 as at December 31, 2015).

28. Deferred Sales Revenue

The details of this Item are as follows:

	Joint		Self		Total	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Individuals (retail)						
Murabaha to purchase order	14,596,158	12,261,205	-	-	14,596,158	12,261,205
Deferred sale	-	1,853	-	-	-	1,853
Ju'alah revenue	194,774	152,318	-	-	194,774	152,318
Real estate financings	7,333,941	5,987,823	-	-	7,333,941	5,987,823
Large Companies						
International Murabaha	634,535	283,211	-	-	634,535	283,211
Murabaha to purchase order	11,945,627	11,603,978	1,716	23,625	11,947,343	11,627,603
Small and medium Size Companies						
Murabaha to purchase order	4,778,430	3,660,566	-	-	4,778,430	3,660,566
Deferred sale	22,907	16,016	-	-	22,907	16,016
Ju'alah revenue	636	272	-	-	636	272
Total	39,507,008	33,967,242	1,716	23,625	39,508,724	33,990,867

29. Revenue from Financing Investments

The details of this Item are as follows:

	Joint	
	2016	2015
	JD	JD
Large companies:		
Mudaraba	181,702	264,848
	181,702	264,848

30. Revenue from Financial Assets at Amortized Costs

The details of this Item are as follows:

	Joint		Self	
	2016	2015	2016	2015
	JD	JD	JD	JD
Islamic Sukuk	554,049	179,201	3,427	11,938
	554,049	179,201	3,427	11,938

31. Net (Expenses) Revenue from Investment in Real Estate

The details of this Item are as follows:

	Joint	
	2016	2015
	JD	JD
<u>Acquired for the purpose of Utilization</u>		
Real estate rents	165,936	160,805
Gains from real estate sales	75,108	402,617
Other expenses	(74,039)	(35,627)
Depreciation of buildings	(750,425)	(203,977)
	(583,420)	323,818

32. Revenue from Ijara (lease-to-own) Assets

The details of this item are as follows:

	Joint		Self	
	2016	2015	2016	2015
	JD	JD	JD	JD
Ijara (lease-to-own) – Real estate	92,789,932	80,475,390	402,593	484,965
Ijara (lease-to-own) – Machinery	5,067,313	5,776,268	-	-
Ijara (lease-to-own)– Vehicles	1,175,735	1,427,561	-	-
Depreciation of Ijara (lease-to-own) assets	(57,515,098)	(50,051,280)	-	-
Total	41,517,882	37,627,939	402,593	484,965

33. Unrestricted Investment Accounts Share

The details of this item are as follows:

	<u>2016</u>	<u>2015</u>
	JD	JD
Customers:		
Revenue of Investments saving accounts	1,934,768	1,682,301
Revenue of time deposit accounts	17,088,733	20,530,446
Total	<u>19,023,501</u>	<u>22,212,747</u>

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

The details of this item are as follows:

	<u>2016</u>	<u>2015</u>
	JD	JD
Bank's share as Mudarib	23,156,378	24,707,061
Bank's share as (Rab Al-Mal)	30,882,609	18,186,261
Total	<u>54,038,987</u>	<u>42,893,322</u>

35. Bank's Revenue from Its Own Investments

The details of this item are as follows:

	<u>2016</u>	<u>2015</u>
	JD	JD
Income from deferred sales (Note 28)	1,716	23,625
Income from financial assets at amortized cost (Note 30)	3,427	11,938
Income from Ijara (lease-to-own) assets (Note 32)	402,593	484,965
Returns of distributions of financial assets at fair value through shareholders' equity	30,487	12,859
Total	<u>438,223</u>	<u>533,387</u>

36. Bank's Share in Restricted Investment Profit as Mudarib and Wakeel**a. Bank's Share from Restricted Investment Revenue as Mudarib:**

	2016	2015
	JD	JD
Income from restricted investments	598,415	325,391
<u>Less:</u> Depreciation of Ijara real estate development (Nama'a Aqari)	<u>(15,644)</u>	<u>(34,452)</u>
Net Income from restricted Investments	582,771	290,939
<u>Less:</u> Share of holders of restricted Investments accounts	<u>(474,706)</u>	<u>(231,200)</u>
Bank's share as Mudarib	<u>108,065</u>	<u>59,739</u>

b. Bank's Share from the Restricted Wakalah Investment *

	2016	2015
	JD	JD
Income from sales receivables	347,683	143,806
<u>Less:</u> Muwakel's share	<u>(235,177)</u>	<u>(115,136)</u>
Bank's Share (Wakeel)	<u>112,506</u>	<u>28,670</u>

* This Item represents income from Murabaha to Purchase order for small enterprises and within the Wakalah investment agreement signed with the Central Bank of Jordan.

37. Gains (Loss) from Foreign Currencies

The details of this Item are as follows:

	Joint		Self	
	2016	2015	2016	2015
	JD	JD	JD	JD
Resulting from trading / dealing	-	-	1,641,434	1,815,481
Resulting from revaluation	3,321	(22,971)	-	-
Total	<u>3,321</u>	<u>(22,971)</u>	<u>1,641,434</u>	<u>1,815,481</u>

38. Banking Services Revenue

The details of this Item are as follows:

	2016	2015
	JD	JD
Commissions on certified cheques	53,553	50,528
Commissions on letters of credit and bills	1,070,832	988,210
Commissions on guarantees	695,330	594,561
Commissions on transfers	309,006	307,973
Commissions on Visa	1,593,716	1,194,737
Commissions on cheques	333,660	353,629
Commissions on electronic services	1,036,291	932,632
Commissions on execution of financings	716,091	561,766
Commissions on transferred salaries	1,420,675	1,231,916
Other commissions	1,052,885	1,002,953
Total	8,282,039	7,218,905

39. Other Revenue

The details of this Item are as follows:

	2016	2015
	JD	JD
Revenue from customers services (post, telephone, custody)	318,598	312,628
Other Income	25,572	30,282
Total	344,170	342,910

40. Employees' Expenses

The details of this Item are as follows:

	2016	2015
	JD	JD
Salaries, bonuses and employees benefits	14,851,701	13,744,484
Bank's contribution in social security	1,628,111	1,447,007
Medical expenses	816,604	747,378
Staff training	99,321	98,706
Insurance expenses	28,535	21,431
Total	17,424,272	16,059,006

41. Other Expenses

The details of this Item are as follows:

	2016	2015
	JD	JD
Rents	1,026,021	946,317
Stationery and printing	450,704	441,311
Postage and telephone	401,385	394,125
Maintenance and cleaning	648,891	692,860
Advertising	599,080	629,454
Insurance expenses	77,822	83,995
Electricity and water	1,176,292	1,308,925
Donations	337,965	305,060
Subscriptions and fees	460,052	429,622
Transportation and travel expenses	366,285	393,559
Consultancy and professional fees	308,643	296,588
Information systems' expenses	1,914,513	1,912,454
Board of Directors' remunerations	25,000	25,000
Others	674,995	468,360
Total	8,467,648	8,327,630

42. Earnings Per Share

The details of this Item are as follows:

	2016	2015
	JD	JD
Profit for the Year	23,012,915	16,637,664
Weighted-average number of shares	100,000,000	100,000,000
Basic and Diluted Earnings per Share for the year	0/2301	0/1664

43. Cash and Cash Equivalent

The details of this Item are as follows:

	2016	2015
	JD	JD
Cash and balances with the Central Bank maturing within three months	642,618,706	702,356,176
<u>Add:</u> Balances at banks and financial institutions maturing within three months	22,343,142	22,686,521
<u>Less:</u> Banks and financial institutions' accounts maturing within three months	(113,743)	(338,171)
	664,848,105	724,704,526

44. Balances and Transactions with Related Parties

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

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

	Arab Bank (Parent Company)	Members of the Board	Subsidiaries of the Parent Companies	Member Of Shari'a Supervisory Board	Executive Management	Total	
						December 31,	
						2016	2015
<u>Statement of Financial Position Items:</u>	JD	JD	JD	JD	JD	JD	JD
Balances with banks and financial Institutions	18,443,719	-	-	-	-	18,443,719	19,343,159
International Murabaha (commodities Investment)	98,574,977	-	-	-	-	98,574,977	91,800,171
Mudaraba financings	-	-	255,367	-	-	255,367	9,170,558
Banks' and financial Institutions accounts	87,619	-	-	-	-	87,619	50,751
Joint Investment accounts and current accounts	-	10,120	-	67,759	670,144	748,023	630,536
Financial assets at fair value through shareholders' equity managed by sister company	-	-	5,519,852	-	-	5,519,852	5,507,159
Sales receivables and Ijara financings	-	514,809	-	114,092	1,120,063	1,748,964	2,324,862
<u>Off – Statement of Financial Position Items</u>							
Guarantees	12,537,369	-	-	-	-	12,537,369	12,537,369
<u>Statement of Income Items:</u>						For the Year Ended December 31,	
						2016	2015
						JD	JD
Distributed profit – deposits' accounts	-	-	-	407	8,999	9,406	13,240
Received profit - receivables	-	39,770	181,702	19,997	51,340	292,809	349,702
Shares' dividends	-	-	30,487	-	-	30,487	12,859
Received commissions-off statement of financial position	62,687	-	-	-	-	62,687	62,687
Salaries and remunerations *	-	25,000	-	84,000	1,614,132	1,723,132	1,418,314
Transportation	-	109,800	-	-	-	109,800	123,600

- The lowest Murabaha rate that the Bank received was (3%), and the highest Murabaha rate was (3.5%). Meanwhile, the lowest dividends distribution rate in JD was 2.965%, and the highest rate of dividends distribution was 3.02%.
- All financings granted to related parties are performing, and consequently, no related provisions have been booked.
- * The Central Bank of Jordan Circular No. 4676/2/10 regarding the definition of Executive Management has been implemented.

45. Risk Management

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

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

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

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

1. Credit Risk

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

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

2. Liquidity Risk

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

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

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

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

3. Market Risk

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

The essential tools in measuring and managing market risk include:

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

4. Capital Market Risk

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

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

5. Foreign Currencies Exchange Rates Risk:

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

6. Compliance with Shari'a Standards Risk:

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

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

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

7. Other Risks

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

46/a. Credit Risk

1. Exposures to Credit Risk (after Impairment provision and before collateral held and other risk mitigating factors)

	Joint		Self		Total	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Statement of financial position items:						
Balances at Central Bank	618,072,771	677,258,934	-	-	618,072,771	677,258,934
Balances with banks and financial institutions	22,343,142	22,686,521	-	-	22,343,142	22,686,521
Deferred Sales Receivables and Other Receivables:						
For Individuals	648,650,219	545,135,425	17,410,684	10,126,311	666,060,903	555,261,736
Real estate financings	118,006,050	89,189,466	-	-	118,006,050	89,189,466
For companies:						
Large companies	357,972,028	324,073,109	1,796,697	4,813,903	359,768,725	328,887,012
Small and Medium companies	111,747,151	87,381,740	662,303	-	112,409,454	87,381,740
Financing Investments:						
Musharaka:						
For Individuals	-	-	-	-	-	-
Real estate financings	-	-	-	-	-	-
Mudaraba:						
For companies						
Large companies	255,367	9,170,558	-	-	255,367	9,170,558
Sukuk:						
Within financial assets at amortized cost	33,857,822	7,575,056	-	465,281	33,857,822	8,040,337
Other assets						
Accrued revenue	249,048	68,400	-	667	249,048	69,067
Prepaid expenses	-	-	1,174,022	1,407,729	1,174,022	1,407,729
Off – Statement of Financial Position:						
Letters of guarantee	-	-	55,021,259	50,579,667	55,021,259	50,579,667
Letters of credit	-	-	23,961,187	23,557,357	23,961,187	23,557,357
Acceptances	-	-	9,773,365	8,307,357	9,773,365	8,307,357
Unutilized ceilings	153,561,498	130,932,392	-	-	153,561,498	130,932,392
Total	2,064,715,096	1,893,471,601	109,799,517	99,258,272	2,174,514,613	1,992,729,873

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

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

2016	Joint						Self						
	Individuals			Real Estate			Large Companies			Medium Companies			
	Banks and other Financial Institutions			Government and Public Sector			Real Estate			Large Companies			
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	
Low risk	1,116,354	466,680	4,900,700	3,277,968	-	637,736,340	647,498,042	-	-	-	-	-	647,498,042
Acceptable risk	644,997,051	115,704,151	350,383,325	105,071,859	36,734,668	-	1,252,891,054	17,979,089	-	1,973,951	625,206	-	1,273,469,300
From which post due													
Up to 30 days	452,513	10,758	478,971	181,580	-	-	1,123,822	-	-	-	-	-	1,123,822
From 31 to 60 days	1,644,457	165,220	1,038,195	294,927	-	-	3,142,799	3,484	-	803	31,546	35,833	3,178,632
Watch list	340,249	1,525,271	1,665,178	2,196,234	-	-	5,726,932	4,128	-	298,631	9,972	312,731	6,039,663
Non-performing:													
Sub-standard	263,389	20,199	7,447	257,836	-	-	548,871	12,000	-	-	3,000	15,000	563,871
Doubtful	149,865	59,643	84,104	318,680	-	-	612,292	22,185	-	136,917	5,613	164,715	777,007
problematic	779,816	472,018	4,441,162	3,122,887	-	-	8,815,883	104,977	-	3,506,893	76,824	3,688,694	12,504,577
Total	649,743,694	118,423,940	362,999,082	114,721,971	36,734,668	637,736,340	1,920,359,695	18,125,863	-	5,917,195	752,161	24,795,219	1,945,154,914
Less: Revenues in suspense	120,520	45,436	319,093	395,110	-	-	830,159	-	-	15,105	-	15,105	895,264
Provision for Impairment	972,955	372,454	4,400,819	2,579,710	-	-	8,325,938	139,886	-	3,506,664	89,858	3,736,408	12,062,346
Net	648,650,219	118,006,050	358,279,170	111,747,151	36,734,668	637,736,340	1,911,153,598	17,985,977	-	2,395,426	662,303	21,043,706	1,932,197,304

	Joint						Self					
	Individuals			Real Estate			Large Companies			Medium Companies		
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	Total
2015												
Low risk	969,984	-	5,364,515	2,727,853	3,307,576	684,881,420	697,251,348	-	-	-	-	697,251,348
Acceptable risk	542,642,331	86,305,446	324,845,972	83,251,997	19,378,945	-	1,056,424,691	10,123,092	-	-	16,056,570	1,072,481,261
From which post due												
Up to 30 days	334,771	16,871	7,221	161,175	-	-	520,038	-	-	-	-	520,038
From 31 to 60 days	943,339	7,488	448,300	20,446	-	-	1,419,573	-	-	-	-	1,419,573
Watch list	225,370	2,915,781	2,335,512	516,599	-	-	5,591,102	3,460	-	-	527,582	6,520,844
Non-performing												
Sub-standard	144,482	10,003	-	85,156	-	-	239,641	-	-	-	-	239,641
Doubtful	198,442	5,536	423,447	84,852	-	-	712,277	-	-	-	-	712,277
Problematic	613,029	534,930	4,346,850	4,064,673	-	-	9,559,482	88,788	-	-	-	9,648,270
Total	546,071,748	89,796,055	337,771,817	90,912,751	22,686,521	684,881,420	1,772,130,312	10,215,340	-	-	22,389,100	1,794,509,412
Less: Revenues in suspense	94,303	55,377	301,431	338,869	-	-	785,980	-	-	-	659,754	1,445,734
Provision for impairment	842,020	551,212	4,205,749	3,192,142	-	-	8,791,123	89,029	-	-	4,915,455	13,706,578
Net	545,135,425	89,189,466	333,264,637	87,381,740	22,686,521	684,881,420	1,763,339,230	10,126,311	-	-	16,813,891	1,779,353,100

	Joint					Self				
	Individuals		Real Estate		Medium Companies		Large Companies		Real Estate	
	JD		JD		JD		JD		JD	
2015										
Collaterals against:										
Low risk	969,984	-	5,364,515	2,727,853	9,062,352	-	-	-	-	-
Acceptable risk	72,761,132	20,437,761	63,624,081	7,721,097	164,544,071	-	-	-	-	9,062,352
Watch list	718,448	2,668,245	2,001,895	769,624	6,158,212	-	-	-	-	164,544,071
Non-performing:										
Sub-standard	709,008	12,260	-	-	721,268	-	-	-	-	6,158,212
Doubtful	74,987	6,098	-	25,000	106,085	-	-	-	-	721,268
Written off	3,173,200	213,302	3,038,000	1,654,429	8,078,931	-	2,261,152	-	2,261,152	106,085
Total	78,406,759	23,337,666	74,028,491	12,898,003	188,670,919	-	2,261,152	-	2,261,152	10,340,083
Of which:										
Cash margins	969,984	-	5,364,515	2,727,853	9,062,352	-	-	-	-	9,062,352
Real estate	19,019,940	21,560,829	66,389,280	7,663,200	114,633,249	-	2,261,152	-	2,261,152	116,894,401
Listed shares	-	-	-	-	-	-	-	-	-	-
Vehicles and equipment	58,416,835	1,030,149	2,274,696	2,461,745	64,183,425	-	-	-	-	-
Accepted bank guarantees	-	746,688	-	45,205	791,893	-	-	-	-	64,183,425
	78,406,759	23,337,666	74,028,491	12,898,003	188,670,919	-	2,261,152	-	2,261,152	791,893
										190,932,071

3. Sukuk: The following table shows the classification of Sukuk according to External Rating Agencies

Rating Grade	Rating Agency	Within Financial Assets at Amortized Cost
		JD
A+	S & P	14,320,568
BB-		7,387,254
unrated		12,150,000
Total		33,857,822

Deferred Sales Receivables and Other Receivables and Scheduled Financings
These are the receivables previously rated as non-performing receivables/financings and excluded from the non-performing receivables and financings framework by virtue of proper scheduling. These receivables have been classified within watch-list receivables/financings and amounted to JD 271 thousand as of December 31, 2016, regardless of whether they remain in the watch list or get transferred to the performing receivables (JD 564 thousand as of December 31, 2015).

Deferred Sales Receivables and Other Receivables and Re-structured Financings
Restructuring means re-arranging receivables/financings in terms of amending installments, extending their life of receivables/financings, deferring some installments, or extending their grace period. They are classified as watch-list receivables/financings and amounted to JD 17,490 million as of December 31, 2016 (JD 10,400 million as of December 31, 2015).

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

Item Geographical Area	Inside the Kingdom JD	Other Middle Eastern Countries JD	Europe JD	America JD	Australia JD	Other JD	Total JD
Balances at Central Bank	618,072,771	-	-	-	-	-	618,072,771
Balances at banks and financial institutions	17,791,150	596,882	2,232,985	1,361,924	128,562	231,639	22,343,142
Deferred Sales Receivables, other Receivables and Financings:							
Individuals	666,060,903	-	-	-	-	-	666,060,903
Real estate financings	118,006,050	-	-	-	-	-	118,006,050
Companies:							
Large companies	229,745,675	89,089,469	41,188,948	-	-	-	360,024,092
Small and medium companies	112,409,454	-	-	-	-	-	112,409,454
Within financial assets at amortized cost	12,150,000	21,707,822	-	-	-	-	33,857,822
Other Assets:							
Accrued revenue	54,429	169,448	25,171	-	-	-	249,048
Prepaid expenses	1,174,022	-	-	-	-	-	1,174,022
Total / 2016	1,775,464,454	111,563,621	43,447,104	1,361,924	128,562	231,639	1,932,197,304
Total / 2015	1,641,380,258	113,747,583	23,062,336	999,618	163,305	-	1,779,353,100

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

Item	Sector	Finance	Industrial	Trade	Real Estate	Agriculture	Shares	Individual (Retail)	Government and Public Sector	Total
Balances at Central Bank		JD	JD	JD	JD	JD	JD	JD	JD	JD
Balances at banks and financial institutions		-	-	-	-	-	-	-	618,072,771	618,072,771
		22,343,142	-	-	-	-	-	-	-	22,343,142
Deferred sales Receivables, other receivables, and Financings		1,327,000	66,164,084	377,427,378	118,006,050	25,568,935	1,946,149	666,060,903	-	1,256,500,499
Sukuk:										
Within financial assets at amortized cost		14,296,373	-	-	-	-	-	-	19,561,449	33,857,822
Other assets										
Accrued revenues		95,153	-	51,775	-	-	-	-	102,120	249,048
Prepaid expenses		1,174,022	-	-	-	-	-	-	-	1,174,022
Total / 2016		39,235,690	66,164,084	377,479,153	118,006,050	25,568,935	1,946,149	666,060,903	637,736,340	1,932,197,304
Total / 2015		24,249,061	69,462,524	334,208,520	89,655,414	20,514,255	1,120,170	555,261,736	684,881,420	1,779,353,100

46. B- Market Risk

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

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

1. Rate of Return Risks

- Rate of return risks arise from the increase in long-term fixed rates in the market, which do not correspond immediately with the emerging changes in the high return index. The necessary steps must be taken to ensure availability of administrative measures related to renewal, measurement and follow-up of the average return risk. Moreover, reports should be prepared on rate of return risks. They should also be monitored, and the soundness of their structure should be verified.
- The Bank is exposed to the average return risks due to a gap in the amounts of assets and liabilities as per the multiple maturity times or due to re-pricing of the average return over the subsequent transactions during a specific period. The Bank manages such risks by determining the future profit rates in accordance with the projections of market conditions and developing new instruments that are Shari'a compliant through the Bank's risk management strategy.
 - 1- Obtaining the best possible returns available in the market based on the International Market Index (Libor) as a standard and benchmark for both the portfolio and investments managed by the Bank.
 - 2- Observing the risks arising from these investments based on the diversity option and countries, institutions, and regions; and ensuring mitigation of the risk effects arising from managing investments.
 - 3- Complying with management of investments by matching the Bank's liabilities, represented by deposits, and assets in foreign currencies comprised of investments in foreign currencies. Accordingly, time restricted deposits are invested on a short-term investment basis while the long-term deposits are invested on a medium- or long-term investment basis.

2. Foreign Exchange Risk

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

<u>2016</u>	<u>Change in Currency Exchange Rate</u>	<u>Effect on Profit and Loss</u>	<u>Effect on Shareholders' Equity</u>
	(%)	JD	JD
Total currencies	5%	2,936	-

<u>2015</u>	<u>Change in Currency Exchange Rate</u>	<u>Effect on Profit and Loss</u>	<u>Effect on Shareholders' Equity</u>
	(%)	JD	JD
Total currencies	5%	37,449	-

3. Change in Share Prices Risk

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

<u>2016</u>	<u>Change in the Index</u>	<u>Effect on Profit and Loss</u>	<u>Effect on Shareholders' Equity</u>
Indicator	(%)	JD	JD
Financial Markets	5%	-	275,993

<u>2015</u>	<u>Change in the Index</u>	<u>Effect on Profit and Loss</u>	<u>Effect on Shareholders' Equity</u>
Indicator	(%)	JD	JD
Financial Markets	5%	-	275,358

4. Commodities' Risks

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

Concentration of Foreign Currency Risk

(to the nearest 000 JDs)

<u>December 31, 2016</u>	<u>US Dollars</u>	<u>Euro</u>	<u>Sterling Pounds</u>	<u>Japanese Yens</u>	<u>Others</u>	<u>Total</u>
Assets:						
Cash and Balances at the Central Bank	15,840	648	45	-	173	16,706
Balances at banks and financial	1,457	17,268	587	494	1,673	21,479
Deferred sales receivables and other receivables, financings and Ijara	125,665	83	3,677	-	6,277	135,702
Financial assets at fair value through shareholders' equity	5,353	-	-	-	-	5,353
Financial assets at amortized cost	21,708	-	-	-	-	21,708
Other assets	190	-	-	-	4	194
Total Assets	170,213	17,999	4,309	494	8,127	201,142
Liabilities:						
Banks and financial institutions' account	4	6	-	-	-	10
Customers' deposits (current, savings)	160,014	16,288	4,293	493	7,341	188,429
Cash margins	1,563	193	-	-	16	1,772
Other liabilities	8,524	1,650	17	-	298	10,489
Total Liabilities	170,105	18,137	4,310	493	7,655	200,700
Net concentration within the statement of financial position for the current year	108	(138)	(1)	1	472	442
Contingent liabilities off- statement of financial position for the current year	30,501	3,100	-	33	803	34,437
<u>December 31, 2015</u>						
Total Assets	152,004	15,746	3,469	9	9,269	180,497
Total Liabilities	151,639	15,736	3,460	8	8,904	179,747
Net Concentration on- Statement of Financial Position	365	10	9	1	365	750
Contingent Liabilities off- Statement of Financial Position	31,119	2,197	-	-	748	34,064

46. C- Liquidity Risk

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

First: The following table summarizes the distribution of liabilities (not discounted) on the basis of the remainder of the contractual maturity at the date of the financial statements:
(to the nearest 000JDs)

<u>December 31, 2016</u>	<u>Less than 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 6 months</u>	<u>From 6 months to one year</u>	<u>Up to 3 years</u>	<u>More than 3 years</u>	<u>Without maturity</u>	<u>Total</u>
Liabilities								
Banks and financial institutions accounts	114	-	-	-	-	-	-	114
Customers' current accounts	-	-	-	-	-	-	715,422	715,422
Cash margins	11,192	6,502	2,825	8,219	-	-	-	28,738
Other provisions	-	-	-	-	-	-	2,462	2,462
Income tax provision	2,478	-	7,590	136	-	-	-	10,204
Other liabilities	21,123	587	9,455	-	-	-	235	31,400
Investment risk fund	596	-	1,683	-	-	-	23,597	25,876
Joint investment accounts	190,213	167,091	144,568	425,704	72,227	-	-	999,803
Total	225,716	174,180	166,121	434,059	72,227	-	741,716	1,814,019
Total Assets (according to expected maturities)	751,023	211,727	101,057	130,521	284,660	439,980	50,850	1,969,818

<u>December 31, 2015</u>	<u>Less than 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 6 months</u>	<u>From 6 months to one year</u>	<u>Up to 3 years</u>	<u>More than 3 years</u>	<u>Without Maturity</u>	<u>Total</u>
Liabilities								
Banks and financial institutions accounts	338	-	-	-	-	-	-	338
Customers' current accounts	-	-	-	-	-	-	627,167	627,167
Cash margins	10,045	5,868	5,826	4,457	-	-	-	26,196
Other provisions	-	-	-	-	-	-	2,269	2,269
Income tax provision	2,697	4,046	-	-	-	-	-	6,743
Other liabilities	20,370	297	4,777	-	1,027	-	-	26,471
Investment Risks Fund	860	1,289	-	-	-	-	18,648	20,797
Joint investment accounts	70,534	466,222	236,163	133,313	52,503	-	-	958,735
Total	104,844	477,722	246,766	137,770	53,530	-	648,084	1,668,716
Total Assets (according to expected maturities)	784,977	163,457	86,881	86,919	246,606	417,481	22,263	1,808,584

Second: Off-Statement of Financial Position Items

	Up to One Year	
	2016	2015
	JD	JD
Letters of credit and acceptances	33,734,552	31,864,714
Un-utilized limits	153,561,498	130,932,392
Letters of guarantee	55,021,259	50,579,667
Total	242,317,309	213,376,773

47. Information about the Bank's Business Sectors

a. Information about the Bank's Activities

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

Individual (Retail) Banking

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

Companies Banking

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

Treasury

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

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

	Retail	Companies	Treasury	Others	Total	
					December 31,	
					2016	2015
	JD	JD	JD	JD	JD	JD
Gross income	38,901	31,063	2,718	25	72,707	59,676
Share of Investment Risks Fund	(1,128)	(6,990)	-	-	(8,118)	(7,234)
Impairment in value of sales receivables and other receivables - self	-	(53)	-	-	(53)	(368)
Business Sector Results	37,773	24,020	2,718	25	64,536	52,074
Undistributed expenses	(10,979)	(3,571)	(268)	(15,075)	(29,893)	(27,064)
Income before Tax	26,794	20,449	2,450	(15,050)	34,643	25,010
Income tax	(8,995)	(6,865)	(822)	5,052	(11,630)	(8,372)
Income for the Year	17,799	13,584	1,628	(9,998)	23,013	16,638
Segment's assets	717,248	378,050	810,327	-	1,905,625	1,761,528
Undistributed assets to the sectors	-	-	-	64,193	64,193	47,056
Total Segment's Assets	717,248	378,050	810,327	64,193	1,969,818	1,808,584
Segment's Liabilities	1,338,170	423,282	114	-	1,761,566	1,631,086
Undistributed Liabilities to the Sectors	-	-	-	52,453	52,453	37,630
Total Segment's Liabilities	1,338,170	423,282	114	52,453	1,814,019	1,668,716
					2016	2015
					JD	JD
Capital expenses	-	-	-	1,781	1,781	2,885
Depreciation and Amortization	1,989	6	1	1,672	3,668	2,488

b. Information on the Geographical Distribution

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

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

(to the nearest 000 JDs)

	Inside the Kingdom		Outside the Kingdom		Total	
	2016	2015	2016	2015	2016	2015
Gross income	71,020	59,394	1,687	733	72,707	60,127
Total assets	1,813,085	1,670,563	156,733	138,021	1,969,818	1,808,584
Capital expenditures	1,781	2,885	-	-	1,781	2,885

48. Capital Management

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

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

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

The amount that the Bank considers as capital and capital adequacy ratio are as follows:

	(to the nearest 000 JDs)	
	December 31,	
	2016	2015
	JD	JD
Primary capital		
Authorized and paid-up capital	141,637	128,164
Statutory reserve	100,000	100,000
Voluntary reserve	21,383	17,919
Retained earnings	4,262	4,262
	16,487	7,028
<u>Less:</u> Intangible assets	(495)	(1,045)
Supplementary capital		
Fair value reserve	196	192
General banking risks reserve	882	882
Bank's share of the general banking risks reserve – Joint	5,103	4,585
Bank's share of the surplus of Investment Risks Fund – Joint	6,577	4,739
Total Regulatory Capital	154,395	138,562
Total Risk-weighted Assets	952,506	787,627
Capital Adequacy Ratio (%)	16,21%	17,59%
Primary Capital Ratio (%)	14,87%	16,27%

The Central Bank of Jordan has issued instructions to banks relating to regulatory capital pursuant to Basel III Standard effective from 2016 third-quarter financial statements. However, the instructions did not include Islamic banks, and no related instructions have been issued to Islamic banks.

49. Assets and Liabilities Maturities Analysis

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

(000 JDs)

	Up to 1 Year	Over 1 Year	Total
<u>December 31, 2016</u>	JD	JD	JD
<u>Assets:</u>			
Cash and balances at Central Banks	642,619	-	642,619
Balances at banks and financial institutions	22,343	-	22,343
Deferred sales receivables and other receivables - Net	393,614	219,519	613,133
Deferred sales receivables through the statement of Income	-	-	-
Financing Investments - Net	38	217	255
Financial assets at fair value through shareholders' equity	-	5,520	5,520
Financial assets at amortized cost	7,119	26,739	33,858
Ijara (lease-to-own) assets - Net	92,621	476,317	568,938
Investments in real estate	-	21,024	21,024
Qard Hasan loans	17,680	1,278	18,958
Property and equipment - Net	-	19,829	19,829
Intangible assets	124	371	495
Deferred tax assets	41	2,565	2,606
Other assets	18,129	2,111	20,240
Total Assets	1,194,328	775,490	1,969,818
<u>Liabilities and Joint Investment Accounts' Holders</u>			
Banks and financial Institutions accounts	114	-	114
Customers' current and call account	-	715,422	715,422
Cash margins	28,738	-	28,738
Other provisions	-	2,462	2,462
Income tax provision	10,204	-	10,204
Other liabilities	31,165	235	31,400
Joint Investment accounts	927,576	72,227	999,803
Investment Risks Fund	-	23,597	23,597
Income tax provision for the Investment Risks Fund	2,279	-	2,279
Total Liabilities and Joint Investment Accounts Holders	1,000,076	813,943	1,814,019
Net	194,252	(38,453)	155,799

	(000 JDs)		
	Up to 1 Year	Over 1 Year	Total
<u>December 31, 2015</u>	JD	JD	JD
<u>Assets:</u>			
Cash and balances at Central Banks	702,356	-	702,356
Balances at banks and financial Institutions	22,687	-	22,687
Deferred Sales receivables and other receivables – Net	348,920	164,908	513,828
Deferred Sales receivables through the statement of income	-	-	-
Financing Investments - Net	220	8,951	9,171
Financial assets at fair value through shareholders' equity	5,507	-	5,507
Financial assets at amortized cost	465	7,575	8,040
Ijara (lease-to-own) assets – Net	29,937	459,801	489,738
Investments in real estate	-	19,459	19,459
Qard Hasan loans	10,136	65	10,201
Property and equipment - Net	-	21,218	21,218
Intangible assets	-	1,045	1,045
Deferred tax assets	-	2,485	2,485
Other assets	2,006	843	2,849
Total Assets	<u>1,122,234</u>	<u>686,350</u>	<u>1,808,584</u>
<u>Liabilities and Joint Investment Accounts' Holders</u>			
Banks and financial Institutions accounts	338	-	338
Customers' current and call accounts	627,167	-	627,167
Cash margins	26,196	-	26,196
Other provisions	-	2,269	2,269
Income tax provision	6,743	-	6,743
Other liabilities	25,444	1,027	26,471
Joint Investment accounts	906,232	52,503	958,735
Investment Risks Fund	-	18,648	18,648
Income tax provision for the Investment Risk Fund	2,149	-	2,149
Total Liabilities and Joint Investment Accounts Holders	<u>1,594,269</u>	<u>74,447</u>	<u>1,668,716</u>
Net	<u>(472,035)</u>	<u>611,903</u>	<u>139,868</u>

50. Fair Value Measurement

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

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

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

	Fair Value as at December 31,		Fair Value Hierarchy	Valuation Techniques and Key Inputs	Significant unobservable Inputs	Relationship of Unobservable Inputs to Fair Value
Financial Assets / Financial Liabilities	2016	2015				
	JD	JD				
Financial Assets at Fair Value:						
Financial Assets at Fair Value through Shareholders' Equity						
Shares available at market price	5,519,852	5,507,159	Level 1	Quoted rates in the Financial Markets	Not Applicable	Not Applicable
Total	5,519,852	5,507,159				

There were no transfers between Level (1) and Level (2) during 2016 and 2015.

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

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

	December 31, 2016		December 31, 2015		
	Book Value	Fair Value	Book Value	Fair Value	Level
	JD	JD	JD	JD	
Financial Assets not Calculated at Fair Value					
Deferred sales receivables	613,132,971	613,170,807	513,828,255	513,849,225	Level 2
Investments in real estate	21,023,966	22,027,117	19,458,673	20,445,923	Level 2
Financial assets at amortized cost	33,857,822	34,055,095	8,040,337	8,088,434	Level 1
Total financial assets not calculated at fair value	668,014,759	669,253,019	541,327,265	542,383,582	
Financial Liabilities not calculated at Fair Value					
Customers' current and unrestricted accounts	1,709,122,497	1,715,224,993	1,585,901,639	1,590,117,580	Level 2
Cash margins	28,738,283	28,738,283	26,196,383	26,196,383	Level 2
Total Financial Liabilities not Calculated at Fair Value	1,737,860,780	1,743,963,276	1,612,098,022	1,616,313,963	

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

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

Credit Commitments and Obligations

	December 31,	
	2016	2015
	JD	JD
Letters of credit	23,961,187	23,557,357
Acceptances	9,773,365	8,307,357
Letters of Guarantee:		
Payment	23,296,869	22,777,214
Performance	16,133,636	13,540,220
Others	15,590,754	14,262,233
Unutilized limits	153,561,498	130,932,392
Total	242,317,309	213,376,773

52. Lawsuits against the Bank

There are lawsuits raised against the Bank amounting to JD 288,202 as at December 31, 2016 (lawsuits amounting to JD 296,743 as at December 31, 2015) with an Impairment provision of JD 31,500 as at December 31, 2016. Based on the opinion of the legal consultant, no additional amounts will be claimed from the Bank in respect of those lawsuits.

53. New Islamic Standards

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has Issued Standard No. (27) on Investment Accounts Managed by Islamic Financial Institutions which have become effective from January 1, 2016. Moreover, there has been no related significant effect on the Bank's financial statements.

54. Comparative Figures

Some of the comparative figures of 2015 have been reclassified to correspond to those of 2016.