

UNION BANK

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2008

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
UNION BANK
AMMAN - JORDAN**

We have audited the accompanying financial statements of **UNION BANK** (a public shareholding company), which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Amman – Jordan
22 February 2009

UNION BANK
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008
(In Jordanian Dinars)

<u>ASSETS</u>	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Cash and balances with Central Banks	4	137,039,173	123,085,483
Balances at banks and financial institutions	5	204,677,269	264,719,733
Deposits at banks and financial institutions	6	5,197,760	5,672,000
Financial assets held for trading	7	884,553	65,370,113
Direct credit facilities	8	601,551,048	465,415,208
Financial assets available for sale	9	147,777,908	98,621,995
Financial assets held to maturity	10	2,734,939	50,000
Financial assets pledged as collateral	11	5,973,283	17,909,308
Property and equipment	12	12,084,961	10,465,843
Intangible assets	13	666,263	436,625
Deferred tax assets	20	3,156,004	1,286,562
Other assets	14	12,726,283	15,057,580
Total Assets		<u>1,134,469,444</u>	<u>1,068,090,450</u>
<u>LIABILITIES AND EQUITY</u>			
LIABILITIES			
Banks and financial institutions' deposits	15	122,876,622	174,783,159
Customers' deposits	16	653,175,345	554,144,167
Margin accounts	17	91,709,022	74,157,623
Loans and borrowings	18	24,141,627	25,725,360
Sundry provisions	19	213,205	375,842
Income tax liabilities	20	13,490,219	11,182,500
Deferred tax liabilities	20	276,235	1,165,670
Other liabilities	21	10,069,352	11,556,948
Total Liabilities		<u>915,951,627</u>	<u>853,091,269</u>
EQUITY			
Equity attributable to the Bank's shareholders			
Paid in capital	22	95,000,000	95,000,000
Share premium	22	79,255,311	79,255,311
Statutory reserve	23	13,548,162	11,377,431
Voluntary reserve	23	3,159,659	3,159,659
General banking risk reserve	23	5,519,193	4,481,693
Cumulative changes in fair value	24	698,984	3,289,350
Retained earnings	25	21,336,508	18,435,737
Total Equity		<u>218,517,817</u>	<u>214,999,181</u>
Total Liabilities and Equity		<u>1,134,469,444</u>	<u>1,068,090,450</u>

The accompanying notes from 1 to 48 are an integral part of these financial statements and should be read with them

UNION BANK
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(In Jordanian Dinars)

	Notes	<u>2008</u>	<u>2007</u>
Interest income	27	69,424,421	62,152,607
Interest expense and similar charges	28	<u>38,518,448</u>	<u>39,540,052</u>
Net interest income		30,905,973	22,612,555
Net commission	29	<u>7,931,308</u>	<u>5,251,076</u>
Net interest and commission income		38,837,281	27,863,631
Other income –			
Net gain from foreign currencies	30	6,371,223	6,182,806
Net loss from financial assets held for trading	31	(2,585,860)	(1,832,435)
Net loss from financial assets available for sale	32	(5,997,610)	(1,893,001)
Other income	33	<u>2,084,175</u>	<u>2,023,247</u>
Gross profit		38,709,209	32,344,248
Employees' expenses	34	8,141,105	5,546,190
Depreciation and amortisation	12 , 13	970,921	762,842
Other expenses	35	5,183,938	4,521,791
Impairment loss on direct credit facilities	8	3,007,197	1,916,631
Sundry provisions	19	<u>275,078</u>	<u>275,395</u>
Total expenses		<u>17,578,239</u>	<u>13,022,849</u>
Profit before tax		<u>21,130,970</u>	<u>19,321,399</u>
Income tax expense	20	<u>5,521,968</u>	<u>5,544,934</u>
Profit for the year		<u>15,609,002</u>	<u>13,776,465</u>
		<u>JD/Fils</u>	<u>JD/Fils</u>
Basic and diluted earnings per share	36	<u>0/164</u>	<u>0/192</u>

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UNION BANK
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(In Jordanian Dinars)

	Paid in Capital JD	Share premium JD	Reserves			Cumulative changes in fair values JD	Retained earnings JD	Total equity JD
			Statutory JD	Voluntary JD	General banking risk JD			
2008-								
Balance at 1 January 2008	95,000,000	79,255,311	11,377,431	3,159,659	4,481,693	3,289,350	18,435,737	214,999,181
Net movement in cumulative changes in fair value after tax	-	-	-	-	-	(2,590,366)	-	(2,590,366)
Total income and expenses for the year recognised directly in equity	-	-	-	-	-	(2,590,366)	-	(2,590,366)
Profit for the year	-	-	-	-	-	-	15,609,002	15,609,002
Total income and expenses for the year	-	-	-	-	-	(2,590,366)	15,609,002	13,018,636
Transferred to reserves	-	-	2,170,731	-	1,037,500	-	(3,208,231)	-
Distributed dividends	-	-	-	-	-	-	(9,500,000)	(9,500,000)
Balance at 31 December 2008	95,000,000	79,255,311	13,548,162	3,159,659	5,519,193	698,984	21,336,508	218,517,817
2007-								
Balance at 1 January 2007	55,000,000	6,755,311	9,391,353	1,288,656	4,096,665	5,697,602	19,901,381	102,130,968
Net movement in cumulative changes in fair value after tax	-	-	-	-	-	(2,408,252)	-	(2,408,252)
Total income and expenses for the year recognised directly in equity	-	-	-	-	-	(2,408,252)	-	(2,408,252)
Profit for the year	-	-	-	-	-	-	13,776,465	13,776,465
Total income and expenses for the year	-	-	-	-	-	(2,408,252)	13,776,465	11,368,213
Increase in capital	40,000,000	72,500,000	-	-	-	-	(11,000,000)	101,500,000
Transferred to reserves	-	-	1,986,078	1,871,003	385,028	-	(4,242,109)	-
Balance at 31 December 2007	95,000,000	79,255,311	11,377,431	3,159,659	4,481,693	3,289,350	18,435,737	214,999,181

- According to the Central Bank of Jordan's regulations balances not available for distribution amounted to JD 3,156,004 representing deferred tax assets.

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UNION BANK
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(In Jordanian Dinars)

	Notes	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before income tax		21,130,970	19,321,399
Adjustments for -			
Depreciation and amortisation		970,921	762,842
Impairment loss on direct credit facilities		3,007,197	1,916,631
Unrealised losses from financial assets held for trading		1,025,690	1,541,857
Impairment losses on available for sale investments		7,421,506	2,755,597
Loss (gain) from selling property and equipment		2,308	(2,237)
Sundry provisions		275,078	275,395
Excess in collateral pending sale provision		-	(91,448)
Effect of exchange rate changes on cash and cash equivalent		(2,938)	(603,152)
Operating profit before changes in operating assets and liabilities		33,830,732	25,876,884
Changes in operating assets and liabilities -			
Decrease (increase) in balances with Central Banks maturing after more than three months		25,000,000	(22,000,000)
Increase in restricted balances		(2,127,000)	-
Decrease (increase) in deposits at banks and financial institutions maturing after more than three months		474,240	(3,367,750)
Decrease in financial assets held for trading		63,459,870	25,304,511
Increase in direct credit facilities		(139,143,037)	(30,363,969)
Decrease in other operating assets		2,331,297	6,542,805
Increase in customers' deposits		99,031,178	74,538,614
Increase in margin accounts		17,551,399	14,341,118
(Decrease) increase in other liabilities		(1,590,300)	3,541,632
Utilised sundry provisions		(437,715)	(85,000)
Net cash from operating activities before income tax		98,380,664	94,328,845
Income tax paid		(5,230,820)	(5,397,965)
Net cash from operating activities		<u>93,149,844</u>	<u>88,930,880</u>
<u>CASH FLOWS USED IN INVESTING ACTIVITIES</u>			
Purchase of financial assets held to maturity		(3,053,422)	(710,046)
Redemption of financial assets held to maturity		368,483	14,681,512
Purchase of financial assets available for sale		(78,546,131)	(55,930,508)
Proceeds from financial assets available for sale		30,572,065	13,766,747
Purchase of property and equipment		(2,352,530)	(1,138,699)
Proceeds from sale of intangible assets		7,611	4,343
Purchase of intangible assets		(477,066)	(273,491)
Net cash used in investing activities		<u>(53,480,990)</u>	<u>(29,600,142)</u>
<u>CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</u>			
Increase in capital and share premium		-	101,500,000
Dividends paid		(9,397,296)	(4,315)
Proceeds from loans and borrowings		549,752	-
Repayment of loans and borrowings		(2,133,485)	(17,110,429)
Net cash (used in) from financing activities		<u>(10,981,029)</u>	<u>84,385,256</u>
Net increase in cash and cash equivalents		28,687,825	143,715,994
Effect of exchange rate changes on cash and cash equivalents		2,938	603,152
Cash and cash equivalents, beginning of the year		<u>186,249,557</u>	<u>41,930,411</u>
Cash and cash equivalents, end of the year	37	<u>214,940,320</u>	<u>186,249,557</u>

The accompanying notes from 1 to 48 are an integral part of these financial statements and should be read with them

UNION BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008
(In Jordanian Dinars)

(1) GENERAL INFORMATION

The Bank is a public shareholding company registered and incorporated in Jordan in 1978, in accordance with the companies law act no (12) of (1964). Its registered office is at Amman, Jordan.

The Bank provides its banking services through its main branch located in Amman and through its 18 branches in Jordan and one branch out of Jordan and its subsidiary.

The Bank shares are listed and traded in Amman Stock Exchange.

The financial statements were authorized for issue by the Bank's Board of Directors in their meeting no. (2) held on 22 February 2009. These financial statements require the General Assembly's approval.

(2) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

Basis of preparation

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

The consolidated financial statements are prepared on a historical cost basis, except for financial assets held for trading , financial assets available for sale, derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

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

Changes in accounting policies:

Except as noted below the Bank's accounting policies are consistent with those used in the previous year. As of 1 July 2008 the Bank applied the following new IFRSs:

IAS (39) and IFRS (7):

The bank has applied new adjustments of IAS (39) and IFRS (7) as at July 1, 2008. The bank has reclassified some financial assets held for trading to financial assets held to maturity and loans and advances at fair value as follows:

	Fair value as at July 1, 2008 <hr/> JD
Financial assets held to maturity	3,074,079
Loans and advances	1,801,222

The unrealized losses for reclassified financial assets held for trading amounted to JD 25,061 for the period from January 1 to June 30, 2008.

If the bank did not reclassify these financial assets held for trading, the unrealized losses for the year would be JD 238,405.

Summary of significant accounting policies:

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its Subsidiary for which the Bank has the power to govern the financial and operating policies. All intra-company balances, transactions, income and expenses and profits and losses resulting from intra-company transactions that are recognised in assets or liabilities, are eliminated in full.

There is one Subsidiary which is Union for Financial Services Co. Ltd. established on February 22, 2007. The Bank owned 100% of paid in capital amounted to JD 5,000,000 as of December 31, 2008. The Company's main activities include financial brokerage in securities on behalf of its clients at Amman Stock Exchange.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

If separate financial statements as described in IAS 27 are prepared for the Bank, the investment in Subsidiary will be shown at cost or fair value in the balance sheet.

Segmental reporting

Business segments represent distinguishable components of the Bank that are engaged in providing products or services which are subject to risks and rewards that are different from those of other segments.

Geographical segments are associated to products and services provided within a particular economic environment, which are subject to risks and rewards that are different from those of other economic environments.

Financial assets held for trading

Financial assets held for trading are those purchased with the intent to be resold in the near future to generate gains as a result of changes in market prices of such investments.

They are initially recognised at the fair value of consideration given and subsequently remeasured at fair value. All realised and unrealised gains or losses are transferred to the income statement including any gains or losses resulting from the translation of such assets held in foreign currencies to the functional currency.

Interest earned is included in interest income and dividends received are included in gains (losses) from financial assets and liabilities held for trading.

Direct credit facilities

Credit facilities are initially recognised at the fair value of consideration given and subsequently measured at amortised cost after allowance for credit losses and interest and commission in suspense.

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

Interest and commission arising on non-performing facilities is suspended when loans become impaired according to the Central Bank of Jordan's regulations.

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

Financial assets available for sale

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances.

After initial measurement, available-for-sale financial investments are measured at fair value. Unrealised gains and losses are recognised directly in equity as 'Cumulative change in fair value reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

The losses arising from impairment of such investments are recognised in the income statement and removed from the cumulative change in fair value reserve. Reversal of impairment on equity instruments is reflected in the cumulative change in fair value, while reversal of impairment on debt instruments is transferred to the income statement.

Gains or losses on debt instruments resulting from foreign exchange rate changes are transferred to the income statement. On equity instruments, such gains and losses are transferred to the cumulative change in fair value.

Interest earned on available-for-sale financial investments is reported as interest income using the effective interest method.

Financial assets available for sale which can not be reliably measured at fair value are recorded at cost. Impairment on such assets is recognised in the income statement.

Financial assets held to maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the positive intention and ability to hold to maturity.

Held to maturity investments are initially recognised at cost, being the fair value of consideration given including directly attributable transaction costs. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest method.

Fair value

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For financial instruments where there is no active market fair value is normally based on one of the following methods:

- Comparison with the current market value of a highly similar financial instrument.
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.
- Option pricing models.
- Recent market transactions.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value is recorded in the income statement.

Impairment of financial assets

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

Impairment is determined as follows:

- For assets carried at amortised cost, impairment is based on the difference between the carrying value and the estimated cash flows discounted at the original effective interest method.
- For assets carried at fair value, impairment is the difference between the fair value of consideration given and the fair value.

- For assets carried at cost, impairment is based on the difference between the fair value of consideration given and the present value of future cash flows discounted at the current market rate of return from a similar financial asset.

Impairment is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying value of the asset is increased to its recoverable amount. The amount of the reversal is recognised in the income statement except for equity instruments classified as available for sale investments for which the reversal is recognized in the statement of equity.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates used are as follows:

	<u>%</u>
Buildings	2-4
Equipment and furniture	7-15
Vehicles	15
Computers	20
Others	2.5-20

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the income statement.

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

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Employee end of service indemnity

Provision for end of service indemnity is established by the bank to face any legal or contractual obligation at the end of employees' services and is calculated based on the internal service terms of the Bank as of the financial statements date.

Income Tax

Tax expense comprises current tax and deferred taxes.

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

Tax is calculated based on tax rates and laws that are applicable in the country of operation.

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on laws that have been enacted or substantially enacted at the balance sheet date.

The carrying values of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Capital

- Increase in paid in capital fees

Any expenses incurred as a result of issuing additional paid in capital shall be recognised in equity (net of any deferred taxes if applicable). If the increase in capital process was not concluded, then such expenses will be transferred to the income statement.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue and expense recognition

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

Expenses are recognised on an accrual basis.

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

Trade date accounting

Purchases and sales of financial assets are recognised on the trade date (that being the date at which the sale or purchase takes place).

Fair value hedges

A fair value hedge is a hedge of the exposure to changes in the fair value of the Bank's recognised assets or liabilities that is attributable to a particular risk.

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as adjustment to the carrying value of the hedged item and is also recognised in the income statement.

Derivative financial instruments held for trading

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

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) will continue to be recognised in the Bank's financial statements due to the Bank's continuing exposure to the risks and rewards of these assets using the same accounting policies

The proceeds of the sale are recorded under loans and borrowings. The difference between the sale and the repurchase price is recognised as an interest expense over the agreement term using the effective interest method.

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

Financial assets pledged as collateral

Financial assets that are pledged to third parties where the Bank maintains continuing control over such assets (to sell or re-pledge as collateral) are measured using the same accounting policies as used prior to pledging initial valuation.

Assets obtained by the Bank

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

Intangible assets

Intangible assets acquired through business combination are recorded at their fair value on that date. Other intangible assets are measured on initial recognition at cost.

Intangible assets with finite lives are amortised over the useful economic life, while intangible assets with indefinite useful lives are assessed for impairment at each reporting date or when there is an indication that the intangible asset may be impaired.

Internally generated intangible assets are not capitalised and are expensed in the income statement.

Indications of impairment of intangible assets are reviewed for and their useful economic lives are reassessed at each reporting date. Adjustments are reflected in the current and subsequent periods.

Intangible assets include computer software and programs. These intangibles are amortized over their estimated useful lives with rates which are five years using straight line method.

Foreign currencies

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

Monetary assets and liabilities in foreign currencies are translated into respective functional currencies at rates of exchange prevailing at the balance sheet date as issued by Central Bank of Jordan. Any gains or losses are taken to the income statement.

Translation gains or losses on non-monetary items carried at fair value (such as stocks) through equity are included in equity as part of the cumulative changes in fair value. For non-monetary items carried at fair value through profit and loss, such gains and losses are taken to the income statement.

As at the reporting date, the assets and liabilities of foreign subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of an entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is transferred to the income statement.

Cash and cash equivalents

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

(3) USE OF ESTIMATES

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

- a) Provision for credit losses: The Bank reviews its loan portfolios to assess impairment based on Central Bank of Jordan instructions and International Financial Reporting Standards.

- b) Impairment losses on collaterals acquired by the Bank are determined based on appraisal reports prepared by certified appraisers. Provisions are recognised when impairment is determined at the financial statements date individually and any impairment is recorded in the income statement. Valuation is performed on a regular basis.
- c) Income tax is calculated based on the tax rates and laws that are applicable at the balance sheet date.
- d) A periodic review is performed on assets' estimated useful lives and assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.
- e) Provision against lawsuits is provided for based on the Bank's legal advisor opinion.
- f) Provision for end of service indemnity is established by the bank to face any legal or contractual obligation at the end of employees' services and is calculated based on the internal service terms of the Bank as of the financial statements date.

(4) CASH AND BALANCES WITH CENTRAL BANKS

	<u>2008</u>	<u>2007</u>
	JD	JD
Cash on hand	14,913,355	5,981,036
Balances at Central Banks-		
Current and demand deposits	18,875,069	3,414,874
Time deposits	3,899,500	1,772,500
Statutory cash reserve	66,551,249	44,817,073
Certificates of deposits	32,800,000	67,100,000
	<u>137,039,173</u>	<u>123,085,483</u>

In addition to the statutory cash reserve held at Central Banks, restricted balances amounted to JD 3,899,500 as of 31 December 2008 (2007: 1,772,500).

There were no certificates of deposits maturing after more than three months as of 31 December 2008 (2007: 25,000,000).

(5) BALANCES AT BANKS AND FINANCIAL INSTITUTIONS

	<u>Local Banks and Financial</u>		<u>Foreign Banks and Financial</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	JD	JD	JD	JD	JD	JD
Current and demand deposits	7,329,830	29,359,424	44,752,417	46,201,434	52,082,247	75,560,858
Deposits maturing within 3 months	<u>20,107,819</u>	<u>16,603,883</u>	<u>132,487,203</u>	<u>172,554,992</u>	<u>152,595,022</u>	<u>189,158,875</u>
	<u>27,437,649</u>	<u>45,963,307</u>	<u>177,239,620</u>	<u>218,756,426</u>	<u>204,677,269</u>	<u>264,719,733</u>

Non interest bearing balances at banks and financial institutions amounted to JD 2,682,379 as of 31 December 2008 (2007: JD 3,746,417).

There were no restricted balances as of 31 December 2008 and 2007.

(6) DEPOSITS AT BANKS AND FINANCIAL INSTITUTIONS

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	2008	2007	2008	2007	2008	2007
	JD	JD	JD	JD	JD	JD
Deposits	4,254,000	3,545,000	943,760	1,418,000	5,197,760	4,963,000
Certificates of deposit	-	-	-	709,000	-	709,000
	<u>4,254,000</u>	<u>3,545,000</u>	<u>943,760</u>	<u>2,127,000</u>	<u>5,197,760</u>	<u>5,672,000</u>

(7) FINANCIAL ASSETS HELD FOR TRADING

	2008	2007
	JD	JD
Foreign treasury bills	-	931,832
Quoted debt securities	-	50,527,171
Quoted equities	884,553	5,310,721
Investment funds	-	8,600,389
	<u>884,553</u>	<u>65,370,113</u>

(8) DIRECT CREDIT FACILITIES

	2008	2007
	JD	JD
Consumer lending		
Overdrafts	7,181,382	2,135,482
Loans and bills *	31,405,176	115,113,007
Credit Cards	707,261	-
Residential mortgages	126,763,571	110,081,112
Corporate lending		
Overdrafts	83,744,419	7,388,832
Loans and bills *	323,834,655	196,482,569
Small and medium enterprises lending "SMEs"		
Overdrafts	10,546,658	1,450,614
Loans and bills *	27,803,322	40,166,059
Lending to governmental sectors	<u>3,119,592</u>	<u>2,773,207</u>
Total	<u>615,106,036</u>	<u>475,590,882</u>
Less: Suspended interest	3,785,975	3,390,090
Less: Allowance for impairment losses	<u>9,769,013</u>	<u>6,785,584</u>
Direct credit facilities, net	<u>601,551,048</u>	<u>465,415,208</u>

* Net of interest and commissions received in advance of JD 1,473,213 as of 31 December 2008 (2007: JD 1,002,209).

At 31 December 2008, non-performing credit facilities amounted to JD 38,956,371 (2007: JD 14,096,598) representing 6.33% (2007: 2.96%) of gross facilities granted.

At 31 December 2008, non-performing credit facilities, net of suspended interest, amounted to JD 35,170,396 (2007: JD 10,706,508), representing 5.72% (2007: 2.25%) of gross facilities granted after excluding the suspended interest.

At 31 December 2008, credit facilities granted to the Government of Jordan amounted to JD 2,597,099 (2007: JD 413,073), representing 0.42% (2007: 0.09 %) of gross facilities granted.

A reconciliation of the allowance for impairment losses for direct credit facilities by class is as follows:

	2008				
	Consumer	Residential mortgages	Corporate	SMEs	Total
	JD	JD	JD	JD	JD
At 1 January 2008	497,280	552,650	337,188	5,398,466	6,785,584
Charge for the year	242,450	1,393,276	1,186,416	185,055	3,007,197
Amounts written off	6,515	-	-	17,253	23,768
At 31 December 2008	733,215	1,945,926	1,523,604	5,566,268	9,769,013
Individual impairment	17,415	335,064	369,928	25,133	747,540
Collective impairment	715,800	1,610,862	1,153,676	5,541,135	9,021,473
At 31 December 2008	733,215	1,945,926	1,523,604	5,566,268	9,769,013
	2007				
	Consumer	Residential mortgages	Corporate	SMEs	Total
	JD	JD	JD	JD	JD
At 1 January 2008	516,429	264,838	267,259	4,037,419	5,085,945
Charge for the year	75,307	287,812	69,929	1,483,583	1,916,631
Amounts written off	(94,456)	-	-	(122,536)	(216,992)
At 31 December 2008	497,280	552,650	337,188	5,398,466	6,785,584
Individual impairment	73,058	171,582	337,188	22,145	603,973
Collective impairment	424,222	381,068	-	5,376,321	6,181,611
At 31 December 2008	497,280	552,650	337,188	5,398,466	6,785,584

Non-performing credit facilities that were settled or collected amounted to JD 1,679,551 during 31 December 2008 (2007: JD 847,702).

A reconciliation of suspended interest on direct credit facilities by class is as follows:

	2008					
	Consumer	Residential mortgages	Corporate	SMEs	Governmental sectors	Total
	JD	JD	JD	JD	JD	JD
At 1 January 2008	454,062	294,189	306,552	2,335,287	-	3,390,090
Add: Suspended interest during the year	112,165	271,650	330,859	439,350	-	1,154,024
Less: Amount transferred to income on recovery	83,921	64,053	93,705	379,191	-	620,870
Less: Amounts written off	67,361	4,784	-	65,124	-	137,269
At 31 December 2008	414,945	497,002	543,706	2,330,322	-	3,785,975

	2007					
	Consumer	Residential mortgages	Corporate	SMEs	Governmental sectors	Total
	JD	JD	JD	JD	JD	JD
At 1 January 2008	672,031	205,627	332,630	2,068,351	-	3,278,639
Add: Suspended interest during the year	83,481	106,700	-	655,900	-	846,081
Less: Amount transferred to income on recovery	145,273	18,138	26,078	233,279	-	422,768
Less: Amounts written off	156,177	-	-	155,685	-	311,862
At 31 December 2008	454,062	294,189	306,552	2,335,287	-	3,390,090

(9) FINANCIAL ASSETS AVAILABLE FOR SALE

	2008 JD	2007 JD
Quoted Investments		
Government debt securities	975,000	1,533,071
Corporate debt securities	-	2,014,978
Equities	19,558,779	25,142,145
Total quoted investments	20,533,779	28,690,194
Unquoted Investments		
Treasury bills	52,703,594	32,185,506
Government debt securities	40,274,499	15,331,868
Corporate debt securities	31,655,157	20,000,000
Equities	917,813	923,123
Other unquoted investments	1,693,066	1,491,304
Total unquoted investments	127,244,129	69,931,801
Total financial assets available for sale	147,777,908	98,621,995
Analysis of debt instruments		
Fixed rate	125,608,250	71,065,423

Included in unquoted investment funds and equities are investments carried at cost adjusted for impairment with value of JD 2,610,879 as of 31 December 2008 (2007: JD 2,414,427). The investments were stated at cost adjusted for impairment since the fair value could not be measured reliably. There is an impairment in the values as of 31 December 2008 with amount of JD 5,308.

Investments with a value of JD 5,973,283 have been pledged under repurchase agreements as of 31 December 2008 (2007: JD 17,909,308) (Note 11).

(10) FINANCIAL ASSETS HELD TO MATURITY

	<u>2008</u> JD	<u>2007</u> JD
Quoted Investments		
Corporate debt securities	1,167,439	-
Unquoted Investments		
Corporate debt securities	1,567,500	50,000
Total financial assets held to maturity	<u>2,734,939</u>	<u>50,000</u>
Analysis of debt instruments		
Fixed rate	1,567,500	50,000
Floating rate	1,167,439	-
Total	<u>2,734,939</u>	<u>50,000</u>

Held to maturity investments mature during the period to two years. All bonds carry a fixed rate of interest.

(11) FINANCIAL ASSETS PLEDGED AS COLLATERAL

	<u>Financial Assets Pledged</u>		<u>Associated Liabilities</u>	
	<u>2008</u> JD	<u>2007</u> JD	<u>2008</u> JD	<u>2007</u> JD
Financial assets available for sale	5,973,283	17,909,308	23,000,000	25,000,000
Total	<u>5,973,283</u>	<u>17,909,308</u>	<u>23,000,000</u>	<u>25,000,000</u>

These bonds are restricted against part of amounts borrowed from Jordan Real Estate Mortgage Finance Co. as at 31 December 2008. (Note18).

The following table shows the maturities of pledged bonds:

<u>Bond</u> JD	<u>Maturity date</u>
1,922,409	22/8/2010
4,050,874	28/2/2011

(12) PROPERTY AND EQUIPMENT

2008-	Land	Buildings	Furniture & Fixtures	Vehicles	Computers	Others	Total
	JD	JD	JD	JD	JD	JD	JD
Cost:							
At 1 January 2008	2,522,120	10,424,741	4,547,762	468,301	1,970,662	-	19,933,586
Additions	673,119	37,482	401,971	88,317	309,505	-	1,510,394
Disposals	-	(12,612)	(190,906)	(24,342)	(382,342)	-	(610,202)
At 31 December 2008	3,195,239	10,449,611	4,758,827	532,276	1,897,825	-	20,833,778
Depreciation and impairment:							
At 1 January 2008	-	5,323,784	2,631,331	229,932	1,423,726	-	9,608,773
Depreciation charge during the year	-	187,006	224,006	68,656	243,825	-	723,493
Disposals	-	(10,361)	(185,905)	(24,340)	(379,677)	-	(600,283)
At 31 December 2008	-	5,500,429	2,669,432	274,248	1,287,874	-	9,731,983
Net book value of property and equipment	<u>3,195,239</u>	<u>4,949,182</u>	<u>2,089,395</u>	<u>258,028</u>	<u>609,951</u>	<u>-</u>	<u>11,101,795</u>
Advance payments on property and equipment	-	138,601	595,305	-	249,260	-	983,166
Net book value of property and equipment at 31 December 2008	<u>3,195,239</u>	<u>5,087,783</u>	<u>2,684,700</u>	<u>258,028</u>	<u>859,211</u>	<u>-</u>	<u>12,084,961</u>
2007-							
Cost:							
At 1 January 2007	2,519,120	10,401,250	3,701,211	362,890	1,729,416	-	18,713,887
Additions	3,000	23,491	859,162	119,828	242,918	-	1,248,399
Disposals	-	-	(12,611)	(14,417)	(1,672)	-	(28,700)
At 31 December 2007	2,522,120	10,424,741	4,547,762	468,301	1,970,662	-	19,933,586
Depreciation and impairment:							
At 1 January 2007	-	5,137,853	2,485,224	191,632	1,214,560	-	9,029,269
Depreciation charge during the year	-	185,931	157,765	52,715	209,687	-	606,098
Disposals	-	-	(11,658)	(14,415)	(521)	-	(26,594)
At 31 December 2007	-	5,323,784	2,631,331	229,932	1,423,726	-	9,608,773
Net book value of property and equipment	<u>2,522,120</u>	<u>5,100,957</u>	<u>1,916,431</u>	<u>238,369</u>	<u>546,936</u>	<u>-</u>	<u>10,324,813</u>
Advance payments on property and equipment	15,000	-	75,602	-	37,051	13,377	141,030
Net book value of property and equipment at 31 December 2007	<u>2,537,120</u>	<u>5,100,957</u>	<u>1,992,033</u>	<u>238,369</u>	<u>583,987</u>	<u>13,377</u>	<u>10,465,843</u>

Fully depreciated property and equipment amounted to JD 6,153,893 as of 31 December 2008 (2007: JD 6,339,710). The Bank still use these property and equipment.

(13) INTANGIBLE ASSETS

	2008	2007
	JD	JD
Net book value		
At 1 January	436,625	319,878
Additions	477,066	273,491
Amortisation during the year	(247,428)	(156,744)
At 31 December	666,263	436,625

(14) OTHER ASSETS

	<u>2008</u> JD	<u>2007</u> JD
Accrued interest and revenue	3,384,337	4,048,458
Prepaid expenses	939,233	766,485
Assets obtained by the Bank by calling on collateral	235,620	275,251
Cheques	2,986,401	3,256,211
Cheques under collection	547,280	3,327,664
Others	4,633,412	3,383,511
	<u>12,726,283</u>	<u>15,057,580</u>

A reconciliation of assets obtained by the Bank by calling on collateral during the year is as follows:

	<u>2008</u> JD	<u>2007</u> JD
At 1 January	275,251	358,099
Additions	-	91,448
Retirements	<u>(39,631)</u>	<u>(174,296)</u>
At 31 December	<u>235,620</u>	<u>275,251</u>

(15) BANKS AND FINANCIAL INSTITUTIONS DEPOSITS

	<u>2008</u>			<u>2007</u>		
	<u>Inside Jordan</u> JD	<u>Outside Jordan</u> JD	<u>Total</u> JD	<u>Inside Jordan</u> JD	<u>Outside Jordan</u> JD	<u>Total</u> JD
Current and demand deposits	72,899	13,570,498	13,643,397	44,732	29,452,666	29,497,398
Time deposits	5,590,994	103,642,231	109,233,225	1,626,624	143,659,137	145,285,761
At 31 December	<u>5,663,893</u>	<u>117,212,729</u>	<u>122,876,622</u>	<u>1,671,356</u>	<u>173,111,803</u>	<u>174,783,159</u>

(16) CUSTOMERS' DEPOSITS

	<u>2008</u>				
	<u>Consumer</u> JD	<u>Corporate</u> JD	<u>SMEs</u> JD	<u>Governmental sectors</u> JD	<u>Total</u> JD
Current and demand deposits	43,473,656	47,807,273	12,930,842	1,713,696	105,925,467
Saving accounts	14,392,173	547,514	1,027,717	1	15,967,405
Time and notice deposits	186,616,506	217,369,238	12,837,365	62,047,482	478,870,591
Certificates of deposit	47,624,558	3,318,864	1,468,460	-	52,411,882
	<u>292,106,893</u>	<u>269,042,889</u>	<u>28,264,384</u>	<u>63,761,179</u>	<u>653,175,345</u>

	2007				
	Consumer	Corporate	SMEs	Governmental sectors	Total
	JD	JD	JD	JD	JD
Current and demand deposits	47,237,486	13,723,579	17,691,326	1,860,153	80,512,544
Saving accounts	11,052,217	2,244,184	759,888	3,664	14,059,953
Time and notice deposits	195,024,642	170,193,936	23,254,181	24,281,726	412,754,485
Certificates of deposit	40,289,636	5,849,710	677,839	-	46,817,185
	<u>293,603,981</u>	<u>192,011,409</u>	<u>42,383,234</u>	<u>26,145,543</u>	<u>554,144,167</u>

- Governmental institutions' deposits amounted to JD 63,761,179 as of 31 December 2008 (2007: JD 26,145,543) representing 9,76% (2007: 4.72%) of total customers' deposits.
- Non-interest bearing deposits amounted to JD 99,712,272 as of 31 December 2008 (2007: JD 71,098,661) representing 15.27% (2007: 12.83 %) of total deposits.
- Restricted deposits amounted to JD 8,313,307 as of 31 December 2008 (2007: JD 11,017,047) representing 1.27% (2007: 1.99%) of total deposits.
- Dormant accounts amounted to JD 2,309,808 as of 31 December 2008 (2007: JD 2,792,089) representing 0.35% (2007: 0.50%) of total deposits.

(17) MARGIN ACCOUNTS

	2008	2007
	JD	JD
Margins on direct credit facilities	56,548,866	47,709,082
Margins on indirect credit facilities	31,518,906	24,311,010
Deposits against cash margin dealings' facilities	3,615,896	2,137,531
Others	25,354	-
	<u>91,709,022</u>	<u>74,157,623</u>

(18) LOANS AND BORROWINGS

	Amount JD	No. of total payments		Payable every	Collaterals JD	Interest rate
		Total no. of payments	Outstanding payments			
2008-						
Amounts borrowed from Central Bank of Jordan	228,905	14	10	6 months	*	2%
Amounts borrowed from Central Bank of Jordan	176,271	16	7	6 months	*	2%
Amounts borrowed from Central Bank of Jordan	186,699	14	10	6 months	*	2%
Jordan Real Estate Mortgage Finance Co.	4,000,000	1	1	One payment	**	8,02%
Jordan Real Estate Mortgage Finance Co.	9,000,000	1	1	One payment	**	8,75%
Jordan Real Estate Mortgage Finance Co.	5,000,000	1	1	One payment	**	8.14%
Jordan Real Estate Mortgage Finance Co.	5,000,000	1	1	One payment	**	7.20%
Amounts borrowed from Islamic Bank for Development	166,576	1	1	One payment	Cash limit without guarantees	3.730%
Amounts borrowed from Islamic Bank for Development	383,176	1	1	One payment	Cash limit without guarantees	3.689%
	<u>24,141,627</u>					

	Amount JD	No. of total payments		Payable every	Collaterals JD	Interest rate
		Total no. of payments	Outstanding payments			
2007-						
Amounts borrowed from Central Bank of Jordan	274,687	14	12	6 months	*	2%
Amounts borrowed from Central Bank of Jordan	226,634	16	9	6 months	*	2%
Amounts borrowed from Central Bank of Jordan	224,039	14	12	6 months	*	2%
Jordan Real Estate Mortgage Finance Co.	4,000,000	1	1	One payment	***	8.02%
Jordan Real Estate Mortgage Finance Co.	7,000,000	1	1	One payment	***	7.90%
Jordan Real Estate Mortgage Finance Co.	9,000,000	1	1	One payment	***	8.75%
Jordan Real Estate Mortgage Finance Co.	5,000,000	1	1	One payment	***	8.14%
	<u>25,725,360</u>					

- Amounts borrowed from Central Bank of Jordan were refinanced at a rate of 5.07%, and due during the period from 2008 to 2013.
- Amounts borrowed from Jordan Real Estate Mortgage Finance Co. were refinanced at average rate of 8,894%, and due during the next 20 years.
- Amounts borrowed from Islamic Bank for development were refinanced at a rate of 6.29%, and due during January 2009.

- * All loans secured by letters of credit issued to the favor of the Bank customers.
- ** These are secured by certificate of deposits issued by Central Bank of Jordan.
- *** These are secured by real estate mortgage, governmental bonds or guaranteed by Jordanian Government.

All loans and borrowings are fixed interest rate borrowings as at 31 December 2008 and 2007.

(19) SUNDRY PROVISIONS

	Balance at 1 January	Provided during the period	Utilised during the year	Transferred to income	Balance at 31 December
	JD	JD	JD	JD	JD
2008-					
End of service indemnity	122,251	50,078	-	-	172,329
Lawsuit provision and contingent liabilities	253,591	225,000	437,715	-	40,876
	<u>375,842</u>	<u>275,078</u>	<u>437,715</u>	<u>-</u>	<u>213,205</u>
2007-					
End of service indemnity	141,856	37,885	55,000	2,490	122,251
Lawsuit provision and contingent liabilities	43,591	250,000	30,000	10,000	253,591
	<u>185,447</u>	<u>287,885</u>	<u>85,000</u>	<u>12,490</u>	<u>375,842</u>

(20) INCOME TAX

Income Tax liabilities

The movements on the income tax liability were as follows:

	2008 JD	2007 JD
At January 1	11,182,500	9,809,805
Income tax paid	(5,230,820)	(5,397,965)
Income tax charge for the year	7,538,539	6,723,351
Prior year income tax charge	-	47,309
At December 31	<u>13,490,219</u>	<u>11,182,500</u>

Income tax appearing in the statement of income represents the following:

	<u>2008</u>	<u>2007</u>
	JD	JD
Current income tax charge	7,538,539	6,770,666
Movement on deferred tax liabilities	(147,129)	60,836
Movement on deferred tax assets	<u>(1,869,442)</u>	<u>(1,286,562)</u>
	<u>5,521,968</u>	<u>5,544,934</u>

The movements on temporary differences giving rise to deferred tax assets and liabilities are:

	<u>2008</u>			<u>2007</u>	
	Balance at 1 January	Released during the year	Additions during the year	Balance at 31 December	Deferred Tax
	JD	JD	JD	JD	JD
a) Deferred tax assets					
Change in fair value of assets held for trading	1,002,447	(990,153)	1,025,690	1,037,984	273,546
Change in fair value of assets available for sale	<u>2,673,445</u>	<u>-</u>	<u>7,416,196</u>	<u>10,089,641</u>	<u>2,882,458</u>
	<u>3,675,892</u>	<u>(990,153)</u>	<u>8,441,886</u>	<u>11,127,625</u>	<u>3,156,004</u>

	<u>2008</u>			<u>2007</u>	
	Balance at 1 January	Released during the year	Additions during the year	Balance at 31 December	Deferred Tax
	JD	JD	JD	JD	JD
b) Deferred tax liabilities					
Change in fair value of assets held for trading	597,992	(560,492)	-	37,500	9,844
Change in fair value of assets available for sale	<u>4,306,716</u>	<u>5,744,338</u>	<u>(9,071,677)</u>	<u>979,377</u>	<u>266,391</u>
	<u>4,904,708</u>	<u>5,183,846</u>	<u>(9,071,677)</u>	<u>1,016,877</u>	<u>1,008,697</u>

Included in deferred tax liabilities are amounts of JD 266,391 (2007: JD 1,008,697) resulting from gains from the revaluation of financial assets available for sale which are included in the cumulative change in fair value in equity.

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

	<u>2008</u>		<u>2007</u>	
	Assets	Liabilities	Assets	Liabilities
At 1 January	1,286,562	1,165,670	-	2,140,620
Additions	2,215,996	(742,306)	1,286,562	(974,950)
Released	<u>(346,554)</u>	<u>(147,129)</u>	<u>-</u>	<u>-</u>
At 31 December	<u>3,156,004</u>	<u>276,235</u>	<u>1,286,562</u>	<u>1,165,670</u>

A reconciliation between taxable profit and the accounting profit is as follows:

	<u>2008</u>	<u>2007</u>
	JD	JD
Accounting profit	21,130,970	19,321,399
Non-taxable profit	(9,280,014)	(6,794,750)
Expenses not deductible	<u>9,533,089</u>	<u>4,975,117</u>
Taxable profit	<u>21,384,045</u>	<u>17,501,766</u>
Effective rate of income tax	<u>26.13%</u>	<u>28.70%</u>

The statutory tax rate on banks in Jordan is 35% and the statutory tax rate on subsidiaries ranges between 15% to 25%.

The Bank reached a final settlement with the Income Tax Department for the year ended 31 December 2003.

The Bank reached a final settlement with the Income Tax Department for Palestine Branch the year ended 31 December 2006.

The Income Tax Department did not review the Subsidiary's records for year 2007 till the date of financial statements.

(21) OTHER LIABILITIES

	<u>2008</u>	<u>2007</u>
	JD	JD
Accrued interest expense	4,463,423	4,295,437
Interest and commissions received in advance	12,271	79,494
Credit balances	809,004	726,489
Accrued expenses	815,435	564,510
Incoming transfers	416,964	2,121,577
Manager checks	961,141	2,294,898
Others	<u>2,591,114</u>	<u>1,474,543</u>
	<u>10,069,352</u>	<u>11,556,948</u>

(22) PAID IN CAPITAL

Paid in capital

The authorized and paid in capital amounted to JD 95,000,000 divided in to 95,000,000 shares at a par value of JD 1 per share (2007: JD 95,000,000).

Share Premium

The additional paid in capital amounted to JD 79,255,311 as of 31 December 2008 (2007: JD 79,255,311).

(23) RESERVES

Statutory Reserve

As required by the Law, 10% of the profit before tax and fees is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals the paid in capital. This reserve is not available for distribution to shareholders.

Voluntary Reserve

The balance represents 20% of the profit before tax and fees transferred to the voluntary reserve during current and previous years. The reserve shall be used at the discretion of the Board of Directors, and it is distributable to shareholders in part or in full.

General banking risk reserve

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

The use of the following reserves is restricted by law:

<u>Description</u>	<u>2008</u>	<u>2007</u>	<u>Restriction Law</u>
General banking risk reserve	5,519,193	4,481,693	Central Bank of Jordan
Statutory reserve	13,548,162	11,377,431	Companies Law

(24) CUMULATIVE CHANGE IN FAIR VALUE

	<u>2008</u>				<u>2007</u>		
	<u>Financial assets available for sale</u>				<u>Financial assets available for sale</u>		
	<u>Stocks</u>	<u>Bonds</u>	<u>Others</u>	<u>Total</u>	<u>Stocks</u>	<u>Bonds</u>	<u>Total</u>
	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>
Balance at 1							
January	3,306,385	(17,035)	-	3,289,350	5,734,681	(37,079)	5,697,602
Unrealised gains (losses)	(10,089,187)	60,953	(35,450)	(10,063,684)	(6,081,937)	20,044	(6,061,893)
Deferred tax liabilities	742,306	-	-	742,306	1,035,787	-	1,035,787
Less: loss transferred to income statement	(598,244)	(92,250)	-	(690,494)	(137,743)	-	(137,743)
Impairment loss transferred to income statement	<u>7,421,506</u>	<u>-</u>	<u>-</u>	<u>7,421,506</u>	<u>2,755,597</u>	<u>-</u>	<u>2,755,597</u>
Balance at 31							
December	<u>782,766</u>	<u>(48,332)</u>	<u>(35,450)</u>	<u>698,984</u>	<u>3,306,385</u>	<u>(17,035)</u>	<u>3,289,350</u>

The cumulative change in fair value is presented net of deferred tax liabilities of JD 266,391 as of 31 December 2008 (2007: JD 1,008,697).

(25) RETAINED EARNINGS

The retained earnings include an amount of JD 3,156,004 as at 31 December 2008 which represents deferred tax assets that are not available for distribution in accordance with Central Bank of Jordan regulations.

(26) PROPOSED ISSUE OF DIVIDENDS

The Board of Directors will propose the issue of dividends to its shareholders of JD 9,500,000 equivalent to 10% (2007: 10%) of paid in capital (2007: JD 9,500,000).

The Board of Directors approved in its meeting held on 22 February 2008 the recommendation to General assembly to approve increase in capital by JD 5,000,000 representing 5.236% of the paid in capital as follows:

- Capitalization of JD 744,689 of retained earnings.
- Capitalization of JD 4,253,311 of share premium.

This increase will be distributed as stock dividends.

(27) INTEREST INCOME

	<u>2008</u>	<u>2007</u>
	JD	JD
Consumer lending		
Overdrafts	338,306	6,117
Loans and bills	3,955,368	11,332,413
Credit Cards	27,200	-
Residential mortgages	11,337,526	7,480,680
Corporate lending		
Overdrafts	4,880,452	26,145
Loans and bills	24,766,913	17,685,774
Small and medium enterprises lending		
Overdrafts	707,101	5,963
Loans and bills	2,689,527	4,307,884
Public and governmental sectors	196,058	247,142
Balances at Central Banks	4,970,628	2,160,165
Balances at banks and financial institutions	8,173,735	13,133,163
Financial assets held for trading	1,032,685	2,084,284
Financial assets available for sale	6,277,260	3,509,179
Financial assets held to maturity	69,892	167,796
Others	<u>1,770</u>	<u>5,902</u>
Total	<u>69,424,421</u>	<u>62,152,607</u>

(28) INTEREST EXPENSE AND SIMILAR CHARGES

	<u>2008</u>	<u>2007</u>
	JD	JD
Banks and financial institution deposits	5,444,892	6,864,009
Customers' deposits -		
Current accounts and deposits	1,188,651	1,110,432
Saving accounts	168,094	130,600
Time and notice placements	22,669,222	22,427,148
Certificates of deposits	3,218,728	2,966,702
Margin accounts	3,049,826	2,908,121
Loans and borrowings	1,899,256	2,422,682
Deposit guarantee fees	<u>879,779</u>	<u>710,358</u>
	<u>38,518,448</u>	<u>39,540,052</u>

(29) NET COMMISSION

	<u>2008</u>	<u>2007</u>
	JD	JD
Commission income -		
Direct credit facilities	4,008,900	2,808,720
Indirect credit facilities	4,386,977	2,857,354
Less: commission expense	<u>464,569</u>	<u>414,998</u>
	<u>7,931,308</u>	<u>5,251,076</u>

(30) NET GAIN FROM FOREIGN CURRENCIES

	<u>2008</u>	<u>2007</u>
	JD	JD
Resulting from -		
Trading in foreign currencies	6,368,285	5,579,654
Revaluation of foreign currencies	<u>2,938</u>	<u>603,152</u>
	<u>6,371,223</u>	<u>6,182,806</u>

(31) NET LOSS FROM FINANCIAL ASSETS HELD FOR TRADING

	<u>Realised</u>	<u>Unrealised</u>	<u>Dividend</u>	<u>Total</u>
	gain (loss)	(loss)	income	
2008-				
Treasury bills and debt				
Securities	(1,990,154)	-	-	(1,990,154)
Equities	741,410	(1,025,690)	239,985	(44,295)
Others	<u>(551,868)</u>	<u>-</u>	<u>457</u>	<u>(551,411)</u>
	<u>(1,800,612)</u>	<u>(1,025,690)</u>	<u>240,442</u>	<u>(2,585,860)</u>

	<u>Realised (loss)</u>	<u>Unrealised (loss)</u>	<u>Dividend income</u>	<u>Total</u>
2007-				
Treasury bills and debt securities	(393,996)	(872,717)	-	(1,266,713)
Equities	(24,104)	(471,393)	52,153	(443,344)
Others	<u>(15,893)</u>	<u>(197,747)</u>	<u>91,262</u>	<u>(122,378)</u>
	<u>(433,993)</u>	<u>(1,541,857)</u>	<u>143,415</u>	<u>(1,832,435)</u>

(32) NET LOSS ARISING FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	<u>2008 JD</u>	<u>2007 JD</u>
Dividend income	733,402	724,853
Gain from sale of financial assets available for sale	690,494	137,743
Less: impairment losses on investments	<u>(7,421,506)</u>	<u>(2,755,597)</u>
	<u>(5,997,610)</u>	<u>(1,893,001)</u>

(33) OTHER INCOME

	<u>2008 JD</u>	<u>2007 JD</u>
Brokerage commission	1,449,906	756,551
Safety deposit box rental income	13,448	13,301
Custodian fees	20,263	8,495
Dormant accounts fees	13,031	15,056
Gain from sale of property and equipment	-	2,237
Gains from sale of collateral pending sale	6,526	316,829
Salaries transfer fees	16,625	13,681
Customer services fees	108,697	82,001
Bonded warehouse revenue	259,801	213,568
JONET	24,442	22,289
Excess provision against collateral pending sale	-	91,448
Companies issuance	-	391,502
Gold products	4,822	47,512
Others	<u>166,614</u>	<u>48,777</u>
	<u>2,084,175</u>	<u>2,023,247</u>

(34) EMPLOYEES' EXPENSES

	<u>2008</u>	<u>2007</u>
	JD	JD
Salaries and benefits	6,909,153	4,681,106
Bank's contribution to social security	425,899	309,316
Bank's contribution to saving fund	305,927	213,458
Medical expenses	273,188	176,180
Per diems	136,995	115,512
Training and research	25,607	470
Employees' life insurance expense	<u>64,336</u>	<u>50,148</u>
	<u>8,141,105</u>	<u>5,546,190</u>

(35) OTHER EXPENSES

	<u>2008</u>	<u>2007</u>
	JD	JD
Post, telephone telex and swift	238,182	245,937
Stationary and printing	246,045	209,038
Rent	454,763	324,599
Water and electricity expense	273,349	202,717
Maintenance	248,405	187,741
Insurance	133,744	118,032
Consulting and professional fees	1,134,109	1,285,253
Licenses and governmental fees	136,369	489,086
Selling Expenses	173,677	-
Board of Directors' transportation	131,489	96,219
Advertising	699,824	458,463
Donations	555,033	255,788
Jordanian universities fees	196,279	187,100
Scientific research and vocational training fees	196,279	187,100
Technical and vocational education and training support fund fees	135,740	115,181
Board of Directors' remunerations	48,036	50,000
Others	<u>182,615</u>	<u>109,537</u>
	<u>5,183,938</u>	<u>4,521,791</u>

(36) EARNINGS PER SHARE

	<u>2008</u>	<u>2007</u>
Profit for the year	15,609,002	13,776,465
Weighted average number of shares	<u>95,000,000</u>	<u>71,882,192</u>
Basic and diluted earnings per share (JD/Fils)	<u>0/164</u>	<u>0/192</u>

Diluted earnings per share equal basic earnings per share as the Bank did not issue any potentially convertible instruments which would have an impact on earnings per share.

(37) CASH AND CASH EQUIVALENTS

Cash and cash equivalents appearing in the statement of cash flows consist of the following balance sheet items:

	<u>2008</u>	<u>2007</u>
	JD	JD
Cash and balances with Central Banks maturing within 3 months	137,039,173	98,085,483
Add: Balances at banks and financial institutions maturing within 3 months	204,677,269	264,719,733
Less: Banks and financial institutions' deposits maturing within 3 months	122,876,622	174,783,159
Less: Restricted cash balances	<u>3,899,500</u>	<u>1,772,500</u>
Cash and cash equivalents	<u>214,940,320</u>	<u>186,249,557</u>

(38) DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts analyzed by their term to maturity.

	Positive fair value	Negative fair value	Total notional amount	Par value maturity			
				Within 3 months	3 – 12 months	1 – 3 years	More than 3 years
				JD	JD	JD	JD
2008-							
Purchased forward agreements :	31,304	-	20,302,891	-	20,302,891	-	-
2007-							
Purchased forward agreements:	-	61,369	3,287,436	-	3,287,436	-	-

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

(39) RELATED PARTY TRANSACTIONS

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

<u>Company name</u>	<u>Ownership</u>	<u>Paid in capital</u>	
		<u>2008</u>	<u>2007</u>
		JD	JD
Union Company for Brokerage Ltd.	100%	5,000,000	5,000,000

The Bank entered into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for credit losses except as shown below:

The following related party transactions took place during the year:

	Associated company JD	Board of Directors JD	Others JD	2008 JD	2007 JD
<u>Balance sheet items:</u>					
Credit facilities	-	9,776,590	39,182,020	48,958,610	32,095,640
Deposits	6,115,446	27,836,422	7,296,094	41,247,962	9,329,883
<u>Off balance items:</u>					
Letters of credit	-	-	3,761,178	3,761,178	2,439,643
Acceptance	-	-	-	-	160,376
Letters of guarantee	1,352,000	2,760,000	3,234,623	7,346,623	5,070,146
<u>Income statements items</u>					
Interest and commission income	158,024	1,074,006	3,184,432	4,416,462	2,848,356
Interest and commission expense	18,189	625,424	347,616	991,229	729,071
<u>Other information</u>					
Watch list facilities	-	3,621,025	-	3,621,025	7,947,112
Non performing facilities	-	-	71,234	71,234	-
Allowance for watch list	-	54,315	-	54,315	192,983
Provisions of non performing loans	-	-	11,700	11,700	-
Interest in suspense	-	-	3,190	3,190	-

Interest income is at rates between 3.50% - 17%.
Interest expense is at rates between 1% - 6.80%.
Commission income is at rates between 0% - 1%.

Compensation of the key management personnel is as follows:

	2008 JD	2007 JD
Benefits (Salaries, wages, and bonuses) of senior management	1,785,114	872,456
Transportation	<u>179,524</u>	<u>146,219</u>
	<u>1,964,638</u>	<u>1,018,675</u>

(40) FAIR VALUE OF FINANCIAL INSTRUMENTS

	Book Value JD	2008 Fair Value JD	Difference JD	Book Value JD	2007 Fair Value JD	Difference JD
Financial assets held to maturity	2,734,939	2,676,567	58,372	50,000	50,000	-
Direct credit facilities	<u>601,551,048</u>	<u>601,371,015</u>	<u>180,033</u>	<u>469,415,208</u>	<u>469,415,208</u>	-
Difference between fair value and book value			<u>238,405</u>			<u>-</u>

Financial instruments include cash balances, deposits at banks and central banks, credit facilities, other financial assets, customs deposits, banks deposits and other financial liabilities.

As mentioned in note (9) there is an amount of JD 2,610,879 representing financial assets available for sale investments carried at cost adjusted for impairment (2007:JD 2,414,427).

(41) RISK MANAGEMENT

The Bank continuously develops the structure of risk management to ensure the effective administration of all its operations.

To ensure efficiency of the risk management process and the proper application of regulatory controls across all of the Bank's operations, the responsibility of risk management is distributed among various levels as summarized below:

1. Business (Work) Units:

Work units are formed of employees who, through their daily work, accept the various risks associated with the work of the Bank according to acceptable risk levels determined by the bank and specified in its policies.

To ensure effective management of risks, and as part of strategic plan, the Bank separates the functions of credit management and client relations management within each work unit to ensure the independence of studies and credit decisions and the continuous development of the effectiveness and quality of its operations.

2. Risk Management and Compliance

The work of this department was furthered such that it operates independently across all business lines. The Department is linked to the Chairman through the Risk Management Committee to ensure its independence and capacity to detect, measure and control risk within acceptable levels as determined by the Bank and submit regular reports to the Board in this regard.

3. Internal Audit

The Internal Audit Department has full independence and is linked to the Board Audit Committee. The Department functions as the last defense line through applying an audit plan that includes periodic audits of all the bank's activities in order to ensure that all violations of the system and noncompliance to policies and procedures are detected.

4. Risk Management Committee

The Board of Directors endorsed the Board Risk Management charter. Work is currently underway to form the Committee to include Board members and the Head of the Risk Management Department. All reports prepared by the Risk Management Department will be submitted to the committee periodically to ensure that committee members are informed of all risks in a timely manner such that they are able to make decisions or take measures to change risks levels in the event they are not in line with the established acceptable risks levels and submit reports to the Board in their regard.

5. Board of Directors

The Board of Directors has the following responsibilities with regard to risk management:

- Determine the acceptable risks level for all of the Bank's activities.
- Review and approve the various risk policies.
- Monitor risks and ensure application of necessary controls through the Risks Management Committee.
- Delegate authority related to the approval, amendment and renewal of credit to the various credit committees and to review their performance and validity of decisions, which will in turn reflect on the quality of the credit portfolio.
- Decide on the various investments and approve investment, reading and listing ceilings.

6. Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is headed by the General Management and the directors of operations, financial management and risk management departments as members. The Committee reviews the budget and presents any amendment recommendations, based on liquidity and market risk management, to the Board for approval. Furthermore, the Committee reviews the risk management policies related to liquidity and market risks and submits its recommendations to the Board for endorsement. It also reviews the various risk reports in order to take any necessary decisions related to altering of the acceptable risks levels by the Bank.

The Committee also recommends to the Board the allocation of capital for the various activities of the Bank in a manner that ensures the most effective use of capital.

(41/a) Credit Risk

Credit risks are controlled within acceptable risk levels by the Bank through the following:

1. ***Credit Policy:*** accurately determines the basis for extending credit, levels of acceptable credit risks, the basis used for establishing credit risks pricing and acceptable guarantees. In addition, the policy outlines the monitoring basis and procedures over credit to ensure early detection of any deterioration in the credit portfolio quality.
2. ***Training and Development:*** the continuous training and development of all credit staff ensures the availability of high level credit analysis expertise and a good understanding of these risks when recommending their acceptance and ensures the effective management of these accounts.
3. ***Authority to Extend Credit:*** credit approval is done by specialized credit committees whereby they are formed and granted authority by the Board of Directors.

In forming these committees it is ensured that they have members possessing highly skilled and specialized credit expertise and include a balanced representation of business units and the credit management department.

4. ***Credit Risk Measurement:*** the Bank is currently choosing a system for classifying credit risk as an initial step towards measuring it. We plan to classify the full risks relevant to the credit portfolio by the end of the first half of this year which will ensure a better understanding of these risks.
5. ***Credit Monitoring:***
 - A specialized unit within the Risk Management Department monitors the credit portfolio and prepares necessary relevant reports.
 - The role of this Unit starts with managing legal risks resulting from the provision of credit. The Unit, in cooperation with the Bank's legal advisor, ensures that all facilities and guarantees contracts include the legal terms that guarantee the Bank's rights. In addition, it ensures that all credit terms are met prior to allowing the borrower to execute the credit facility. All this is done due to the importance of having more than one monitoring entity oversee this highly sensitive transaction.

- Through the early credit risk warning system, the risk management department examines any indicators that may signal the deterioration of the credit status of a customer. Such indicators include customer's transactions, financial performance, and the performance of the economic sector he / she operates in, in addition to indicators related to the performance of the client's account at the Bank. This system allows us to detect, early on, any deterioration in the performance of the account and enables us to take necessary measures to reduce any possible losses that may result from this.

6. Credit Portfolio Management

All departments concerned with credit, continuously review the credit portfolio to maintain a good level of credit exposure quality.

In managing the portfolio, efforts are made to ensure that it is distributed in a balanced manner to avoid any concentration that could lead to an increase in the risk level of the portfolio. In this regard, the sectoral and the geographical distribution of the portfolio is considered, for in addition to avoiding large credit exposures of a single client except in exceptional cases and for exceptional clients.

7. Credit Risk Alleviation

As a step to hedge against credit risk, the cashflow of financed projects are taken into account when determining the repayment schedule of any credit extended to our clients. Necessary controls to monitor said cashflows that will be used for loan repayment are defined as well as necessary collaterals deemed necessary in relation to the credit risk level. The quality and liquidity of the collaterals are taken into account in addition to the effective application of procedures that ensure sound control over these collaterals and the monitoring of their value and ease of liquidation should the need arise. With regard to credit instruments.

- 1) The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	<u>2008</u>	<u>2007</u>
	JD	JD
Balance sheet items:		
Cash and balances at Central Banks	122,125,818	117,104,447
Balances at banks and financial institutions	204,677,269	264,719,733
Deposits at banks and financial institutions	5,197,760	5,672,000
Credit facilities		
Consumer lending	38,145,659	116,297,147
Residential mortgages	124,320,643	109,234,273
Corporate lending:		
Large corporations	405,511,764	203,227,661
Small and medium enterprises	30,453,390	33,882,920
Lending to governmental sectors	3,119,592	2,773,207
Bonds and treasury bills:		
Within financial assets held for trading	-	51,459,003
Within financial assets available for sale	125,608,250	71,065,423
Within financial assets held to maturity	2,734,939	50,000
Financial assets pledged as collateral (debt securities)	5,973,283	17,909,308
Other assets		
	<u>12,387,999</u>	<u>14,676,769</u>
	<u>1,080,256,366</u>	<u>1,008,071,891</u>
Off balance sheet items		
Letters of guarantee	96,006,247	73,001,561
Letters of credit	244,703,459	117,687,350
Acceptances	29,692,203	10,162,805
Irrevocable commitments to extend credit	<u>57,043,668</u>	<u>54,872,940</u>
	<u>427,445,577</u>	<u>255,724,656</u>
Total	<u>1,507,701,943</u>	<u>1,263,796,547</u>

2) Ageing analysis of past due but not impaired loans by class of financial assets:

	<u>2008</u>						
	Consumer	Residential	Corporate	SMEs	Governmental	Banks and other	Total
	JD	JD	JD	JD	JD	financial institutions	JD
Low risk	1,424,629	-	23,366	19,998	217,763,618	7,330,928	226,562,539
Acceptable risk	34,383,344	91,782,524	402,277,256	23,328,200	1,127,856	217,797,459	770,696,639
Maturing:							
Up to 30 days	22,124	-	2,000	11,713	-	-	35,837
From 31 to 60 days	44,539	-	302,695	-	-	-	347,234
From 61 to 89 days	89,741	-	13,276	1,848	-	-	104,865
Watch list	1,936,665	22,828,639	30,778,220	2,052,282	-	-	57,595,806
Non performing:							
Substandard	477,637	1,360,275	4,924,558	3,043,031	-	-	9,805,501
Doubtful	753,780	9,704,899	6,370,061	1,092,864	-	-	17,921,604
Loss	752,416	1,087,234	517,983	8,871,632	-	-	11,229,265
Total	<u>39,728,471</u>	<u>126,763,571</u>	<u>444,891,444</u>	<u>38,408,007</u>	<u>218,891,474</u>	<u>225,128,387</u>	<u>1,093,811,354</u>
Less: Suspended interest	414,945	497,002	543,706	2,330,322	-	-	3,785,975
Less: provision for impairment losses	733,215	1,945,926	1,523,604	5,566,268	-	-	9,769,013
Net	<u>38,580,311</u>	<u>124,320,643</u>	<u>442,824,134</u>	<u>30,511,417</u>	<u>218,891,474</u>	<u>225,128,387</u>	<u>1,080,256,366</u>

2007							
	Consumer	Residential	Corporate	SMEs	Governmental	Banks and other	Total
	JD	mortgages	JD	JD	sectors	financial	JD
	JD	JD	JD	JD	JD	institutions	JD
Low risk	2,163,173	-	261,296	1,146,392	172,235,931	3,948,769	179,755,561
Acceptable risk	112,220,210	103,172,001	275,654,303	27,272,975	4,078,671	279,175,441	801,573,601
Maturing:							
Up to 30 days	-	-	-	-	-	-	-
From 31 to 60 days	-	-	-	-	-	-	-
Watch list	2,008,809	5,719,385	12,753,961	2,339,650	-	-	22,821,805
Non performing:							
Substandard	223,951	158,985	-	449,303	-	-	832,239
Doubtful	180,441	228,196	-	3,083,203	-	-	3,491,840
Loss	830,329	908,028	619,497	7,414,665	-	-	9,772,519
Total	117,626,913	110,186,595	289,289,057	41,706,188	176,314,602	283,124,210	1,018,247,565
Less: Suspended interest	454,062	294,189	306,552	2,335,287	-	-	3,390,090
Less: provision for impairment losses	497,280	552,650	337,188	5,398,466	-	-	6,785,584
Net	116,675,571	109,339,756	288,645,317	33,972,435	176,314,602	283,124,210	1,008,071,891

3) Distribution of collaterals measured at fair value over credit facilities:

2008						
	Consumer	Residential	Corporate	SMEs	Governmental	Total
	JD	mortgages	JD	JD	sectors	JD
	JD	JD	JD	JD	JD	JD
Collaterals						
Low risk	1,424,631	-	23,366	19,998	2,597,098	4,065,093
Acceptable risk	12,835,813	72,705,387	128,706,574	22,718,871	-	236,966,645
Watchlist - From 61 to 89 days	2,992,955	20,139,413	33,923,818	539,620	-	57,595,806
Non performing:						
Substandard	336,213	1,356,374	4,899,214	2,825,036	-	9,416,837
Doubtful	234,747	9,058,093	6,366,907	851,050	-	16,510,797
Loss	306,488	988,860	517,983	3,362,052	-	5,175,383
Total	18,130,847	104,248,127	174,437,862	30,316,627	2,597,098	329,730,561
Comprising of:						
Cash margin	571,548	-	38,046,912	991,799	-	39,610,259
Letters of guarantee	-	-	2,306,702	509,000	-	2,815,702
Real estate	12,227,829	104,248,127	86,130,301	25,863,185	-	228,469,442
Traded equities	3,028,682	-	44,034,584	2,254,593	-	49,317,859
Vehicles and machinery	2,302,788	-	3,919,363	698,050	-	6,920,201

2007

	Consumer JD	Residential mortgages JD	Corporate JD	SMEs JD	Governmental sectors JD	Total JD
Collaterals						
Low risk	2,163,173	-	261,296	1,146,392	413,073	3,983,934
Acceptable risk	43,468,718	104,184,576	88,883,941	30,899,215	-	267,436,450
Watchlist - From 61 to 90 days	183,147	5,469,917	3,914,344	6,708,595	-	16,276,003
Non performing:						
Substandard	32,470	156,508	-	234,750	-	423,728
Doubtful	300,099	87,575	-	1,461,333	-	1,849,007
Loss	337,058	479,531	-	4,323,237	-	5,139,826
Total	46,484,665	110,378,107	93,059,581	44,773,522	413,073	295,108,948
Comprising of:						
Cash margin	9,438,820	-	22,188,291	1,691,051	-	33,318,162
Letters of guarantee	-	-	-	509,000	-	509,000
Real estate	23,024,807	110,378,107	70,075,334	30,678,112	-	234,156,360
Traded equities	11,660,992	-	461,384	11,667,276	-	23,789,652
Vehicles and machinery	2,360,046	-	334,572	228,083	-	2,922,701

- The fair value of collaterals shown does not exceed the balance of individual facilities granted to customers.

Rescheduled Debts:

Rescheduled debts are debts which have been previously classified as non-performing credit facilities, then excluded from the non-performing credit facilities as a result of a rescheduling process, and then classified as watch list. The total of such facilities has reached JD 2,093,196 as at 31 December, 2008, compared to JD 508,760 as at 31 December, 2007.

Restructured Debts:

Restructuring process refers to re-organizing the credit facilities' standing in respect to adjusting premiums, extending the life of the credit facilities, postponing some premiums or extending the grace period etc, and then classifying such facilities as watch list. Reconstructed debts totaled JD 19,810,901 as at 31 December, 2008, compared to JD 6,529,061 as at 31 December, 2007.

4) Bonds and treasury bills:

The table below shows the classifications of bonds and treasury bills and their gradings according to external rating agencies:

Risk Rating Class	External rating agency	Included in financial assets available for sale	Included in financial assets held to maturity	Total
A	S&P	-	1,167,439	1,167,439
Non-rated	-	31,655,157	1,567,500	33,222,657
Governmental	-	99,926,376	-	99,926,376
Total		131,581,533	2,734,939	134,316,472

- 5) The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	Inside Jordan JD	Other Middle Eastern countries JD	Europe JD	Asia * JD	America JD	Other JD	Total JD
Cash and balances at Central Banks	114,794,891	7,330,927	-	-	-	-	122,125,818
Balances at banks and financial institutions	27,437,649	40,167,423	99,631,930	3,890,067	33,149,891	400,309	204,677,269
Deposits at banks and financial institutions	-	5,197,760	-	-	-	-	5,197,760
Direct credit facilities:							
Consumer lending	37,254,917	890,742	-	-	-	-	38,145,659
Residential mortgages	124,320,643	-	-	-	-	-	124,320,643
Corporate lending:	398,951,261	6,560,503	-	-	-	-	405,511,764
Small and medium enterprises	29,776,134	677,256	-	-	-	-	30,453,390
Lending to governmental sectors	3,119,592	-	-	-	-	-	3,119,592
Bonds and treasury bills within:							
Financial assets available for sale	124,942,593	665,657	-	-	-	-	125,608,250
Financial assets held to maturity	1,567,500	-	1,167,439	-	-	-	2,734,939
Derivative financial instruments	5,973,283	-	-	-	-	-	5,973,283
Other assets	12,368,541	19,458	-	-	-	-	12,387,999
Total 2008	<u>880,507,004</u>	<u>61,509,726</u>	<u>100,799,369</u>	<u>3,890,067</u>	<u>33,149,891</u>	<u>400,309</u>	<u>1,080,256,366</u>
Total 2007	<u>735,304,402</u>	<u>43,504,578</u>	<u>167,836,248</u>	<u>11,073,783</u>	<u>49,532,822</u>	<u>820,058</u>	<u>1,008,071,891</u>

* Excluding Middle East countries

6) An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Financial JD	Industrial JD	Commercial JD	Real estate JD	Agriculture JD	Trading JD	Transportation JD	Tourism and Hotels JD	Services JD	Construction JD	Consumer JD	Public and governmental JD	Others JD	Total JD
Cash and balances at Central Banks	-	-	-	-	-	-	-	-	-	-	-	122,125,818	-	122,125,818
Balances at banks and financial institutions	204,677,269	-	-	-	-	-	-	-	-	-	-	-	-	204,677,269
Deposits at banks and financial institutions	5,197,760	-	-	-	-	-	-	-	-	-	-	-	-	5,197,760
Direct credit facilities:	29,652,866	106,405,099	158,963,918	124,320,644	6,036,518	55,773,501	13,190,466	55,876,651	28,714,156	8,331,444	9,900,828	3,119,592	1,265,365	601,551,048
Bonds and treasury bills within:														
Financial assets available for sale	15,165,657	14,739,500	1,500,000	-	-	-	-	-	-	250,000	-	93,953,093	-	125,608,250
Financial assets held to maturity	1,167,439	-	-	-	-	-	-	-	1,567,500	-	-	-	-	2,734,939
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	5,973,283	-	5,973,283
Other assets	9,555,475	333,516	529,576	80,303	3,902	34,699	8,527	36,122	75,676	13,401	598,934	1,113,550	4,318	12,387,999
Total 2008	<u>265,416,466</u>	<u>121,478,115</u>	<u>160,993,494</u>	<u>124,400,947</u>	<u>6,040,420</u>	<u>55,808,200</u>	<u>13,198,993</u>	<u>55,912,773</u>	<u>30,357,332</u>	<u>8,594,845</u>	<u>10,499,762</u>	<u>226,285,336</u>	<u>1,269,683</u>	<u>1,080,256,366</u>
Total 2007	<u>358,480,527</u>	<u>90,003,487</u>	<u>112,315,211</u>	<u>118,279,902</u>	<u>5,178,483</u>	<u>44,802,151</u>	<u>12,583,134</u>	<u>34,698,490</u>	<u>35,354,574</u>	<u>11,870,971</u>	<u>7,344,068</u>	<u>174,166,148</u>	<u>2,994,745</u>	<u>1,008,071,891</u>

(41/b) Market risk:

Market risks are defined as those risks resulting from currency price fluctuations in a way that affect the Bank's profitability or equity. This definition includes the change in currency exchange prices, stock prices as well as interest rates.

The Bank uses a conservative policy in market risks management. The Bank controls these risks through the adoption of clear policies in their regard and establishing risk limits for each risk type. Our policy aims to reduce these risks to lowest levels.

1. Interest Rate Risks:

A conservative policy is adopted in managing interest rate risks whereby most of the Bank's assets and liabilities can be re-priced in the short term. This limits the effect of interest rates change on the Bank's profitability and on the price of its assets and investments.

Interest rate risks are managed by the Assets and Liabilities Committee whereby it is provided with regular gap reports of interest rates re-pricing in addition to per currency interest rate price changes sensitivity reports, these reports show that interest rate risks are within the lowest range.

2008

Currency	<u>Increase in interest rate</u>	<u>Sensitivity of net interest income</u> JD	<u>Sensitivity of equity</u> JD
Jordanian Dinar	0,01	13,316	(8,748)
U.S. Dollars	0,01	1,814	(5,363)
Euro	0,01	36	(116)
Pounds	0,01	369	-
Yen	0,01	15	-
Others	0,01	(122)	-

2007

Currency	<u>Increase in interest rate</u>	<u>Sensitivity of net interest income</u> JD	<u>Sensitivity of equity</u> JD
Jordanian Dinar	0,01	20,219	(1,390)
U.S. Dollars	0,01	(1,140)	(660)
Euro	0,01	766	(267)
Pounds	0,01	129	-
Yen	0,01	71	-
Others	0,01	690	-

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

2. Currency Risks:

The Bank policy is based on foreign currencies risk hedging. The Bank performs regular sensitivity analyses to reconcile between assets and liabilities in different currencies and in such a way that open positions are only maintained in foreign currencies per the limits set by the Central Bank of Bank and according to a clear policy that is based on limiting the sensitivity of the Bank's profitability to currency price changes.

2008			
Currency	Increase in currency exchange rate	Effect on profit before tax	Sensitivity of equity
	%	JD	JD
USD	1%	(70,724)	10,635
Euro	1%	8,527	6,657
Pounds	1%	12,812	-
Yen	1%	1,236	-
Others	1%	34,381	6,296

2007			
Currency	Increase in currency exchange rate	Effect on profit before tax	Sensitivity of equity
	%	JD	JD
USD	1%	(195,658)	16,066
Euro	1%	16,110	10,454
Pounds	1%	6,728	-
Yen	1%	3,513	-
Others	1%	71,804	-

In case of decrease in currency exchange rate with 1%, it will make the same effect in the tables above with a negative sign.

3. Change in Stock Price Risks

The trading portfolio risk management is performed through depending on a policy that based on diversification of investment portfolio.

Investments are distributed on sectoral basis, to include the most stable sectors, and across several financial markets to reduce risks to acceptable levels. Regular monitoring of risks is also conducted through:

- Determining the different investments ceilings
- Determining limits to stop losses per investment and its daily monitoring.
- Regular assessment of the investment portfolio by an independent body (intermediary office).
- Performing sensitivity analyses to measure the extent to which these investments may be impacted should the markets invested in drop, so as to maintain risks within level acceptable to the Bank.

These risks are managed (for trading portfolio) by the Risks Management Department in cooperation with the Treasury Department and their recommendations are submitted to the Assets and Liabilities Committee

2008			
Financial Market	Change in market index	Effect on profit and losses	Effect on equity
	%	JD	JD
Al-Quds Stock Exchange(Palestine)	5%	-	3,595
Amman Financial Market	5%	44,228	974,344

2007

Financial Market	Change in market index	Effect on profit and losses	Effect on equity
	%	JD	JD
Al –Manama (Bahrain)	1%	-	7,920
Hang Xing (Singapore)	1%	-	3,545
Nasdac (USA)	1%	10,895	-
Dubai	1%	1,193	-
Al-Quds Stock Exchange(Palestine)	1%	644	762
Amman Financial Market	1%	4,375	242,740

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

Sensitivity of interest rates as of 31 December 2008:

	Less than 1 month JD	1 – 3 months JD	3 – 6 months JD	6 – 12 months JD	1 – 3 years JD	3 or more years JD	Non-interest bearing JD	Total JD
Assets								
Cash and balances at Central Banks	29,699,503	7,000,000	-	-	-	-	100,339,670	137,039,173
Balances at banks and financial institutions	164,871,024	37,123,866	-	-	-	-	2,682,379	204,677,269
Deposits at banks and financial institutions	-	-	5,197,760	-	-	-	-	5,197,760
Financial assets held for trading	-	-	-	-	-	-	884,553	884,553
Direct credit facilities	555,237,842	7,886,296	6,258,923	4,207,076	2,443,124	116,404	25,401,383	601,551,048
Financial assets available for sale	-	3,948,242	76,853,070	26,923,121	17,883,817	-	22,169,658	147,777,908
Financial assets held to maturity	-	-	2,734,939	-	-	-	-	2,734,939
Financial assets pledged as collateral	-	-	-	-	5,973,283	-	-	5,973,283
Property and equipment	-	-	-	-	-	-	12,084,961	12,084,961
Goodwill and other intangible assets	-	-	-	-	-	-	666,263	666,263
Deferred tax assets	-	-	-	-	-	-	3,156,004	3,156,004
Other assets	-	-	-	-	-	-	12,726,283	12,726,283
Total Assets	749,808,369	55,958,404	91,044,692	31,130,197	26,300,224	116,404	180,111,154	1,134,469,444
Liabilities								
Banks and financial institution deposits	100,180,268	12,000,000	-	-	-	-	10,696,354	122,876,622
Customers' deposits	330,755,390	148,741,240	38,964,100	34,022,343	980,000	-	99,712,272	653,175,345
Margin accounts	87,812,188	-	-	-	-	-	3,896,834	91,709,022
Loans and borrowings	591,312	4,025,182	14,041,560	5,025,182	266,968	191,423	-	24,141,627
Sundry provisions	-	-	-	-	-	-	213,205	213,205
Income tax liabilities	-	-	-	-	-	-	13,490,219	13,490,219
Deferred tax liabilities	-	-	-	-	-	-	276,235	276,235
Other liabilities	-	-	-	-	-	-	10,069,352	10,069,352
Total Liabilities	519,339,158	164,766,422	53,005,660	39,047,525	1,246,968	191,423	138,354,471	915,951,627
Interest rate sensitivity gap	230,469,211	(108,808,018)	38,039,032	(7,917,328)	25,053,256	(75,019)	41,756,683	218,517,817
2007-								
Total Assets	671,552,135	109,872,608	40,758,286	35,173,380	54,726,573	30,152,773	125,854,695	1,068,090,450
Total liabilities and equity	495,904,216	170,650,957	23,978,424	19,080,128	19,701,217	324,908	123,451,419	853,091,269
Interest rate sensitivity gap	175,647,919	(60,778,349)	16,779,862	16,093,252	35,025,356	29,827,865	2,403,276	214,999,181

Concentration in currency risk:

	US Dollar	Euro	British Pound	Japanese Yen	Other	Total
	JD	JD	JD	JD	JD	JD
2008						
Assets						
Cash and balances at Central Banks	26,440,453	2,051,746	19,632	-	10,901,629	39,413,460
Balances at banks and financial institutions	111,559,001	66,984,809	7,354,066	663,451	(2,165,256)	184,396,071
Deposits at banks and financial institutions	4,254,000	-	-	-	943,760	5,197,760
Direct credit facilities	89,020,837	1,958,234	(1)	1,392,352	6,686,545	99,057,967
Financial assets available for sale	12,053,000	665,657	-	-	629,566	13,348,223
Financial assets held to maturity	1,167,439	-	-	-	-	1,167,439
Other assets	4,929,921	308,585	39,063	668	395,126	5,673,363
Total Assets	249,424,651	71,969,031	7,412,760	2,056,471	17,391,370	348,254,283
Liabilities						
Banks and financial institution deposits	39,289,762	59,790,290	755,947	1,184,444	4,989,730	106,010,173
Customers' deposits	177,290,530	9,631,627	4,842,370	661,865	7,761,640	200,188,032
Margin accounts	38,258,349	1,468,154	522,042	86,273	255,967	40,590,785
Borrowing amounts	549,752	-	-	-	-	549,752
Other liabilities	1,144,890	226,256	11,525	268	75,086	1,458,025
Total Liabilities	256,533,283	71,116,327	6,131,884	1,932,850	13,082,423	348,796,767
Net concentration in the balance sheet	(7,108,632)	852,704	1,280,876	123,621	4,308,947	(542,484)
Future contracts	295,208,609	14,413,685	1,232,948	5,895,859	1,919,521	318,670,622
2007						
Total Assets	302,505,020	63,015,464	9,346,744	(157,730)	21,393,972	396,103,470
Total Liabilities	331,972,759	61,388,139	8,671,923	(512,874)	12,754,524	414,274,471
Net concentration in the balance sheet	(29,467,739)	1,627,325	674,821	355,144	8,639,448	(18,171,001)
Future contracts	137,492,007	13,429,786	1,306,071	7,671,295	3,862,750	163,761,909

(41/c) Liquidity Risks

The Bank continuously works to expand its depositors base and diversify its sources of funds to maintain stability. Union Bank is keen to maintain a liquidity level within clear limits that guarantee the reducing of liquidity risks to its lowest possible levels.

The Bank's liquidity risk management policy is also based on maintaining ceiling levels at correspondent banks that guarantee access to cash within acceptable time and costs in the event of an unanticipated request.

To measure liquidity levels, a schedule of accruals is prepared regularly to ensure that they are maintained within acceptable levels. Liquidity ratios are calculated daily to ensure compliance with the requirements of regulatory bodies and internal policies.

The treasury department manages funds in line with the Bank's liquidity policy that was endorsed by the Assets and Liabilities Committee and submits regular reports to the Committee. In addition, liquidity levels as well as compliance level with the bank's internal policies are monitored by the Risks Management Department.

a) The table below summarises the maturities of financial instruments as of the date of the financial statements using contractual, undiscounted amounts:

2008-	Less than 1 month JD	1 – 3 months JD	3 – 6 months JD	6 – 12 months JD	1 – 3 years JD	3 or more years JD	No specific maturity JD	Total JD
Liabilities								
Banks and financial institution deposits	111,115,993	12,048,800	-	-	-	-	-	123,164,793
Customers' deposits	432,115,763	149,864,236	39,626,003	35,178,252	1,068,788	-	-	657,853,042
Margin accounts	972,882	16,135,000	29,595,879	19,174,487	14,021,942	16,278,153	-	96,178,343
Loans and borrowings	595,166	4,077,643	14,453,329	5,319,909	308,722	251,301	-	25,006,070
Sundry provisions	-	-	-	-	-	-	213,205	213,205
Income tax liabilities	-	-	-	-	-	-	13,490,219	13,490,219
Deferred tax liabilities	-	-	-	-	-	-	276,235	276,235
Other liabilities	-	-	-	-	-	-	10,069,352	10,069,352
Total Liabilities	544,799,804	182,125,679	83,675,211	59,672,648	15,399,452	16,529,454	24,049,011	926,251,259
Total assets	284,884,676	151,329,701	256,797,401	150,824,786	87,107,554	107,268,139	96,257,187	1,134,469,444
2007-	Less than 1 month JD	1 – 3 months JD	3 – 6 months JD	6 – 12 months JD	1 – 3 years JD	3 or more years JD	No specific maturity JD	Total JD
Liabilities								
Banks and financial institution deposits	66,931,149	114,716,019	-	-	-	-	-	181,647,168
Customers' deposits	81,622,975	444,480,104	34,294,490	19,752,792	628,688	-	-	580,779,049
Margin accounts	1,273,285	6,687,015	18,628,650	16,277,489	30,624,209	3,575,096	-	77,065,744
Loans and borrowings	45,475	7,686,777	-	73,027	19,987,257	355,506	-	28,148,042
Sundry provisions	-	-	-	-	-	-	375,842	375,842
Income tax liabilities	-	-	-	-	-	-	11,182,500	11,182,500
Deferred tax liabilities	-	-	-	-	-	-	1,165,670	1,165,670
Other liabilities	-	-	-	-	-	-	11,556,948	11,556,948
Total Liabilities	149,872,884	573,569,915	52,923,140	36,103,308	51,240,154	3,930,602	24,280,960	891,920,963
Total assets	282,381,626	146,791,396	150,383,388	127,200,302	234,399,577	47,815,776	79,118,385	1,068,090,450

b) Off balance sheet items:

2008-	Less than 1 year <u>JD</u>	1 – 5 years <u>JD</u>	5 years or more <u>JD</u>	Total <u>JD</u>
Acceptances	152,086,158	122,309,504	-	274,395,662
Irrevocable commitments to extend credit	57,043,668	-	-	57,043,668
Letters of guarantee	<u>90,727,688</u>	<u>5,278,559</u>	<u>-</u>	<u>96,006,247</u>
Total	<u>299,857,514</u>	<u>127,588,063</u>	<u>-</u>	<u>427,445,577</u>
2007-	Less than 1 year <u>JD</u>	1 – 5 years <u>JD</u>	5 years or more <u>JD</u>	Total <u>JD</u>
Acceptances	127,850,155	-	-	127,850,155
Irrevocable commitments to extend credit	54,872,940	-	-	54,872,940
Letters of guarantee	<u>57,638,167</u>	<u>9,120,077</u>	<u>6,243,317</u>	<u>73,001,561</u>
Total	<u>240,361,262</u>	<u>9,120,077</u>	<u>6,243,317</u>	<u>255,724,656</u>

Corporate Governance

A Corporate Governance Policy was developed and endorsed by the Board to include instructions that guarantee a high level of governance by the Bank and supports the establishment of a framework and a reference that ensures highly effective risks management. The Policy covered the following basic issues:

- Define the relationship between the Bank, shareholders and the Board of Directors to guarantee a high level of transparency and the preservations of minority shareholders' rights.
- Determine the structure and qualifications of Board members and develop the necessary framework for appraising the performance of the Board.
- Define the various Board committees and the Charter of each one of them to outline its membership and scope of work and responsibility.

To support the effective application of corporate governance principles, the following charters were endorsed to constitute one of the basic principles of managing work at the Bank:

Professional Code of Conduct:

This Code includes the basis of sound professional conduct and means of avoiding conflict of interest and its disclosure through the proper framework should it happen. The Code was circulated among all Bank employees who signed on it committing to compliance to all its contents.

Disclosure Policy:

This policy determines the principles which ensure high levels of transparency and guarantees that minority shareholders are informed of all descriptive and quantitative information that enable them to assess their investments and have confidence in the sound management of the Bank.

Compliance Risks

Compliance risk management is carried out by a specialized entity within the Risk Management Department that continuously reviews any new legal or regulatory requirements that should be followed by the Bank and ensures their full application and compliance.

In this context, the Unit regularly reviews all work policies and procedures to ensure compatibility with requirements set by regulators. The Unit also submits reports related to compliance to upper management and in the future to the Risk Committee.

In addition, the Unit follows-up on compliance with all internal policies and procedures through different monitoring tools including the revision of the internal auditor's report and taking corrective measures with regard to the points raised in the report.

Anti-Money Laundering

Anti-money laundering operations rely on the instructions issued by the Central Bank of Jordan in this regard as well as best international banking practices. To ensure effective application of anti-money laundering principles, we developed policies and procedures specific to combatting money laundering and conducted a comprehensive training for all the employees of the Bank to ensure their full knowledge of all anti-money laundering procedures and enhance the Bank's effectiveness in revealing any suspicious activity. We are applying a computer application for the effective detection of these transactions from within the Bank's operations, which will fully implemented during the first quarter of 2009.

Operations Risks

The Bank adopted the BASEL definition of operations risks. A special unit under the Risks Management Department was established to manage these risks due to our belief of its profound impact on the Bank's activities and the level of risk to which the bank may be subjected to. Operations risks management includes the periodic and comprehensive review of all controls pertinent to Banks procedures to ensure that they are adequate and being complied with.

In preparation for the more accurate measuring of operations risks, we have compiled all losses resulting from operations risks in order to develop adequate information that enable us to protect the Bank from these risks more accurately in the future.

To ensure the mitigation against the impact of operations risks on the activities of the Bank, a business continuity policy and an emergency plan was adopted. In addition, a substitute location was fully equipped for use during emergencies or catastrophes which may preclude accessing the Bank's main branch.

(42) SEGMENT INFORMATION

Primary segment information

For management purposes the Bank is organised into three major business segments:

Retail banking: Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and funds transfer facilities;

Corporate banking: Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

Treasury: Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

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

	Consumers JD	Corporate JD	Treasury JD	Other JD	Total	
					2008 JD	2007 JD
Total income	19,868,403	42,302,956	22,869,046	73,327	85,113,732	75,054,895
Impairment loss on credit facilities	(1,635,726)	(1,371,471)	-	-	(3,007,197)	(1,916,631)
Impairment loss on financial assets	-	-	(7,421,506)	-	(7,421,506)	(2,755,597)
Segment results	4,899,282	23,970,362	8,103,391	(1,271,023)	35,702,012	30,427,617
Unallocated expenses					(14,571,042)	(11,106,218)
Profit before tax					21,130,970	19,321,399
Income tax					(5,521,968)	(5,544,934)
Net profit					15,609,002	13,776,465
Other information						
Segment assets	162,466,302	439,084,746	504,227,252	-	1,105,778,300 57,533	1,040,477,904 365,836
Unallocated assets					28,633,611	27,246,710
Total Assets					1,134,469,444	1,068,090,450
Segmental liabilities	315,360,290	429,524,076	147,018,250	-	891,902,616	828,810,309
Unallocated liabilities					24,049,011	24,280,960
Total Liabilities					915,951,627	853,091,269
Capital expenditure					2,829,596	1,412,190
Depreciation and amortization					970,921	762,842

2. Geographical Information

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

	Inside Jordan		Outside Jordan		Total	
	2008 JD	2007 JD	2008 JD	2007 JD	2008 JD	2007 JD
Total income	83,501,775	73,336,271	1,611,957	1,718,624	85,113,732	75,054,895
Total assets	1,111,516,632	1,052,017,101	22,952,812	16,073,349	1,134,469,444	1,068,090,450
Capital expenditure	2,784,401	1,393,395	45,195	18,795	2,829,596	1,412,190

(43) CAPITAL MANAGEMENT

In addition to subscribed capital, the capital account includes the legal reserve, optional reserve, issuance premium, retained earnings, cumulative change in fair value and banking risk reserve.

The Bank is committed to applying the requirements set forth by regulators concerning capital adequacy as follows:

1. Central Bank of Jordan instructions that capital adequacy ratio does not go below 12%.
2. Comply with the minimum limit set for the paid capital for Jordanian banks such that it is not less than JD 40 million.
3. The Bank's investments in stocks and shares which should not exceed 50% of the subscribed capital.
4. The ratio of credit limits (credit concentration) to regulatory capital.
5. Banks and Companies Laws related to the deduction of the legal reserve at a rate of 10% of the Bank's net profits.

The Bank is diligent to observe these requirements as well as any relevant law, regulations or instructions.

	<u>2008</u>	<u>2007</u>
	JD	JD
Primary capital	194,846,816	196,538,997
Paid in capital	95,000,000	95,000,000
Statutory reserve	13,548,162	11,377,431
Voluntary reserve	3,159,659	3,159,659
Share premium	79,255,311	79,255,311
Retained earnings	8,680,501	8,626,796
Less:		
Intangible assets	(666,263)	-
Investment in other Banks and financial institutions	(231,054)	(880,200)
Restricted balances	(3,899,500)	-
Additional capital	5,602,684	5,961,901
Offsetting effect of IAS 39 and cumulative change in fair value for assets available for sale.	314,545	1,480,208
General banking risk reserve	5,519,193	4,481,693
Investment in other Banks and financial institutions	(231,054)	-
Total authorised capital	<u>200,449,500</u>	<u>202,500,898</u>
Total risk weighted assets	<u>862,854,057</u>	<u>652,110,869</u>
Capital adequacy (%)	23.23%	31.05%
Primary capital (%)	22.58%	30.14%

Capital adequacy ratio for 2008 was calculated based on Basel II regulations, for 2007 this ratio was calculated based on basal I regulations.

(44) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

2008-	Within 1 year JD	More than 1 year JD	Total JD
Assets			
Cash and balances at Central Banks	137,039,173	-	137,039,173
Balances at banks and financial institutions	204,677,269	-	204,677,269
Deposits at banks and financial institutions	5,197,760	-	5,197,760
Financial assets held for trading	884,553	-	884,553
Direct credit facilities	423,188,075	178,362,973	601,551,048
Financial assets available for sale	91,734,934	56,042,974	147,777,908
Financial assets held to maturity	1,167,439	1,567,500	2,734,939
Financial assets pledged as collateral	-	5,973,283	5,973,283
Property and equipment	1,357,718	10,727,243	12,084,961
Goodwill and other intangible assets	247,430	418,833	666,263
Deferred tax assets	3,156,004	-	3,156,004
Other assets	12,726,283	-	12,726,283
Total Assets	881,376,638	253,092,806	1,134,469,444
Liabilities			
Banks and financial institution deposits	122,876,622	-	122,876,622
Customers' deposits	652,195,345	980,000	653,175,345
Margin accounts	64,750,663	26,958,359	91,709,022
Loans and borrowings	23,683,235	458,392	24,141,627
Sundry provisions	213,205	-	213,205
Income tax liabilities	13,490,219	-	13,490,219
Deferred tax liabilities	276,235	-	276,235
Other liabilities	10,069,352	-	10,069,352
Total Liabilities	887,554,876	28,396,751	915,951,627
Net Assets	(6,178,238)	224,696,055	218,517,817

2007-

	Within1 year JD	More than 1 year JD	Total JD
Assets			
Cash and balances at Central Banks	123,085,483	-	123,085,483
Balances at banks and financial institutions	264,719,733	-	264,719,733
Deposits at banks and financial institutions	5,672,000	-	5,672,000
Financial assets held for trading	25,362,301	40,007,812	65,370,113
Direct credit facilities	260,258,659	205,156,549	465,415,208
Financial assets available for sale	46,051,396	52,570,599	98,621,995
Financial assets held to maturity	-	50,000	50,000
Financial assets pledged as collateral	2,001,421	15,907,887	17,909,308
Property and equipment	1,170,162	9,295,681	10,465,843
Goodwill and other intangible assets	156,744	279,881	436,625
Deferred tax assets	1,286,562	-	1,286,562
Other assets	15,057,580	-	15,057,580
Total Assets	744,822,041	323,268,409	1,068,090,450
Liabilities			
Banks and financial institution deposits	174,783,159	-	174,783,159
Customers' deposits	553,546,334	597,833	554,144,167
Margin accounts	41,255,457	32,902,166	74,157,623
Loans and borrowings	7,133,484	18,591,876	25,725,360
Sundry provisions	375,842	-	375,842
Income tax liabilities	11,182,500	-	11,182,500
Deferred tax liabilities	1,165,670	-	1,165,670
Other liabilities	11,556,948	-	11,556,948
Total Liabilities	800,999,394	52,091,875	853,091,269
Net Assets	(56,177,353)	271,176,534	214,999,181

(45) CONTINGENT LIABILITIES AND COMMITMENTS

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

	<u>2008</u>	<u>2007</u>
	JD	JD
Letters of credit	244,703,459	117,687,350
Acceptances	29,692,203	10,162,805
Letters of guarantee -		
Payments	20,938,793	21,267,236
Performance	43,832,013	28,738,376
Other	31,235,441	22,995,949
Irrevocable commitments to extend credit	<u>57,043,668</u>	<u>54,872,940</u>
	<u>427,445,577</u>	<u>255,724,656</u>

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

	<u>2008</u>	<u>2007</u>
	JD	JD
Contracts to purchase property and equipment	<u>1,877,940</u>	<u>697,624</u>

(46) LAWSUITS

In the normal course of business the Bank appears as a defendant in a number of lawsuits amounting to approximately JD 211,869 and 568,367 as of 31 December 2008 and 2007 respectively.

According to the Bank's lawyer the Bank's management, no material liability will arise as a result of these lawsuits in excess of the amounts already provided for amounting to JD 40,876 as at 31 December 2008 (2007: 253,591).

(47) NEW ISSUED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following standards and interpretations have been issued but are not yet effective.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21. The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.

IAS 1 Revised Presentation of Financial Statements

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Bank, as the Bank has not issued such instruments.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Bank is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. This amendment becomes effective for annual periods beginning on or after 1 January 2009. The amendment is not expected to have any impact on the financial position or performance of the Bank.

IFRS 8 Operating Segments

The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. This amendment becomes effective for annual periods beginning on or after 1 January 2009. Operating segments are expected to be the same as currently identified business segments under IAS 14.

IAS 23 Borrowing Costs (Revised)

The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This amendment becomes effective for annual periods beginning on or after 1 January 2009. The amendment is not expected to have any impact on the financial position or performance of the Bank.

(48) COMPARATIVE FIGURES

Some of 2007 balances were reclassified to correspond with those of 2008 presentation. The reclassification has no effect on the profit for the year and equity.