

# '08

**The Thirteenth  
Annual Report**

**Capitalbank**  
كابيتال بنك





His Majesty King Abdullah II Bin Al Hussin





## Table of Contents

<b>Board of Directors</b>	<b>6</b>
<b>Mission, Vision, Strategy</b>	<b>7</b>
<b>Message from the Chairman</b>	<b>10</b>
<b>Board of Directors Report</b>	<b>14</b>
<b>Corporate Governance Code</b>	<b>22</b>
<b>Auditor's Report</b>	<b>38</b>
<b>Financial Statements For the year ended 31 December 2008</b>	<b>39</b>
<b>Other Disclosure</b>	<b>98</b>



## Boards of Directors Year 2008

### Chairman

**Dr. Ziad Fariz**

### Vice Chairman

**Dr. Fayez Soheimat**

### Member

**Mr. Hasan Kubba**

**Mr. Mazen Darwazeh**

**Mr. Kim Abu Jaber**

**Mr. Abdel Raouf Al-Bitar**

**Representative of Investment &  
Integrated Industries Company  
Mr. Eliyah Nuqul**

**Representative of Social  
Security Corporation  
Mr. Haitham Al-Majali**

**Representative of Al-Jadara for Real  
Estate Investment  
Mr. Mohammed Safouri**

**Representative of Hotaf  
Investment Company  
Mr. Bassam Kanaan**

**Alkhaleel Company for Investments  
Mr. Fawzi Jumeen**

**Representative of International  
Finance Corporation (IFC)  
Mr. Roy Athanas Karaoglan**

## Boards of Directors Year 2009

### Chairman

**Mr. Hassan Kubba**

### Vice Chairman

**Kim Abu Jaber**

### Member

**Al-Sheikh Nahian Al Nahian**

**Mr. Khalifa Bin Yousef**

**Mr. Roy Athanas Karaoglan**

**Mr. Abdel Raouf Al-Bitar**

**Representative of Investment &  
Integrated Industries Company  
Mr. Eliyah Nuqul**

**Representative of Social  
Security Corporation  
Mr. Haitham Al-Majali**

**Representative of Al-Jadara for Real  
Estate Investment  
Mr. Mohammed Safouri**

**Representative of Hotaf  
Investment Company  
Mr. Bassam Kanaan**

**Alkhaleel Company for Investments  
Mr. Khalil Al-Salem**

## **Mission**

We are an integrated financial institution committed to offering first-class solutions to our clients, adding value to our stakeholders and contributing to the development of the economy.

## **Vision**

To be the preferred partner for financial solutions in our market, and the source of pride & admiration for all our stakeholders.

## **Strategy**

The basic strategy of Capital Bank, is to link trade and project finance with capital markets, thus providing a full service approach to the Bank's client base.

Capital Bank's sustainable competitive advantage lies in the provision of a comprehensive range of banking and financial services to exporters including trade finance, corporate and project finance, asset management and various other investment banking related services.

Capital Bank focuses all its activities on the Jordanian market, When the bank becomes well entrenched locally, it will seek business opportunities in the neighboring Arab countries, in alliances with other investment banks in the region.

Capital Bank seeks to distinguish itself through its quality advice along with its in-depth knowledge of the Jordanian economy, its debt and equity markets and major industries and corporation in the Kingdom. This will be achieved through the establishment of a fully-fledged research unit that will help position CAPITAL BANK as the bank with the special knowledge of the Jordanian economy and market place.









**Message from the Chairman**



In the Name of Allah the Most Beneficent the Most Merciful

## Dear Shareholders,

On behalf of the Board of Directors of Capital Bank, I have the pleasure of presenting the thirteenth annual report on the Bank's operations and results and various activities for the year 2008. The Bank has continued its progress towards offering advanced banking services to clients through supporting growth plans and developing strategies necessary for the Bank's activities and improvement of its services.

Our well founded plans began to reap their gains for in the year 2008. Most internal policies and procedures were improved, the Bank witnessed major qualitative developments and directed towards offering the best banking services, while adhering to standard international practices in the fields of control and risk management. Moreover, the Bank adopted a local expansion plan through the growth in the number and size of its branches. This wide representation for the Bank will ensure the best services for both retail and corporate clients.

The Bank also continued to recruit the highest banking qualifications for its management team; enhancing its profitability and developing its internal control system.

Despite the worldwide challenges facing financial institutions, the Bank managed to achieve positive gains in 2008. We were able to enhance the operating profit resources and maintain the performance levels of credit and investment portfolio by improving our banking services and increasing our client satisfaction. This reflected on the growth of our credit portfolio and client deposits; thereby actualizing the required growth in the Bank's revenues. Hence, the Bank's net profit increased by (13%) to (JD 15.250) million compared to (JD 13.509) million in 2007.

The Bank's assets increased by (4.7%) to (JD 984) million compared to 2007, and direct (net) credit facilities increased by (19.2%) from (JD 497) million to (JD 593) million.

Moreover, the total client deposits increased by (11.4%) from (JD 476) million as at end 2007 to (JD 530) million this year; indicating continuous expansion of the Bank's client base, increased client confidence, and enhanced competitiveness.

In the context of strategic cooperation between the Bank and the International Finance Corporation (IFC), the Bank obtained a ten-year standby loan to be converted to (USD 20) million worth of shares; thus enhancing the Bank's long term resources of funds and reinforcing its capital adequacy ratio.

As a result of the strategic partnership with IFC, the Bank's capital increased to (JD 132.280) million/share, and equity increased by (17.9%) to (JD 195) as at the end of 2008 million compared to (JD 165) million as at the end of 2007.

In addition, the Bank was keen on enhancing the quality of its credit portfolio; providing for non performing debts after deducting interest in suspense reached (4.4%) of the total portfolio; ranking below the average ratio for non performing debts in the Jordanian banking sector. The Bank was also keen on additional provisions against its credit portfolio; with a coverage ratio of non performing debts provisions ratio of (70.22%).

As for assets and liabilities, the Bank's liquidity ratio in Jordanian Dinars reached (131%) at the end of 2008; exceeding the minimum limit of (70%) set by the Central Bank of Jordan. Meanwhile Liquid assets ratio, amounted to (28.3%) of total assets; which enabled the Bank to balance profitability with asset risk management. This was further demonstrated by the performance of our Bank's cash and financial investments portfolio, which are safeguarded against any investments with American banks or investment fund affected by the global financial crisis.

At the beginning of 2008, the Bank started implementing Basel II rules on capital adequacy calculation and by the end of 2008 the ratio reached to (20.14%)

Due to this positive performance, capital bank was rated by capital intelligence "an international rating institution" with a (BBB) rank, in their report issued in Nov. 2008, placing Capital Bank among the highest rated banks in Jordan and increasing this confidence of correspondent banks.

Throughout 2008, Capital Bank gave full compliance to corporate governance requirements, in line with requirements of monetary and other supervisory authorities, and kept pace with the best international banking practices.

Within the framework of the Bank's strategic plan for local expansion and increasing its share of the credit market and client deposits, as well as attracting more clients from all economic sectors, the Bank purchased Head Office building in Shmeisani, Three new branches in Dabooq, Bayadir Wadi El Sir and the duty free zone

in Zarqa are being prepared and are expected to commence operations in the second quarter of 2009. Further pursuits are currently made to choose other location for branches. Moreover, five other locations have been chosen in large shopping centers and strategic central locations for installing ATM machines.

Corporate facility operations were expanded through the development of SMEs financing and the creation of appropriate banking products for such enterprises; with reliance IFC's experience, being the Bank's strategic partner.

With regards to the performance of Capital Investments, the wholly owned subsidiary of Capital Bank, which acts as the Bank's investment division; it was able to overcome the financial crisis which hit stock market at the beginning of the last quarter of 2008; and managed to realize a net profit of (JD 2.7) million after tax deductions; compared to (JD 2.3) million realized in 2007. This was due to its increased operations and ability to provide new investment services for dealers in and outside the stock market; including corporate finance, asset management and financial brokerage. The Company managed, through constant follow-up on its accounts, to maintain client receivable accounts; be it spot or margin finance. In addition, the Company's Investment Department liquidated investments which suffered a significant depression of prices, and retained strategic investments; all of which will have a positive impact on its performance during 2009.

With respect to our investment in the National Bank of Iraq (NBI), of which Capital Bank owns (59.2%) of its paid-in capital of (ID 25) billion (JD 15.4 million), the Bank realized net profit of (JD 2.3) million compared to (JD 1.3) million realized in 2007; which proved to be wise strategic decision for venture into the Iraq markets, a market full of rewarding investment opportunities.

As for the global financial crisis, it became evident that its impact on Jordan was far less than it was on large scale economies such as the USA and Europe. The local impact was seen through the regression of the real estate market and the simultaneous decrease in investments in Amman Stock Exchange as well as regional and international markets.

Some adverse effects may impact Jordan's economy if the global financial crisis continues and the world depression deepens. This would lead to a regression in the world demand, thereby negatively affecting short and long-term national exports. We, however, strongly believe in Jordan economy's ability to survive the challenges and benefit from the crises. In addition, the decrease in oil prices will have a tremendous impact on decreasing the prices of raw materials and increasing supply of foreign currency reserves. The Jordanian government will proceed completing of major infrastructure-related projects, which will reap long term benefits.

In line with our strategic plan and aims at expanding and increasing shareholders profits, we will concentrate on the distinguished products offered by the Bank such as foreign trade transactions including credits, guarantees, etc. We will also focus on foreign trade financing operations with Iraq, taking into consideration the nature of Iraqi economy that is full of investment opportunities and unaffected by the global financial crisis. Our strategic relation with Basrah International Bank as well as our investment in the National Bank of Iraq will constitute a solid foundation for a considerable share in the Iraqi Market.

We will also seek the development of banking transactions related to money markets including bank transfers and currency exchange in addition to the establishment of strategic relations with world financial institutions in order to find the necessary financing resources for all commercial transactions, which we aim to expand.

Furthermore, we will be focused on the expansion and growth of the Bank's integrated banking transactions, which includes corporate and individuals finance and various investment activities with a focus on promoting the efficiency and quality of services provided. Further focus will be made for increasing the market share of deposits and spreading out a network of branches to serve the accomplishment of such goals.

Moreover, we will enhance the network of subsidiaries in the Kingdom with the propose of providing integrated financial services, including financial investments, brokerage and insurance. This will be made possible through direct partnerships or through signed agreements with global banks as well as searching for regional and international strategic partnerships that will contribute to the Bank's expansion regionally and internationally and to the opening of new markets for the Bank's operations and clients.

At the end, I would like to extend, on behalf of the Board of Directors, my deep gratitude and appreciation to the Central Bank of Jordan for the sound guidance and relentless support it offers to the banking sector. I would like also to thank all clients, investors and shareholders for their faith and loyalty to the Bank. Finally, I would like to express my appreciation to the executive management and staff of the Bank for their dedication in serving the Bank.

**Hassan Ghalib Kubba**  
Chairman





Board of Directors Report for 2008



## Introduction

The Board of Directors of Capital Bank is pleased to present the thirteenth annual report on the Bank's performance, results, accomplishments operations, services, and financial statements for 2008. The Bank has continued its progress in terms of banking services offered to clients through ongoing support for developing the plans and strategies necessary to increase operations and improve the quality of services.

The Bank concluded its thirteenth year with many achievements to continue its pursuits and support its efforts in the development of banking services and products that suit the clients needs and consolidate its leading role in various banking activities despite the financial crisis that adversely affected the global economies during the fourth quarter of this year.

The Bank realized a net profit of (JD 15.250) million compared to (JD 13.509) million in 2007 at a growth rate of 13%. The net revenue of interests and commissions increased by (21%) to reach (JD 38.1) million compared to (JD 31.4) million in 2007, whereby the net income of interests and commissions constitutes (90%) of the gross income which rose by (2.1%) to (JD 42.2) million in 2008 compared to (JD 41.3) million in 2007.

The total operating expenses, including provisions, decreased by (3.75%) to (JD 22.5) million compared to 23.4 million in 2007.

The Bank managed to increase its asset from (JD 940) million in 2007 to (JD 984) million in 2008 with a growth rate of (4.7%), despite decreasing the loans from other financial institutions and banks that totaled (JD 66) million. The continued and notable growth in credit facilities portfolio that reached (JD 593) million by the end of 2008 with a growth rate of (19.2%) is indicative of the Bank's commitment toward contributing to the development and promotion of economic activity and its commitment to financing and supporting its corporate or individuals clients.

With regard to client deposits, the Bank's constant effort to meet the clients' needs resulted in the increase of these deposits to (JD 530) million with a growth rate of (11.4%) compared to 2007.

The strategic partnership of the Bank with IFC contributed to raising the Bank's capital to (JD 132.280) million/ share, and equity increased by (17.9%) to (JD 195) million as at the end of 2008 compared to (JD 165) million at the end of 2007.

During this year, we worked to solidify the foundations of corporate governance and optimal management of the Bank's assets and liabilities, qualifying the Bank to maintain a high credit rating of (BBB) as ranked by the international rating institution, Capital Intelligence, in November 2008.

This resulted in a good rate of return on assets at (1.6%) and equity return at (7.95%). In addition, the capital adequacy ratio amounted to (20.14%), exceeding the rates determined by the Central Bank and Basel II requirements.

These positive results reflect the efforts exerted by the Bank's Board of Directors, executive management and staff in addition to the continuous support of the Bank's clients. In this year, we were able to maintain the implementation of the approved strategic plan, which promoted our presence in the local market whether



in banking, financing or investment activities, and contributed to increasing the Bank's ability to satisfy the various and increasing demands and requirements of its clients. Consequently, this enhanced the bank's sources of operating profits and maximized its market share.

### **Corporate Services**

The Bank managed to assert its high standing leading position in the local market by attracting a number of major companies as well as improving and developing relations with existing clients relying on the ability to provide one-stop services with advanced resources and distinguished expertise supported by high quality. These relentless efforts led to expanding the Bank's corporate client base and increasing the size of facilities oriented to this important economic sector.

The Corporate Services Department proved to be competent in satisfying corporate needs with direct and indirect facilities. Such competency resulted in:

- Increasing the portfolio of direct facilities granted in 2008, to new or old clients, by about (JD 85) million to reach (JD 499) million at a growth rate of (20.62%) compared to the previous year.
- Granting indirect facilities with the value of (JD 881) million in 2008.

### **Personal Banking Services**

Personal Banking Services at Capital Bank continued to offer advanced banking products oriented toward individuals and consumers. The quality and efficiency of offered services has been enhanced and certain main activities have been restructured in order to improve response time.

In compliance with the bank's strategic plan to increase its market share of deposits and credit facilities, the bank established a direct sale unit in 2008 to serve the clients in the best way and reach them in their work places. This unit will work in parallel with the nine existing branches and with the five new branches that will gradually commence operation during the first half of 2009 in Dabooq, Bayadir Wadi El Sir and the duty free zone in Zarqa as well as other branches that are currently under study. In addition to the network of ATM machines attached to these branches, many **ATM** machines will be installed in large shopping centers.

Moreover, the bank created an electronic channels department with a view to developing and updating the current services, and creating new electronic services that reflect positively on the Bank's competitiveness in the Jordanian Market.

All of this led to the growth of individuals' real-estate and consumable credit facilities portfolio from (JD 101) million in 2007 to (JD 117) million as at the end of 2008.

### **Treasury and Investment Department**

The Treasury and Investment Department continued to manage the Bank's local and foreign investments,



whether in financial markets or capital markets ensuring capital appreciation and prudent management of liquidity, while realizing the highest possible return using advanced financial resources with appropriate performance indicators.

The Treasury and Investment Department manages the Bank's investments in local and foreign stock and capital markets in an effective and active manner in order to realize the best gains, handle market changes and make use of available opportunities; all being under the guidance and supervision of Assets and Liabilities Management Committee and the Investments Committee at the bank and through the investment policy approved by the Bank.

The Treasury and Investment Department offers different services to the Bank's clients in both local and international markets with high efficiency. These services include:

- Providing foreign currency exchange for foreign currencies and JD in both spot and forward markets at best prices and different periods.
- Trading in money markets and capital markets in favor of the Bank and its clients (treasury bills, treasury bonds, commercial papers).
- Exchange of currencies and interests.
- Providing the best financial derivatives to clients and helping them in controlling / limiting the fluctuation of interest rates and currency prices.
- Issuing certificates of deposits in various currencies, whether in JD or foreign currencies for the various periods and with competitive prices.

In the field of external investments, relations with correspondent banks, and the repercussions of the financial crisis at the end of 2008, the Treasury Department remained up to pace with events and practiced reservation in trading with banks and institutions offered by the crisis. It also adopted strict bases for the limits granted to banks in the coming years as per the instructions of the Central Bank and the investment policy of the Bank.

The Financial Institutions Department arranged for new relations with reputable banks in order to meet the clients' needs all over the world which in return increased the commercial transactions of the Bank in every way and served the best interests of the Bank by maximizing profits.

The Bank's efficiency in the management of its investments became evident in the aftermath of the global financial crisis, as it had no monetary balances in any of banks with credit problems and its bonds portfolio contained no bonds issued by banks or institutions with financial setbacks resulting from the financial crisis.

### **Capital Investments**

Capital investment was established in 2005 as a company specialized in investment banking activities and capital markets with a capital of (JD 10) million. Its services include portfolio management, funds management and financial brokerage in local, regional and international markets. Moreover, it provides corporate finance and re-structuring services, and proposes appropriate financing methods, including management of shares, bonds and commercial papers issuance as well as corporate assessment, consultation related to merger and acquisition and other financial activities.



With respect to financial brokerage, the Company operates in three qualitative areas:

### **1- Local Brokerage**

Local brokerage department continued its progress among brokerage offices operating in Amman Stock Exchange and jumped from 19th position in 2007 to 10th position in 2008, with a total trading amount of (JD 1.2) billion. The qualified team of brokers maintained the excellent level of service offered, which led to increasing the company's share of the total trading amount to (3%) without affecting the level and speed of execution bidding and meeting of clients' needs.

Local brokerage department managed last year to provide many qualitative services that considerably enhanced the Company's competitiveness. SMS service was launched to confirm prompt execution of orders. In 2009, the electronic client portfolio inquiry service will be launched via the Company's website, where clients will be able to inquire about the components and details of their portfolios and bidding transactions at any time, thus enabling them to effectively manage their portfolios.

### **2- Regional Brokerage**

Regional brokerage department covers all Gulf financial markets, including Saudi Arabia, in addition to the markets of Egypt, Lebanon and Palestine. Due to the efforts of the qualified and experienced team, the department was able to increase the number of its clients and the volume of its business.

Regional Brokerage Department seeks to continue its specialized activities in technical analysis using Meta Stock system to capture investment opportunities, expand client base and extend the scope of services to include additional investment opportunities, after a new electronic trading system has been installed to provide access to various financial markets around the Arab world.

### **3- International Brokerage**

International brokerage department extends its distinguished services to companies and investors willing to diversify their investments by direct employment in global financial markets. The department offers a wide range of modern investment services, including the purchase and sale of global shares and their derivatives such as share options and exchange-traded funds. A highly experienced team employs its expertise to assist clients in making investment decisions by providing them with updates of trading companies and prospects of economic sectors in different markets, providing them with advice and consultation and answering all their inquiries regarding financial markets and multiple trading strategies in addition to the financial resources that can be used to increase return and reduce risk.

## **Asset Management**

Asset management team creates and manages tailor-made investment portfolios to meet client needs according to their desires and risk appetite. The managed portfolios include capital guaranteed portfolios, growth portfolios and leverage portfolios in addition to many portfolios designed in various currencies. The asset management department has recently developed its investment strategies to cope with the economic changes in financial markets.

The investment policy is developed by selecting and distributing assets in each portfolio and determining their values according to the return and risk level, and is based on the future outlook of the economic situation.



The asset management unit aims at increasing the amount of managed assets while keeping a distinguished record.

Capital investments and Capital Bank cooperate in providing consultancies in the field of managing the Horizon Fund launched by the Bank in March 2005. It is an open-ended mutual fund with changing capital. The Fund aims to achieve a long-term capital appreciation of the Net Asset Value (NAV) of the Fund through maximizing the market value of numerous investments in various local, regional and international sectors. Asset management department seeks to design and launch new products that are compatible with the prevailing conditions in the financial markets.

### **Research**

The team of research and studies department in Capital Investment conducts financial and economic analysis at the corporate and economy levels on local, regional, and global basis. The department's activities focus on the local markets, as it provides brokerage clients with a comprehensive performance evaluation of Jordan Stock Exchange and public shareholding companies. Moreover, it prepares periodic bulletins that contain studies, prospects and recommendations regarding economic situations, financial markets and developments in sectors and individual companies. The research conducted by the department increased its credibility, resulting in the attraction of more local, regional and international investment funds looking for consultancies related to the Jordan Stock Exchange and economic developments in Jordan, in addition to the attraction of new clients to brokerage departments.

### **Corporate Finance**

Corporate finance department provides indebtedness arrangement services from syndicated loans, loans backing and commercial papers programs. It also practices full supervision over the issuance of shares through private subscription or public subscription for public shareholding companies. The department plays a leading role in this area as it conducted many issuances in 2008, most notably is the registration of the capital stock of Rum Tourist Transportation resulting from changing the legal capacity of the company, as well as the registration of capital increase shares for Arab Corp and Delta Insurance Company Ltd. with Jordan Securities Commission.

The department enjoys wide experience in the field of financial analysis and evaluation studies. During the year, the department prepared financial study reports in various sectors including tourism, real-estate, technology, communications, heavy industries and logistic services. It also prepared different evaluation reports for different companies with a view to increasing capital or attracting strategic partners.

### **Risk Management**

In line with the developments witnessed by the banking environment, particularly the corporate governance rules that are consistent with Basel II requirements, Capital Bank has developed during the past three years several systems and procedures- supervised by an independent department- to control the main risks to which

the Bank's various activities are exposed. Risk management responsibilities include identification, measurement and continuous control of financial and non-financial risks that might adversely affect the Bank's performance and reputation, as well as ensuring effective capital distribution to realize the optimal rate of return against risks.

The main objectives of risk management include the following:

- Maintain the Bank's financial stability
- Strike a balance between risks and returns
- Ensure transparency in risk identification and that risks are understandable and clear, whether they are internal or external.
- Ensure that risks are within the limits approved by the Bank's Board of Directors.

The Bank's risk management is founded on main principles and risk governance represented in risk policies and strategies approved by the Board of Directors, different risk committees as well as risk management department.

The key duties of the department in 2009 include selecting appropriate financial models to measure and control financial risks that are in line with the size and nature of the Bank's operations, in accordance with the international best practices, completing the development of work continuity plans and applying risk self-evaluation method to all the Bank's units.

## **Corporate Governance**

Good corporate governance at Capital Bank is an integral part of its identity. It provides a solid foundation for the Banks' development and improved performance and increases confidence in its activities, which depend to a great extent on attracting depositor funds and shareholder capitals. It also helps the Bank to effectively participate in the financial system development in Jordan. Throughout 2008, the Bank sought to develop its practices in the field of corporate governance to be in consistence with the requirements of control authorities and to keep pace with the best international practices in this regard.

The corporate governance framework is based on the four basic principles of good corporate governance: Equitable Treatment: minority shareholders and stakeholders should be fairly treated, and their interests should be taken into consideration.

Transparency: financial and organizational information as well as executive management remunerations should be disclosed to stakeholders in order to enable depositors and shareholders to evaluate the institution's performance.

Accountability: the executive management should answer any inquiry if it is held accountable by the Board of Directors with respect to implementing established plans and policies to maintain the Bank's assets and financial position. On the other hand, the Board of Directors should express readiness when it is held accountable by shareholders in the General Assembly meeting and other stakeholders.

Responsibility: powers and responsibilities should be clearly defined. For example, actions and decisions



requiring the Board approval or the General Assembly approval should be made clear.

The Bank's organizational structure was developed to realize effective control over its activities and business. It is represented in the role of control committees stemming from the Board of Directors. In addition, there are independent departments for risk and compliance as well as for internal audit function.

In conformity with the best international standards, the Board formed during 2007 the corporate governance committee with a view to promoting effective corporate governance practices at the Bank. This committee prepared the Bank's corporate governance guide and conducted a periodic review of the guide to ensure compliance with its content. The Board also formed a committee for appointments, nominations and rewards.

### **Community Service**

Out of its commitment to social responsibility towards local environment, its recognition of the importance of effective communication with social surrounding and its endeavor to realize mutual benefit between various segments of the community, the Capital Bank has maintained the approach it followed throughout the past years and has launched many creative social initiatives, including for example:

- Supporting Queen Rania's Madrasati Initiative through the Bank's sponsorship of Mahmoud Al-Abedy School in Wadi Al-Seer area.
- Supporting Hikmat Road Safety Initiative "Safer School Zone" by making the necessary maintenance for six schools in Al-Wehdat area.
- Supporting Charity and Good Works Campaign launched in early days of the Holy month of Ramadan.
- Extending assistance to non-profit organizations and charities, and providing support to parties concerned with helping orphans and needy. The Bank sponsors two houses of SOS Children's Village Association of Jordan.
- Providing moral and material support to institutions and associations for children with special needs. For example, the support provided by the Bank to King Hussein Cancer Center and associations of children with special needs.
- Sponsoring 25 orphans from the Charitable Association for Orphan Care in Al-Mafraq.
- Collaborating with "Al-Qeema" Institution for Distinguished Initiatives in supporting education and awareness programs with respect to certain important issues in the community.
- Covering the study tuitions of 12 students with special needs through the Special Education Center of Young Women Muslim Association.
- Blood donation campaign by the Bank's employees in cooperation with the Blood Bank.
- Distributing food packages through charities in cooperation with Tkiyet Um Ali to 152 families in Amman and Al-Zarqa.
- Group Iftar and distributing food packages and gifts during the Holy month of Ramadan to 100 orphans in AL-Mafraq with the participation of the Bank's employees.
- Providing meals and Eid gifts to SOS children during the Holy month of Ramadan with the participation and contribution of the Bank's employees.
- Participating in seminars and conference related to social responsibility.

## Human Resources

The Capital Bank has become nowadays stronger and more capable to meet the requirements of growth and expansion stage, keep pace with achievements and move forward with confident steps and clear vision and objective. Our valuable staff constitutes the core and pillar of our institution and the means to realize desired achievements and successes. The Bank's management paid the utmost attention and interest to its staff whether by supporting it with new experienced professionals with academic and practical qualifications, or through administrative and organizational development, qualitative training, skills development, obtaining modern banking knowledge and keeping pace with the latest developments in the world of finance, business and banking.

In cooperation and coordination with top executive management members, the Human Resources Department has reviewed and designed HR systems, policies and instructions which will regulate all matters related to employees and improve the services rendered to them. These include work regulation system, code of professional ethics guide, recruitment policy, performance evaluation system, incentives system, working schedule instructions, as well as accounts, loans and advances.

As for human resources development and investment, the Human Resources Department held in 2008 several inclusive training programs. These programs aim at developing personal and technical skills and support cooperation relationships between employees at various administrative levels to serve the Bank as one team. Moreover, the training programs and courses aimed at developing personal and technical skills of employees and enrich their knowledge with all relevant updates.

In conclusion, we thank you all for your continuous support. We extend our appreciation to our clients for their absolute confidence in Capital Bank, and to our employees for their efforts in providing the best banking services







Corporate Governance Code



## Introduction:

Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole. There is no doubt that good Corporate Governance provides suitable incentives to the Board of Directors and the executive management to continue achieving their objectives, which go with the interest of both; the institution and its shareholders, facilitate the existence of effective control, and keep the management accountable towards the Board of Directors on one hand, and the Board of Directors accountable towards the shareholders and other stakeholders on the other hand.

### 1. What is Corporate Governance?

Corporate Governance is defined as “the set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”.

Effective Corporate Governance is connected with internal factors that include; effective communication between the management of the bank, the Board of Directors, the shareholders and the management. While the external factors play a role in supporting the availability of good Corporate Governance, such as the following:

- Laws and regulations that protect rights of the shareholders' and other stakeholders such as the depositors.
- The appropriate control environment by the supervisory bodies such as the Government, the Central Bank of Jordan and Amman Stock Exchange.

### 2. Corporate Governance Best Practice

The Structure of Corporate Governance process as well as the legal and organizational frameworks varies vastly among countries. Yet, the sound Corporate Governance can be achieved regardless of the model adopted by the banking institution as long as there are basic functions operating as required. There are four forms of control that organizational frame of each bank must include to ensure effective control; namely: (1) oversight by the Board of Directors, (2) oversight by individuals who are not involved in the day to day work, (3) direct line supervision of different business areas, (4) Independent Risk management, compliance, and audit functions. It is also important that the key personnel are fit and proper for their jobs.

### 3. Legal Framework of Corporate Governance in Jordan

The rules and principles of Corporate Governance depend on the following legislations:

- Banks Law No. 28 of 2000 and its amendments
- Companies Law No. 22 of 1997 and its amendments
- Securities Law No. 76 of 2002 and its amendments
- Regulations and Instructions issued based on the above laws

## Capital Bank of Jordan's policy for Enhancing Corporate Governance principles

### 1. Corporate Governance Code as a Reference

Capital Bank of Jordan is aware of the importance of enhancing Corporate Governance principles in the bank, as they provide sound basis for its development and the improvement of its performance, these principles also increase trust in the bank's activities, which will attract the funds of the depositories, the capital of the shareholders, and give the bank the ability to effectively participate in developing the financial system in Jordan. Based on the foregoing, the Bank has decided to adopt the Corporate Governance code in consistence with



the best international practices in this regard, which were issued by Basel International Committee for Banking supervision in February 2006, under the title "Enhancing Corporate Governance for Banking Organization" and the Boards of Directors Guidelines which was issued by the Central Bank of Jordan in 2007.

## **2. The Four Principles of sound Corporate Governance**

- Fairness: minority of shareholders and other stakeholders must be treated fairly and their interests must be taken into consideration.
- Transparency: financial and organizational information and the incentives of the executive management must be disclosed to the stakeholders to enable the depositors and shareholders to assess the performance of the organization.
- Accountability: The executive management answers any enquiry raised by the Board of Directors in connection with the implementation of plans and application of the prescribed policies with the aim of ensuring the maintenance of the assets and financial position of the Bank. On the other side, the Board of Directors must show preparedness once it is questioned by the shareholders in the General Assembly and any other stakeholders.
- Responsibility: Authorities and responsibility must be clearly defined.

## **Main Elements of the Code**

### **First: Commitment to Corporate Governance**

- The Bank has formed a committee for Corporate Governance from board members whose duties are stated in the Code.
- The Corporate Governance Committee has prepared this Code, which was then approved by the Board of Directors. The annual report of the Bank is included therein. Furthermore, an updated copy thereof is available on the website of the Bank for whoever needs it.
- The Bank annually declares its extent of compliance with this Code. Wherever necessary, details of how the Bank applies each item in the Code are set forth. In other instances, the Bank states why it followed some procedures that are different from the code content.
- In line with the developments witnessed by the Bank, this Code will be subject to periodic review and development whenever required to meet the needs of the Bank and the expectations that might arise in the surrounding environment.

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

#### **1. The Responsibilities of the Board of Directors**

##### **A. General Principles**

- The Board assumes its responsibilities related to the operations of the Bank, its financial integrity, the satisfaction of central bank requirements, the interests of the shareholders, depositors, debtors, employees and other stakeholders ensuring that the Bank is managed prudently based on the framework of the applicable laws, instructions, and the bylaws of the Bank.
- The Bank is strengthening the concept which states that each member in the Board of Directors is obliged towards the Bank and all its shareholders, rather than a certain shareholder.
- The Board defines bank objectives and guides the executive management to draw up a strategy that can achieve such objectives. The executive management draws up work plans that go in line with such strategies through a process that includes the participation of all Bank departments. The Board adopts the strategy, work plans, and ensures that the executive management reviews the performance achievements in accordance with the work plans and takes corrective steps wherever necessary. The process of preparing the estimated budgets should be deemed to be part of the short term planning process and performance measurement.
- The Board ensures that the Bank enjoys high integrity in exercising its operations. This is realized by the



availability of policies, rules and procedures that organize the operations with the related parties and the existence of work ethics charter, which includes a definition of conflict of interests and the transactions made by the Bank employees for their personal interest based on internal information about the Bank that was obtained/accessed as a result of the powers vested in them. Such policies and the work ethics charter should be circulated to all the Bank's employees and the members of the Board and their consent to the same should be secured and they should be published to the public.

**B. The responsibilities of the Board of Directors were defined in accordance with the powers vested in them pursuant to the Bank's Articles of Association and to those provided for by the Banks Law, Companies Law and pertinent instructions. They include the following responsibilities:**

- Definition of the objectives and drawing the plans with which the executive management of the Bank should comply.
- Selecting an executive management which is capable of managing the affairs of the Bank efficiently and effectively.
- Approving the different policies of the Bank including the policies of different risks, provided that the Central Bank is supplied with a copy of the policies provided for based on instructions.
- Controlling the implementation of the Bank's policies and ensuring the correctness of the procedures followed for achieving the same.
- Ensuring that no member may make personal benefit at the account of the Bank interest.
- Taking the steps that guarantee the accuracy of the information that is provided to the Central Bank according to the Central Bank's law and in pursuance with the provisions of this law.
- Taking all the procedures that guarantee compliance with the provisions of the Banks Law, and any other legislation related to the operations and activities of the Bank.
- Drawing the Bank's internal regulations and instructions that define the duties and powers of its different departments, which, in turn, guarantee the achievement of administrative and financial control over its operations.

**2. The Role of the Chairman**

- The positions of the Chairman and the General Manager were separated. The Bank observes that no relationship exists between the Chairman and the General Manager below third grade. Responsibilities are decided based on written instructions authorized by the Board and reviewed whenever necessary.
- The position of the Chairman was separated from that of the Chief Executive Officer (CEO) in order to promote an independent element within the Board.

**The role of the Chairman should be as follows:**

1. Representing the Bank in accordance with the provisions of the Companies Law, Banks Law and the regulations issued by virtue thereof, and any other regulations applicable in the Company.
2. Supervising the activities of the executive management and ensuring that they are made in accordance with the recognized financial and banking standards, the applicable laws, and regulations, and the policies adopted by the Board of Directors.
3. Signing the agreements, contracts, and financial transactions that fall within his powers in accordance with the provisions of the Companies Law, and the regulations and resolutions of the Board of Directors issued in this connection.
4. Inviting the Board of Directors to meet and define the subjects that are included in the meeting agenda.
5. Informing the departments with the resolutions of the Board, supervising the follow up of their implementation in cooperation with the management of the Bank, and ensuring that the executive management has taken all the necessary measures to perfectly implement such resolutions.
6. Promoting the relationship between the Board of Directors and the executive management and between the

executive and non-executive members of the Board of Directors.

7. Creating a culture in the meetings of the Board of Directors that allow constructive criticism, listening to the various viewpoints and making the necessary voting for taking resolutions.
8. Ensuring that the Board of Directors obtains the necessary and adequate information in time.
9. Ensuring that the shareholders obtain the necessary and adequate information in time.
10. Ensuring the achievement of the highest standards of corporate governance in the Bank.

### **3. Standards, Values and Efficiency of the Board of Directors:**

#### **Standards:**

Each board member must be fit and proper to serve the interests of the Bank and other pertinent parties. Besides the conditions contained in the Banks Law and Companies Law that must be fulfilled in whoever occupies the presidency and membership of the Board of Directors with regard to age, personality, requirements of financial solvency of the managers, the members must fulfill all the following experiences and qualifications:

1. Ability to be independent in judging any matters.
2. Financial knowledge, including knowledge of the financial data, reasonable understanding of the percentages used to measure performance, and the availability of the necessary expertise in the field of the international markets.
3. The availability of skills or experiences that contribute to enriching the Board in the fields of accounting, financing, banks or any other banking experience.
4. Commitment to learn the bank's business, meet the stock ownership requirements; offer to resign from the Board if there is any change in the professional responsibilities, and devoting the necessary efforts and time.
5. The availability of understanding and knowledge of the best international practices in the field of administration and its applications.
6. Leadership, represented in the ability to empower and motivate a high performance management team.
7. Ability to provide strategic orientation, conceptualize emerging trends, and challenge innovations.

#### **Loyalty and Care Responsibilities:**

Members truthfulness, loyalty and concern about the Bank is deemed to be of utmost importance to achieve good corporate governance as follows:

1. **Trustfulness:** a member cares that his relationship with the Bank to be a trustful one and should, like any other employee, declare any important information effecting any transaction or commercial dealing with the Bank.
2. **Loyalty:** Should any conflict of interest arise between the member and the Bank, all parties must endeavor that the transaction must be fair to the Bank. This means that the director who is dealing with the Bank would be given the same conditions that would have been given to him if no relationship exists between him and the Bank. For realizing the aspired loyalty, the director should:
  - Exercise his role honestly and put the interest of the Bank always first.
  - Avoid conflict of interests, and avoid exploiting his position or the Bank's information to achieve personal goals.
  - Advise the Board with any potential conflict of interests and abstain from voting to any decisions that are related to this subject.
3. **Care:** A member must be careful to carry out all duties provided for in the laws and regulations applicable in this field, and must endeavor to obtain all the necessary information to ensure that all the decisions taken are in the interest of the Bank.

For realizing the aspired care, a member should:

- Understand the operations of the Bank, the markets and the sectors he is serving.



- Attend the meetings of the Board and prepare well and ahead, especially with regard to the decisions to be made during such meetings.
- Carry out the duties assigned to him honestly, look for precautionary indicators and follow up all important issues with the executive management of the Bank.
- Get objective advice if required.
- Comply with the provisions of the different laws relating to the Board of Directors.

#### **Independence:**

To increase the efficiency of board's control over the executive management and ensure that it doesn't exercise any imprudent measures. The Bank's Board of Directors should maintain an appropriate number of non-executive members in the Board, at least three of them to be independent.

The independent member is defined as the member (whether in his personal capacity or as representing a corporate person) who has no relationship with the Bank other than his membership in the Board of Directors, which makes his judgment unaffected by any considerations or external matters. The minimum requirements that must be available in an independent member include the following:

1. The member must not have worked as an employee in the Bank during the last three years preceding his nomination to the Board membership.
2. No relationship should exist between him and any executive management in the Bank below the second grade.
3. The member must not receive any salary or financial sum, except what he receives for his membership.
4. The member must not be a director or owner of a company with which the Bank deals, except the transactions that arise because of the services and/or the ordinary activities submitted by the Bank to its clients, provided that they are governed with the same conditions of similar transactions with any other party, and without any preferential conditions.
5. The member must not be partner to/or employed by the external auditor during the three years preceding his nomination to the Board membership.
6. The members shares must not form an interest that affect the capital of the Bank, and must not be an ally to another shareholder.

To ensure independence, a member must comply with the following:

- He (she) must declare in writing, and regularly whether he, his spouse, or any of relatives, up to the third grade, has a personal interest in any transaction or contract to which the Bank is a party, or whether any one of them has an interest affecting a company with which that transaction or contract is related. He must not participate in any meeting in which that transaction or contract is discussed.

Evaluating to which degree his other activities affect his independence as a member in the Board of the Bank.

#### **Acquaintance and Knowledge:**

- The director of the Board should have understanding and knowledge in the banking operations and the risks that the Bank faces, in addition to the financial data which reflects its financial standing.
- The director of the Board should have knowledge in the laws and instructions with which the Bank is required to comply with, and must follow up the new topics in the financial services sector and any developments thereto.
- The member must attend the meetings of the Board of Directors and the committees resulting therefrom, and review all the subjects raised and reports presented by the executive management, the internal and

external auditors, and the other stakeholders.

#### **4. Organizing the activities of the Board**

- With the aim of ensuring the comprehensiveness of the subjects presented in the board meetings, which must not be less than (6) meetings per year, the executive management should propose the subjects it deems to be important for the agenda of each meeting.
- The Bank should maintain an appropriate number of independent members with the aim of ensuring the availability of objective decisions, and to ensure that the Bank maintain a level of control that ensures the equilibrium of the influences of all parties, including the executive management and the main shareholders, and ensure as well that the decisions taken are in the interest of the Bank.
- The executive management should provide the directors of the Board with adequate information before the meetings of the Board in order to enable them take the appropriate decisions.
- The secretary should provide each member, upon being elected, with a letter which states the rights, responsibilities, and duties of the member in line with the relevant legislations.
- The policies of the Bank include an explanation of all the banking operations that require the approval of the Board of Directors, including their powers with regard to the transactions concluded with the concerned parties, or any other banking operations that fall within the authority of the Board.
- The Board and its committees may have direct contact with the executive management.
- The Board and its committees should have the power to seek assistance from external sources to help them carry out the duties assigned to them satisfactorily.

#### **5. Composition of the Board of Directors and Formation of Committees**

- The number of the directors is twelve, and that is deemed to be a suitable number as per the best international practices.
- The Board of Directors has delegated some of its powers to committees that are made up of a lesser number of directors with the aim of increasing its efficiency. This is achieved within a charter that puts forth the powers and responsibilities of the committees. Such committees work by meeting independently from the Board and present periodic reports to it.

### **Third: The Committees of the Bank's Board of Directors**

#### **1. The Executive Committee**

##### **The Charter of the Executive Committee:**

The executive committee should be formed based on a decision by the Board of Directors from among the directors of the Board and should be presided by the Chairman of the Board and include four of its members. The Board should appoint a vice president to the committee and the secretary of the Board should appoint a rapporteur to the committee.

##### **The Charter of the executive committee**

The executive committee should be formed based on a decision from among the directors of the Board and should be presided by the Chairman of the Board and include four of its members. The Board should appoint a vice president to the committee and the secretary of the Board should appoint a rapporteur to the committee.

##### **Duties and Powers of the executive committee**

1. Recommending to the Board the appointment of the general manager
2. Recommending to the Board of appointment of the general manager's deputies and assistants based on a nomination by the general manager



3. Recommending to the Board of Directors the draft regulations and instructions re the Bank business.
4. Granting credit facilities or recommending granting the same in accordance with the ceilings prescribed in the credit policy.
5. Following up and evaluating the granted credit facilities and taking the appropriate measures to correct the delayed.
6. Approving purchasing of supplies or recommending to the Board purchasing the same in accordance with the powers prescribed by the Board in the pertinent regulations and decisions.
7. Following up the balances of expenditure items and comparing them with the estimated budgets and monitoring expenditure control.
8. Recommending to the Board of Directors referring lawsuits to the courts or for arbitration and following up the same.
9. Subscribing in shares and bonds in the new projects in accordance with the ceilings of amounts and conditions prescribed in the investment policy system.
10. Any powers or duties provided for by the regulations and instructions issued by the Board of Directors.
11. Any other powers or duties decided by the Board of Directors.

#### **The Meetings of the Executive Committee**

1. The committee should meet based on an invitation from its president once every two weeks or whenever required based on a request from the president or based on a request from two members in the committee. The meeting should be legal with the presence of three members. The committee should take its decisions by unanimous voting or with the majority of the number of its members.
2. The committee may invite the general manager and/or any employee in the Bank to attend the meeting if necessary.

#### **Reports**

1. The secretary of the Board/rapporteur of the executive committee should prepare the minutes and decisions of the meeting and get them endorsed by the committee in preparation for presenting the same to the Board of Directors.
2. The secretary of the Board should advise the general management of the decisions of the executive committee and follow up the implementation of the decisions and submit a report to the committee to follow up its decisions.

## **2. Appointment, Nomination and Premiums Committee**

### **Charter of the Appointment, Nomination and Premiums Committee**

The Appointment, Remuneration and Incentives Committee should be formed based on a decision by the Board of Directors and is made up of three non-executive members, two of whom (including the president of the committee) are from the independent members. The Board should nominate the president of the committee and its deputy and the secretary of the Board should appoint the rapporteur of the committee.

### **The Duties and Powers of the Appointment, Remuneration and Incentives Committee**

- 1- Nominating the names of the members of the Board to the Board of Directors taking into consideration the abilities and qualifications of the nominated persons. In cases of re-nomination, the frequency of their attendance and the kind and efficacy of their participation in the meetings of the Board should be taken into account, observing the content of the Companies Law regarding the renewal of the membership of a director to ensure the fulfillment of all the necessary bases and conditions when forming the committees of the Board of Directors.
- 2- Defining whether a director has the capacity of an independent director.
- 3- The nomination and premiums committee should follow specific bases in assessing the efficiency of the

Board in addition to the extent of the participation of the member in the meetings of the Board. The standard of assessing performance must be objective and must include a comparison with the other banks in addition to the standards of the integrity of the financial data of the Bank and the extent of observing the requirements of the control authorities.

- 4- The committee assumes the responsibility of providing information and abstracts about the background of some important topics on the Bank to the directors and ensuring that they continually acquaint themselves with the most up-to-date subjects relevant to banking operations.
- 5- The nomination and premiums committee should recommend premiums (including the monthly pay and other benefits) to the general manager. Moreover, the committee should review the annual increments granted to the other members of the executive management and employees.
- 6- The nomination and premiums committee should assume the responsibility of ensuring the existence of a policy in the Bank which guarantees that the premiums/salaries be sufficient to attract qualified persons to work in the Bank and to retain them in accordance with the premiums/salaries granted by the similar banks in the market. The Bank policy must include also that the salaries be associated, partially, with performance. Programs for incentives must be drawn with the aim of promoting the value of the Bank's shares at the long term and promoting the internal control environment and leading to integrity and soundness of the financial position of the Bank, i.e. not to concentrate on increasing the allocation of the dividends of the Bank's share at the short term.
- 7- Ensuring the declaration of the premiums policy in the annual report of the Bank, specifically the premiums of the directors, individually, and the highest salaries paid during the year to the executive managers, other than the directors of the Board.
- 8- In coordination with the Chairman, preparing a training program specially for the members of the Board of directors on the banking, financial and accounting operations and the internal control regulations and encouraging the directors of the Board to attend seminars or events which allow them the chances of meeting local and international organizations.
- 9- Annually assessing the performance of the general manager.
- 10- Recommending that the Board of Directors approve succession plans re the directors and the executive managers of the Bank, so as to include the qualifications and requirements that must be fulfilled by those occupying such positions.

### **The Meetings of the Committee**

The committee should convene based on an invitation from its Chair or Its deputy twice a year at least or whenever required based on a request from the Chair or a request from two members of the committee. The meeting will be legal with the attendance of two of its members. It takes its decisions unanimously or the by majority of two members.

The committee may call any employee in the Bank to attend the meeting, if necessary.

### **Reports**

1. The secretary/the committee rapporteur should prepare the minutes and decisions of the meeting and get them approved by the committee in preparation for submission to the Board of Directors.
2. The secretary of the Board should inform the general executive management of the decisions of the committee, follow up the implementation of the decisions and submit a report to the committee for following up the decisions.

### **3. Auditing, Risks Management and Compliance Committee**

#### **Charter of the Auditing, Risks Management and Compliance Committee**

##### **Formation of the Committee**

1. The auditing, risks management and compliance committee should be formed based on a decision from





the Board of Directors and is composed of three non-executive members, two of them, at least, are independent.

2. The Board should nominate the president of the committee, provided that he is non-executive and independent.
3. Upon appointing the members, two members, at least, must have academic qualifications and/or expertise in the fields of the financial management.
4. The tenure of the committee should be connected with the tenure of the Board. The committee should submit its reports to the Board.
5. The secretary of the Board should appoint a rapporteur to the committee.

#### **The Objectives of the Committee**

The basic objective of the committee should be to help the Board of Directors assume its responsibilities towards the shareholders and foreign parties through:

1. Reviewing the Financial Statements of the Bank;
2. Reviewing the correctness and adequacy of the internal control system;
3. Reviewing and controlling the risks management in the Bank so as to reflect the real risks surrounding the Bank operation.
4. Controlling the work of the external and internal auditors.
5. Opening communication channels between the external and internal auditors with the Board of Directors and the executive management of the Bank.
6. Controlling the compliance of the Bank with the applicable laws, legislations and instructions and any relevant guidelines and manuals.

#### **Powers**

1. The committee should be authorized by the Board of Directors to investigate any of the activities and duties assigned to it pursuant to this charter. The committee should have full power to obtain the information it requires. The executive management of the Bank and all employees should cooperate with any such request from the committee.
2. The committee should have the power of requesting legal consultancies or any other consultancies from foreign parties and from experts should it see this necessary.

#### **First: In the Field of Auditing**

##### **a) Financial Statements:**

1. Reviewing the financial statements, annual, semi-annual and quarterly budgets and recommending to the Board of Directors approving them before being issued.
2. Reviewing the procedures of the executive management with regard to the recommendations of the external auditors about the annual Financial Statements and the amendments that arise pursuant to the recommendations of the auditors.
3. Further to the above procedures, the committee should carry out the following measures before submitting the Financial Statements to the Board of Directors for approval:
  - Reviewing any amendment to the followed accounting policies;
  - Reviewing the mechanism of making the extraordinary or the relatively high value entries in case there is more than one method for this.
  - Any change that occurs to the accounts of the Company as a result of the auditing operations or as a result of the suggestions of the accounts auditor.
  - That they were prepared in accordance with the requirements of the Central Bank of Jordan or any other controlling or supervisory body with regard to the adequacy of the allocations to meet the doubted debts and the allocations of the investment portfolio and expressing opinion with regard to the inoperative



facilities or those proposed to be depreciated, in addition to any other requirements.

- Reviewing the accounting estimates contained in the financial data.
- Reviewing and discussing any legal matters that may affect the Bank's Financial Statements.
- Reviewing the data and information attached with the financial statements in the annual report such as the corporate governance.

**b) Internal Control System:**

1. Reviewing the internal control system with regard to its adequacy and effectiveness and ensuring that the management has paid the internal control system due attention and that the concerned personnel are aware of and comply with this system and that responsibilities are defined.
2. The plans of the internal and external auditors must provide for reviewing the framework of the discipline regulations and internal control once a year at least.
3. Reviewing the paragraph of the internal control regulations and risks management, which are included in the annual report of the Bank and recommending to the Board to approve the same.
4. Reviewing the policy of reporting for the unsound practices so that the employees may be able to report about such practices and recommending to the Board to approve the same.
5. Reviewing the policy of the Bank with regard to dealing with the concerned parties so as to ensure the non-existence of any conflict of interests that may arise out of the transactions or contracts concluded by the Company or entering into projects with the concerned parties.

**c) External Auditing:**

1. Discussing the matters relating to the nomination of the external auditor and ensuring that he fulfils the conditions of the Commission and that nothing affects his independence and objectivity and the extent of the influence of any other operations he is carrying out to the account of the Company on such independence.
2. Discussing all matters related to the work of the external auditor including his annual plan, remarks, suggestions and reservations and following up the extent of the responsiveness of the Bank's management to the same and presenting recommendations in this regards to the Board of Directors.
3. Reviewing the remarks contained in the reports of the external auditor and following up the corrective measures taken in this regard.
4. Participating in solving the problems resulting from the difference of view points between the management of the Bank and the external auditors with regard to the technical and financial issues and promoting the independence of such auditors.
5. Discussing the possibility of recommending the regular rotation of the external auditor or requesting regular rotation from the main shareholder who is responsible for the external auditing of the Bank.

**d) Internal Auditing:**

1. Reviewing and adopting the organizational chart of the internal auditing department and the activities of the department.
2. The power of appointing or terminating the services of the internal auditing manager and auditors and reviewing their good performance.
3. The committee should review and adopt the performance evaluations of the manager and employees of internal auditing department and authorize their annual promotion and premiums.
4. Reviewing the efficacy of the activity of internal auditing and approving the plans of strategic and annual auditing and the budgets of the department.
5. Watching the observation of the auditing department with the standards of internal auditing that are issued by the Society of Internal Auditors and any subsequent amendments.
6. Approving the charter of the internal auditing department and ensuring that it is coping with the changes.



7. Reviewing the results of the auditing duties and ensuring that there is a satisfactory follow up for these results.
8. Participating in solving the problems resulting from the difference in the view points between the management of the Bank and the internal auditors with regard to the technical and financial issues and promoting the independence and objectivity of such auditors.
9. The committee should be responsible for reviewing the evaluation of external auditors of the performance of the internal auditors and for reviewing the works carried out by the internal auditors re the matters of conflict of interests and observation of the rules of professional and ethical conduct in the Bank.

**e) Other Duties:**

1. Reviewing the charter of the committee and proposing that the Board make the necessary amendments.
2. Preparing a report to the Board about the duties and powers of the committee and the decisions and recommendations taken by the committee during the period.
3. Getting acquainted with the reports of the external supervisory bodies such as the Central Bank of Jordan and ensuring the implementation of the recommendations contained therein and the execution by the executive department of the measures that guarantee non-repetition of the violations and remarks contained therein.
4. Following up the extent of the observation of the Bank of the Securities Law and the regulations, instructions and decisions issued thereupon.
5. Training new members on the committee and continuous training of the president and committee members.
6. Ensuring coordination between the work of the external auditor and internal auditor.
7. Any other duties that are required by the Board of Directors.

**Second: In the Field of Risks**

1. Reviewing the strategies and policies of risks management before being approved by the Board of Directors and continuously assessing their efficacy and consistence with any changes.
2. Reviewing the policies and work frame of risks management, programs and tools necessary for the same annually, as a minimum, to ensure their efficacy and to amend them if necessary.
3. Reviewing the structure of risks management, which is prepared by the executive management and recommending that it is approved by the Board.
4. Reviewing the measures of the executive management for defining, measuring and controlling the potential risks in the Bank, which include:
  - a. Credit risks
  - b. Market risks
  - c. Liquidity risks
  - d. Operational risks
5. Submitting periodic reports to the Board of Directors showing to what extent the existing risks are congruent with the applied policies and the levels of acceptable risks that are contained therein so as to enable the Board to take the proper and necessary decisions.
6. Supervising the development of the database necessary for risks management.
7. Studying the periodic reports that are issued by risks management.
8. Ensuring that the plan of the internal and external auditors is included in the duty of reviewing risks management in the Bank.
9. Ensuring the use of modern data systems for managing risks which guarantee the availability of quality information on the risks faced by the Bank.

### **Third: In the Field of Compliance**

1. Recommending to the Board of Directors to adopt compliance controlling policy and to assess the efficiency grade with which the Bank is managing (compliance risks) once a year at least and reviewing the same when making any necessary changes.
2. Controlling and following the application of compliance controlling policy and receipt of reports on compliance from the compliance directorate and submitting the same to the Board of Directors with the necessary recommendations.
3. The compliance manager should prepare effective methodology to guarantee the compliance of the Bank with all the applicable laws and regulations and any relevant guidelines and manuals and the existence of effective follow up system. The Bank should document the duties, powers and responsibilities of the compliance management and arrange to circulate them inside the Bank.
4. Taking the measures necessary to promote straightforwardness values and sound professional practices inside the Bank in such a way as to make compliance with the applied laws, regulations, instructions, orders and standards a basic objective whose achievement is a must.

### **The Meetings of the Committee**

1. The committee should convene based on an invitation from its president or its deputy once every three months at least or whenever required, or based on a request from the Chairman of the Board or a request from any of its members, or based on the request of the external auditors or internal auditors if necessary.
2. The head of internal auditing should be invited to attend the meetings of the committee. Periodic meetings are also held with the external auditor, the manager of risks management and the person in charge of compliance.
3. Meeting with the external and internal auditors, the person in charge of compliance and the executive department in separate sessions at least once a year for discussion of any matter the committee or other bodies suggest to be discussed.
4. The committee has the right to invite any employee in the Bank to attend any of its meetings if it deems this necessary.
5. Following coordination with the president and members of the committee, The dates and place of the meeting of the committee should be defined by the rapporteur of the committee based on invitations, provided that the agenda be prepared and distributed to the president and members of the committee and other invitees reasonably ahead of the meeting date.
6. The meeting should be legal with the attendance of two of the members. It takes its decisions unanimously or the by majority of two members.
7. The president of the committee should attend the annual meeting of the general assembly to answer the enquiries of the shareholders with regard to the duties of the committee.

### **Reports**

The committee rapporteur should prepare the minutes of the committee meeting and distribute them to the president and members of the committee for approval in preparation for submission to the Board of Directors.

## **4. The Corporate Governance Committee**

### **The Charter of the Committee:**

The Corporate Governance Committee should be formed based on a decision by the Board of Directors and is made up of three non-executive members, two of whom (including the president of the committee) are from the independent members. The Board should appoint the president of the committee and its deputy and the secretary of the Board should appoint a rapporteur to the committee.



#### **Duties and Powers**

- Ensuring the observation of the content of the Corporate Governance Code. It should undertake the process of reviewing and updating it.
- The Committee may invite any person in the Bank, at all administrative levels to take counsel with him or to ask him about any matter.

#### **The Meetings of the Committee**

The committee should convene at least once a year based on an invitation from its president.

#### **Reports**

The committee should submit a report to the Board at least once a year, which puts forth its opinion in the extent of observing the items of the Code.

#### **Fourth: Secretary of the Board**

##### **The Duties and Powers of the Secretary of the Board of Directors**

The Board of Directors should appoint a secretary for the Board and define his premiums. The secretary should organize its meetings, prepare its agendas and record the minutes of its meetings and decisions in a special register and in successive serially numbered pages, which should be signed by the Chairman and members of the Board who attended the meeting. Each page should be affixed with the Company's stamp.

##### **First: In Connection with the Board of Directors**

- 1- Preparing the agenda of the sessions of the Board in coordination with the Chairman.
- 2- Following up the management to supply the secretary of the Board with the documents, papers and work papers, which are the subject of the agenda.
- 3- Attending the sessions of the Board and recording the minutes of its meetings as well as decisions.
- 4- Preparing and checking the minutes of the meetings of the Board and dispatching the same to the Board of Directors, who, in turn, should read and approve the minutes.
- 5- Following up the measures relating to the signature of the Chairman and members of the Board on all the pages of the minutes of the meeting.
- 6- Supervising the process of the maintenance of the minutes and decisions of the Board meetings in successive serially numbered pages, and ensuring that they are signed by the members of the Board who attended the meeting.
- 7- The secretary of the Board should notify the concerned departments of the decisions that are issued by the Board of Directors for the implementation of the same.
- 8- In coordination with the concerned departments, following up the implementation of the decisions and recommendations that are issued by the Board and preparing a report to the Board of Directors, which includes the measures taken by the Bank directorates to implement the decisions.

##### **Second: In Connection with the Committees of the Board of Directors**

1. Following up the concerned departments to supply the secretary of the Board with the information and preparing the work papers necessary for the work of the committees of the Board.
2. Preparing the agendas of the committees in coordination with the Chairman.
3. Attending the sessions of the committees and recording the minutes of their meetings.
4. Preparing and checking the minutes of the meetings of the committee and dispatching the same to the president of each committee, who, in turn, should read and approve the minutes.
5. The maintenance of the minutes of the sessions of the committees in successive serially numbered pages, and ensuring that they are signed by the members who attended the meeting.
6. Notify the concerned departments of the decisions that are issued by the committees of the Board for the

implementation of the same.

7. In coordination with the concerned departments, following up the implementation of the decisions and recommendations that are issued by the committees of the Board.

**Third:** The secretary should follow up the decisions of the Board of Directors, represented by the relationship of the Board with the external bodies such as the Securities Commission and/or the Ministry of Industry and Commerce and/or the Central Bank and/or the Deposition Center and/or any official or non-official party and preparing the necessary books and duly notify the same to such bodies.

**Fourth:** The secretary of the Board of Directors should carry out any additional duties that are assigned to him by the Chairman.

## **The Executive Management**

### **Duties and Powers of The Executive Management**

#### **Responsibilities of the General Manager**

The general manager is the head of the executive system in the Bank and, in exercising his duties, should be responsible towards the Board of Directors. For this end, he should implement the policies and achieve the objectives and aims that the Board draws up, based on the duties and powers hereinbelow stated:

#### **General Description of the Responsibilities:**

1. Managing and directing the Bank for achieving the basic objectives depending on profit, the capital added returns and the responsibility for the total process of managing the Bank, which includes planning, organizing and developing inside and outside Jordan. The general manager should also be responsible for the structure of work and the employees and for activating the work plan and budgets as well as developing the quality, method and procedures of the work and implementing the strategic plans and the decisions which are taken by the Board of Directors.
2. The general manager should be the main executor of the policies that are laid down by the Board of Directors.
3. The General manager should be responsible before the Board of Directors for implementing all the decisions that are taken by the Board.

#### **Main Duties:**

1. Preparing and developing the strategies and policies, arranging to apply them following the approval of the Board of Directors and applying the current and long term objectives and the plans and policies that require the approval of the Board of Directors.
2. Preparing and developing the work procedures in such a way as to guarantee the definition, control of and watching the risks that face the Bank and applying such measures.
3. Planning, coordinating and control of the daily operations of the Bank, drawing up proper disciplinary and internal control policies and applying them following the approval of the Board of Directors.
4. Preparing the financial statements and the final accounts and preparing an annual budget and getting them approved by the Board of Directors.
5. Providing the internal and external control bodies such as the control authorities and internal and external auditing and any other competent parties with the information and statements necessary for such parties to carry out their work.
6. Preparing an organizational chart and ensuring actual observation of the same following its approval by the Board of Directors.
7. Reviewing the operations result of the Bank, comparing them with the planned objectives and taking the



- steps necessary for adopting the appropriate measures for the correction of the dissatisfactory results.
8. Achieving the effectiveness of the control and internal discipline and submitting an annual report, at least, to the Board of Directors re the application and effectiveness of the regulations.
  9. Laying down the measures that guarantee the evaluation of the adequacy of the capital and submitting annual reports to the Board of Directors in this connection.
  10. Drafting work ethics charter and getting it approved by the Board of Directors.
  11. Developing the professional skills and conduct of the Bank's personnel so as to be consistent with the most up-to-date developments and technologies.
  12. Applying the laws, regulations and decisions of the Board of Directors and implementing responsibilities pursuant to the powers vested.

**Powers of the General Manager:**

1. The general manager should exercise his powers and responsibilities in accordance with the Companies Law, Banks Law, the regulations issued according to it and the regulations and instructions that are issued by the Bank.
2. The general manager should be responsible before the Chairman of the Board of Directors for the works and duties assigned to him.
3. The general manager should exercise the following powers and responsibilities:
  - Running the ordinary daily operations of the Bank and drawing up the executive plans and general programs for implementing the applicable policies of the Bank.
  - Exercising internal control over work progress in the Bank and checking its compliance with the applicable laws, regulations and instructions.
  - Overall review of the results of the operations of the Bank to ensure that they are running as per the prescribed plans and schedules.
  - Updating the regulations, instructions and work methods and supervising the review of the draft regulations, instructions, plans and schedules for developing the performance of the Bank.
  - Endeavoring to raise the level of the performance of the employees and motivate them to give the best they have.
  - Updating and developing the systems and equipment necessary to perform the operations of the Bank in such a way as to guarantee the delivery of developed banking services based on the most recent, most efficient, fastest and most accurate bases.
  - Appointing and moving the employees, deciding their promotion and delegation, defining their posts location, granting them leaves and imposing disciplinary penalties in accordance with the provisions of the personnel system in the Bank.
  - Periodically providing the Board of Directors of the Bank with reports about the conditions of the Bank and ensuring that all its operations are running in accordance with the policy laid down by the Board of Directors and recommending any proposals it deems necessary for developing the work of the Bank.
  - Signing the financial transactions issued by the Bank in accordance with the financial system and other regulations.
  - Providing the Central Bank with the information and data it demands in accordance with the provisions of this law and the regulations and orders issued according to it.
  - Submitting proposals about the financial and banking policies of the Bank to the Board of Directors through the Chairman.
  - Undertaking the other financial and administrative powers assigned to him pursuant to the decisions issued by the Board.
  - The general manager is entitled to delegate any of his powers to the deputy general manager and/or any of his assistants in accordance with the regulations and policies applicable in the Bank.

## Discipline and Internal Control Environment

### Disciplinary and Internal Control Regulations

The framework of the discipline and internal control should be reviewed by the internal auditor and external auditor once, at least, per year. The Board should also include in the annual report of the Bank a report about the extent of the adequacy of the discipline and internal control regulations regarding financial reporting.

### Internal Auditing

- The Bank should make available to the internal audit directorate sufficient numbers of the qualified human resources, who will be properly trained. The auditing directorate should have access to any piece of data and contact any employee inside the Bank. It should also be given all the powers which enable it to perform the duties assigned to it as required. The Bank should document the duties, powers and responsibilities of the directorate of auditing based on the Internal Auditing Charter, which is adopted by the auditing committee and getting it circulated inside the Bank.
- The internal auditing directorate should submit its reports to the Chair of the auditing committee.
- The internal auditing employees may not be charged with any executive responsibilities. The internal auditing directorate should be responsible for proposing the frame and scope of the internal auditing as well as for informing the auditing committee for any potential conflict of interests.
- The internal auditing directorate should exercise its duties and prepare its reports in full without any foreign interference. It may discuss its reports with the audited departments.
- The basic responsibility of the internal auditing directorate, which is based on risks, includes reviewing the following as a minimum:
  1. The operations of financial reporting in the Bank (to ensure accuracy, credibility and proper timing in the main data re the financial and administrative matters and the operations).
  2. Compliance with the internal policies of the Bank, the international standards and procedures and the pertinent laws and instructions.

### External Auditing:

- The Bank observes the regular rotation of the external auditing between the auditing offices, or at least the regular rotation of the main shareholder who is responsible for the external auditing of the Bank.
- The external auditor should provide the auditing committee with a copy of his report. The external auditor should meet with the auditing committee without the presence of the executive management once a year at least.

### Risks Management Department

- The Bank has a separate department for risks management which submits its reports periodically to the risks management committee. As to the daily operations, its connection is with the general manager.
- The responsibilities of the risks management department in the Bank include the following:
  1. Analyzing all the risks including the credit risks, market risks, liquidity risks and operations risks.
  2. Developing methodology for measuring and controlling of each kind of risks.
  3. Recommending risks ceilings and approvals to the risks management department, submitting reports and registering cases of exceptions from the risks management policy.
  4. Providing the Board and the higher executive management with information on risks measurement and risks profile in the Bank. (the Board should regularly review the qualitative and quantitative risks statistics in the Bank in each of the Board's meetings).
  5. Providing information about the risks in the Bank for use for the purposes of declaration and publication to the public.





6. The Bank's committees, such as the credit committees and the assets and liabilities management committee/the treasury and risks should assist the risks management department in carrying out its duties in accordance with the powers assigned to such committees.
7. The annual report of the Bank includes information about the risks management department with regard to its structure, nature of its operations and the developments that took place.

#### **Compliance**

- The Bank has a separate directorate that was supported with trained cadres and works as per the instructions of the Central Bank, which are issued in this connection.
- The compliance directorate should prepare an effective methodology to guarantee the compliance of the Bank with all valid laws and legislations and any pertinent guidelines and manuals. The Bank should document the duties, powers and responsibilities of compliance directorate, which will be circulated inside the Bank.
- The Board adopts and controls the compliance policy, whose drafting and application will be the responsibility of the compliance directorate.
- In compliance with the instructions of the Central Bank issued in this regard, the compliance directorate should submit its reports on the results of its activities and its compliance control to the Board or to the compliance committee which stems from it and should dispatch a copy to the executive management.

#### **Relationship with Shareholders**

- The Bank should take steps to encourage the shareholders, especially the minor ones, to attend the annual meeting of the general assembly and to vote either in persona or by a proxy in case they are absent.
- The heads of the auditing, nomination and premiums committees and any other committees stemming from the Board should attend the annual meeting of the general assembly.
- Representatives of the external auditors should attend the annual meeting of the general assembly for answering any questions that may be raised re auditing and the report of the auditor.
- Each issue raised during the annual meeting of the general assembly should be voted for separately.
- Pursuant to the content of the Companies Law, the directors should be elected or re-elected during the annual meeting of the general assembly. The external auditor should be elected in the same meeting as well.
- Following the expiry of the annual meeting of the general assembly, a report should be prepared for the information of the shareholders re the remarks raised therein and the results, including the results of voting and the questions raised by the shareholders and the replies of the executive management thereto.

#### **Transparency and Declaration:**

- The Bank should make declarations in accordance with the International Financial Reports Standards and the valid instructions of the Central Bank of Jordan, which are issued according to the valid Banks' Law and pertinent legislations. Furthermore, the Bank is aware of the changes that occur to the international practices for financial reporting and the scope of transparency required from the financial organizations. The Bank should observe full application of all amendments that occur to the International Financial Reports Standards. The executive management should submit to the Board reports on the developments, in addition to submitting recommendations about how to enhance the Bank's practices in the field of declaration so as to go beyond the requirements of the Central Bank of Jordan in this regard.
- The Bank should provide indicative and rich information about its activities to the Central Bank, the shareholders, depositors, other banks and the public in general, concentrating at the same time on the issues that excite the worry of the shareholders, provided that the Bank periodically declare all such information and make it accessible to all.
- The Bank should in his annual report set forth his responsibilities towards the accuracy and adequacy of its financial statements and the information contained in its annual report.
- The Bank should maintain communication lines with the supervisory bodies, the shareholders, depositors,



other banks and the public in general. Such lines should be through the following:

- a. The position of shareholders affairs, which is occupied by qualified cadre that are capable of providing comprehensive, objective and updated information about the Bank, Its financial position, performance and activities.
  - b. The annual report which is issued following the end of the fiscal year.
  - c. Quarterly reports that contain quarterly financial data besides the report of the Board about the circulation of the Bank's shares and about its financial position during the year.
  - d. Periodic meetings between the executive management in the Bank, the investors and shareholders.
  - e. Providing a periodic abstract to the shareholders and the analysts in the financial market and the journalists specialized in the financial sector by the higher executive management, especially the general manager and the chief officer.
  - f. Providing the information provided for in the annual report of the Bank, in its quarterly reports or in the lectures given by the executive management, through the position of investment affairs on the website of the Bank in such an updated form both in Arabic and English.
  - g. The annual report of the Bank and Its quarter reports should include a declaration by the executive management of the Bank, that is called Management Discussion and Analysis, which allows the investors to understand the results of the current and future operations and the financial position of the Bank including the probable effect of the known trends, events and cases of non-certainty. The Bank undertakes to observe that all the clarifications provided for in this declaration are authorized, complete, fair, balanced and understandable and are based on the published financial statements of the Bank.
1. As part of observation of transparency and full declaration, the annual report should specifically include the following:
    - a. The Corporate Governance Code of the Bank and the annual details of his observation of its items.
    - b. Information about each director: his qualifications, experience, his share in the capital of the Bank, whether he is independent, executive, non-executive, his membership in the Board's committee, date of his appointment in the Board, any memberships in other Boards of Directors, premiums/ salaries received from the Bank, loans granted from the Bank and any other operations between the Bank, his companies or the parties related to him.
    - c. A summary of the organizational chart of the Bank.
    - d. A summary of the duties and responsibilities of the committees of the Board and any powers the Board has delegated to such committees.
    - e. The frequency of the meetings of the Board and the committees of the Board
    - f. A summary of the policy premiums and the highest salary paid to the executive management.
    - g. A testimony from the Board as to the adequacy of the discipline regulations and internal control.
    - h. A description of the framework and activities of the risks management.
    - i. The main shareholders in the Bank
    - j. A declaration about pertinent parties.





**Consolidated Financial Statements As Of December 31, 2008  
and Auditor's Report**



We have audited the accompanying consolidated financial statements of CAPITAL BANK (a public shareholding company) and its subsidiaries ("the Bank"), which comprise the consolidated balance sheet as at 31 December 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 consolidated 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 consolidated 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 consolidated the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Amman -Jordan  
28 January 2009

A Member of Ernst & Young Global

**Ernst & Young**

## Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 JD	2007 JD
<b>Assets</b>			
Cash and balances with Central Banks	4	86,764,001	88,048,157
Balances at banks and financial institutions	5	74,449,064	136,908,920
Financial assets held for trading	6	19,417,029	49,870,961
Direct credit facilities	7	592,871,680	497,411,907
Financial investments-available for sale	8	89,210,424	40,035,871
Financial investments-held to maturity	9	49,332,391	73,302,108
Financial investments-available for sale pledged as collateral	10	5,983,890	-
Property and equipment	11	20,027,779	9,784,686
Goodwill and other intangible assets	12	5,716,128	5,609,568
Deferred tax assets	21	5,514,179	3,346,600
Other assets	14	34,259,934	35,320,457
<b>Total Assets</b>		<u>983,546,499</u>	<u>939,639,235</u>
<b>Liabilities And Equity</b>			
<b>Liabilities -</b>			
Banks and financial institutions' deposits	15	51,336,278	32,788,278
Customers' deposits	16	530,204,360	476,023,705
Margin accounts	17	54,554,677	61,293,858
Loans and borrowings	18	107,351,969	173,429,653
Subordinated loan (convertible to shares)	19	12,952,001	-
Sundry provisions	20	3,358,508	3,226,979
Income tax liabilities	21	6,808,394	7,292,527
Deferred tax liabilities	21	-	255,942
Other liabilities	22	13,818,767	12,953,169
<b>Total Liabilities</b>		<u>780,384,954</u>	<u>767,264,111</u>
<b>Equity-</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued and paid in capital	23	132,280,000	123,000,000
Share premium	23	12,680,672	709,472
Statutory reserve	24	14,719,693	12,874,420
General banking risk reserve	24	5,883,391	5,119,844
Foreign currency translation reserve	25	2,984,443	2,420,483
Cumulative changes in fair value	26	183,622	238,739
Equity component of the convertible loan	19	1,022,784	-
Retained earnings	27	24,944,515	13,278,669
Proposed dividends		-	7,500,000
<b>Total equity attributable to the Bank's shareholders</b>		<u>194,699,120</u>	<u>165,141,627</u>
<b>Minority interest</b>		<u>8,462,425</u>	<u>7,233,497</u>
<b>Total Equity</b>		<u>203,161,545</u>	<u>172,375,124</u>
<b>Total Liabilities and Equity</b>		<u>983,546,499</u>	<u>939,639,235</u>

The Accompanying Notes From 1 to 50 are an Integral part of these Financial Statements

## Consolidated Income Statement

For The Year Ended 31 December 2008

	Notes	2008 JD	2007 JD
Interest income	28	70,417,561	65,184,553
Interest expense	29	37,773,436	39,382,109
<b>Net interest income</b>		<b>32,644,125</b>	<b>25,802,444</b>
Net fees and commission income	30	5,420,206	5,554,629
<b>Net interest and commission income</b>		<b>38,064,331</b>	<b>31,357,073</b>
Net gain from foreign currencies	31	1,581,719	2,177,683
Net (loss) gain from financial assets held for trading	32	( 2,299,360)	2,623,951
Net realized (loss) gain from financial investments- available for sale	33	( 1,944,004)	164,519
Other operating income	34	6,837,016	5,040,350
<b>Gross profit</b>		<b>42,239,702</b>	<b>41,363,576</b>
Employees' expenses	35	9,124,861	6,882,521
Depreciation and amortization	11,12	1,652,508	1,118,349
Other operating expenses	36	6,513,365	6,493,673
Impairment losses on direct credit facilities	7	5,069,365	5,924,767
Sundry provisions	20	155,038	2,973,419
<b>Total operating expenses</b>		<b>22,515,137</b>	<b>23,392,729</b>
<b>Profit before tax</b>		<b>19,724,565</b>	<b>17,970,847</b>
Income tax expense	21	4,474,396	4,462,181
<b>Profit for the year</b>		<b>15,250,169</b>	<b>13,508,666</b>
Attributable to:			
Equity holders of the parent for the year		14,302,506	12,956,462
Minority interest		947,663	552,204
		<u>15,250,169</u>	<u>13,508,666</u>
		<u>JD/Fils</u>	<u>JD/Fils</u>
Earning per share for the Bank's shareholders For the year			
Basic earnings per share	37	<u>0/108</u>	<u>0/105</u>
Diluted earnings per share	37	<u>0/107</u>	<u>0/105</u>

The Accompanying Notes From 1 to 50 are an Integral part of these Financial Statements

## Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2008

	Bank's Shareholders Equity										Equity attributable to equity holders of the parent share holders		Minority Interest		Total Equity	
	Issued and Paid in Capital	Share premium	Reserves		General banking risk	Foreign currency translation reserve	Cumulative changes in fair values		Retained earnings	Equity Component of the convertible Loan		Proposed Dividends/ shares	JD	JD	JD	JD
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
<b>At 1 January 2008</b>	123,000,000	709,472	12,874,420	5,119,844	2,420,483	2,420,483	238,739	13,278,669	-	-	-	7,500,000	165,141,627	7,233,497	172,375,124	
Foreign currency translation	-	-	-	-	-	563,960	-	-	-	-	-	-	563,960	281,265	845,225	
Net movement in cumulative changes in fair value after tax	-	-	-	-	-	-	(55,117)	(27,840)	-	-	-	-	(55,117)	-	(55,117)	
Capital Increase fees	-	-	-	-	-	-	-	-	-	-	-	-	(27,840)	-	(27,840)	
Total income and expense recognised directly in equity	-	-	-	-	-	563,960	(55,117)	(27,840)	-	-	-	-	481,003	281,265	762,268	
Profit for the year	-	-	-	-	-	-	-	14,302,506	-	-	-	-	14,302,506	947,663	15,250,169	
Total income and expense for the year	-	-	-	-	-	563,960	(55,117)	14,274,666	-	-	-	-	14,783,509	1,228,928	16,012,437	
Increase in Capital	9,280,000	11,971,200	-	-	-	-	-	-	-	-	-	-	21,251,200	-	21,251,200	
Transferred to reserves	-	-	1,845,273	763,547	-	-	-	(2,608,820)	-	-	-	-	-	-	-	
Equity Component of the convertible Loan	-	-	-	-	-	-	-	-	1,022,784	-	-	-	1,022,784	-	1,022,784	
Dividends paid	-	-	-	-	-	-	-	-	-	-	(7,500,000)	-	(7,500,000)	-	(7,500,000)	
<b>At 31 December 2008</b>	<u>132,280,000</u>	<u>12,680,672</u>	<u>14,719,693</u>	<u>5,883,391</u>	<u>2,984,443</u>	<u>2,984,443</u>	<u>183,622</u>	<u>24,944,515</u>	<u>1,022,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,699,120</u>	<u>8,462,425</u>	<u>203,161,545</u>	
<b>At 1 January 2007</b>	116,000,000	709,472	11,155,839	4,249,380	1,235,542	1,235,542	(209,833)	10,481,141	-	-	-	7,000,000	150,621,541	6,370,229	156,991,770	
Foreign currency translation	-	-	-	-	-	1,184,941	-	-	-	-	-	-	1,184,941	311,064	1,496,005	
Net movement in cumulative changes in fair value after tax	-	-	-	-	-	-	448,572	-	-	-	-	-	448,572	-	448,572	
Capital Increase Fees	-	-	-	-	-	-	-	(69,889)	-	-	-	-	(69,889)	-	(69,889)	
Total income and expense recognised directly in equity	-	-	-	-	-	1,184,941	448,572	(69,889)	-	-	-	-	1,563,624	311,064	1,874,688	
Profit for the year	-	-	-	-	-	-	-	12,956,462	-	-	-	-	12,956,462	552,462	13,508,666	
Total income and expense for the year	-	-	-	-	-	1,184,941	448,572	12,886,573	-	-	-	-	14,520,086	863,268	15,383,354	
Increase in Capital	7,000,000	-	-	-	-	-	-	-	-	-	(7,000,000)	-	-	-	-	
Transferred to reserves	-	-	1,718,581	870,464	-	-	-	(2,589,045)	-	-	-	-	-	-	-	
Dividends	-	-	-	-	-	-	-	(7,500,000)	-	-	-	-	-	-	-	
<b>At 31 December 2007</b>	<u>123,000,000</u>	<u>709,472</u>	<u>12,874,420</u>	<u>5,119,844</u>	<u>2,420,483</u>	<u>2,420,483</u>	<u>238,739</u>	<u>13,278,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,500,000</u>	<u>165,141,627</u>	<u>7,233,497</u>	<u>172,375,124</u>	

\* Included in retained earnings balance an amount of JD 10 million that is restricted against lawsuits held against the Bank, in addition to JD 5,514,179 representing deferred tax assets as at 31 December 2008 (31 December 2007: JD 3,346,600 representing deferred tax assets and JD 426,740 unrealized gains from financial assets held for trading), and according to the Central Bank of Jordan's regulations, these balances are not available for distribution.

The Accompanying Notes From 1 to 50 are an Integral part of these Financial Statements

## Consolidated Cash Flow Statement

For The Year Ended 31 December 2008

	Notes	2008 JD	2007 JD
<b>Operating Activities</b>			
Profit before tax		19,724,565	17,970,847
<b>Adjustments for –</b>			
Depreciation and amortization		1,652,508	1,118,349
Impairment loss on direct credit facilities		5,069,365	5,924,767
Unrealized loss (gain) from financial assets held for trading		887,987	( 234,433)
Impairment of assets seized by the bank		128,001	-
Impairment of financial investments -available for sale		1,746,722	-
Sundry provisions		155,038	2,973,419
Effect of exchange rate changes		(1,653,511)	( 2,299,004)
<b>Operating Profit before changes in Operating assets and liabilities</b>		<u>27,710,675</u>	<u>25,453,945</u>
<b>Changes in assets and liabilities -</b>			
Decrease (Increase) in balances with Central Banks maturing after more than three months		4,000,000	( 4,000,000)
Decrease in deposits at banks and financial institutions maturing after more than three months		-	6,381,000
Increase in restricted balances		( 12,431)	( 19,859)
Decrease (Increase) in financial assets held for trading		29,565,945	( 7,644,352)
Increase in direct credit facilities		(100,378,013)	( 13,432,163)
Decrease (Increase) in other assets		952,586	( 9,733,447)
Decrease in banks and financial institution deposits maturing after more than three months		( 4,172,684)	( 10,646,766)
Increase in customers' deposits		53,738,518	48,338,206
(Decrease) Increase in margin accounts		( 6,799,751)	4,495,674
Increase (Decrease) in other liabilities		846,348	( 2,365,508)
Sundry provision paid		( 23,509)	( 35,974)
<b>Net cash from operating activities before income tax</b>		5,427,684	36,790,756
Income tax paid		( 7,251,641)	( 7,543,007)
<b>Net cash (used in) from operating activities</b>		<u>( 1,823,957)</u>	<u>29,247,749</u>
<b>Investing Activities</b>			
Redemption of financial investments-held to maturity		24,967,868	11,169,216
Purchase of financial investments-held to maturity		( 998,151)	( 72,560,824)
Proceeds from financial investments-available for sale		16,574,592	11,170,965
Purchase of financial investments-available for sale		( 67,680,503)	( 15,319,017)
Purchase of financial investments-available for sale pledged as collateral		( 5,983,890)	-
Purchase of property and equipment		( 11,513,200)	( 1,904,557)
Proceeds from sale of property and equipment		131,101	201,347
Purchase of intangible assets		( 445,541)	( 708,351)
<b>Net cash used in investing activities</b>		<u>( 44,947,724)</u>	<u>( 67,951,221)</u>
<b>Financing Activities</b>			
Increase in capital		9,280,000	-
Capital increase fees		( 27,840)	( 69,889)
Increase in share premium		11,971,200	-
Repayment of loans and borrowings		( 74,437,848)	( 14,507,177)
Proceeds from loans and borrowings		8,360,164	55,322,266
Paid dividends		( 7,500,000)	-
Subordinated loans convertible to shares		12,952,001	-
Equity component of the convertible loan		1,022,784	-
<b>Net cash (used in) from financing activities</b>		<u>( 38,379,539)</u>	<u>40,745,200</u>
Net (decrease) increase in cash and cash equivalents		( 85,151,220)	2,041,728
Effect of exchange rate changes on cash and cash equivalents		1,653,511	2,299,004
Effect of exchange rate changes on the National Bank of Iraq		1,020,582	886,982
Cash and cash equivalents at 1 January	38	<u>192,009,050</u>	<u>186,781,336</u>
<b>Cash and cash equivalents at 31 December</b>	38	<u>109,531,923</u>	<u>192,009,050</u>

The Accompanying Notes From 1 to 50 are an Integral part of these Financial Statements



## Notes to the Consolidated Financial Statements

31 December 2008

### 1 GENERAL INFORMATION

The Bank is a public shareholding company registered and incorporated in Jordan, on 30 August 1995 in accordance with the Companies Law no 1 of (1989). Its registered office is in Amman.

The Bank provides its banking services through its main branch located in Amman, and through its nine Branches in Jordan and its subsidiaries Capital Investment and Brokerage Company in Jordan, National Bank of Iraq in Iraq, and Capital Investment Fund Company in Bahrain.

The Bank originally had a paid in capital of JD 20 million. The Bank has subsequently increased its capital to reach JD 132,280,000. The increases in capital were affected through capitalizing its distributable reserves and private placements to shareholders, in addition to participation of International Finance Corporation (IFC) which became a strategic partner.

All Capital Bank of Jordan shares are listed at Amman Stock Exchange.

The financial statements were authorized for issue by the Bank's Board of Directors in their meeting number 1/2009 held on 28 January 2009. These financial statements are subject to the General Assembly's approval.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

- The accompanying consolidated financial statements of the Bank and its subsidiaries 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 investments- available for sale 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.

#### IAS 39 - Financial instruments - Recognition and Measurement-, and IFRS 7 - Financial Instruments - Disclosure-

Starting on 31 October 2008, the Bank implemented the new amendments for IAS 39 and IFRS 7 related to reclassifications of financial instruments, whereby, the Bank reclassified some of the financial assets held for trading to financial investments- available for sale at the fair value of these instruments as of the date of the reclassification decision. The effect of this reclassification was as follows:

	Balance before reclassification (31 October 2008) JD	Balance after reclassification (1 November 2008) JD	Difference JD
Financial assets held for trading	26,063,716	22,100,969	(3,962,747)
Financial investment available for sale	93,135,141	97,097,888	3,962,747



The Bank implemented this amendment as they no longer had the intention to keep these instruments for short term trading purposes.

In the event this reclassification had not been performed, the effect on income statement for the year would have been JD 143,892 as unrealized losses from financial assets held for trading.

The amount of unrealized losses for these instruments during the period from 1 January 2008 till 31 October 2008 was JD 1,236,804.

#### **IFRIC 11 IFRS 2 – Group and Treasury Share Transactions**

This interpretation requires arrangements whereby an employee is granted rights to a Bank's equity instrument to be accounted for as an equity-settled scheme, even if the Bank buys the instrument from another party, or the shareholders provide the equity instruments needed.

There has been no effect of this change as no such instruments were issued

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries where the Bank has the power to govern the financial and policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. If different accounting policies were applied by the subsidiaries, adjustments shall be made on their financial statements in order to comply with those of the Bank.

All intra-company balances, transactions, income and expenses and profits and losses resulting from intra-company transactions that are recognized in assets or liabilities, between the bank and the following subsidiaries are eliminated in full:

- Capital Investment and Brokerage Company Ltd/Jordan; of which the Bank owns 100% of its paid in capital of JD 10,000,000 as of 31 December 2008. The company was established on 16 May 2005.
- National Bank of Iraq (NBI)/Iraq; of which the Bank owns 59.2% of its paid in capital of IQD 25,000,000,000 (JD 11,392,587) as of 31 December 2008. This was acquired effective 1 January 2005.
- Capital Investment Fund Company/Bahrain; of which the Bank owns 100% of its paid in capital of BHD 1,000 (JD 1,888) as of 31 December 2008. It will hold mutual funds, but has not started operations yet.

Subsidiaries' financial statements are prepared using same accounting policies for the same reporting period as the Bank.

Subsidiaries are fully consolidated from the date of acquisition being the date on which the bank obtains control and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of equity and profit or loss not owned by the bank.

In parent company's separate financial statements, investment in subsidiaries is recorded at cost.

#### **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 recognized at the fair value of consideration given and subsequently re-measured at fair value. All realized and unrealized 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 recognized at the fair value of consideration given and subsequently measured at amortized 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 investments- 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. Unrealized gains and losses are recognized directly in equity as 'Cumulative change in fair value reserve'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

The losses arising from impairment of such investments are recognized 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 recognized in the income statement.

#### **Financial investments- 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 recognized 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 amortized cost using the effective interest method, less allowance for impairment. Amortized 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.

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 recognised 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 - 5
Equipment and furniture	2.5 - 20
Vehicles	15 - 20
Computers	25
Other	10

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 derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

### Provisions

Provisions are recognized 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's Bonus:

The Board of Directors approves the bonus amount based on actual net income compared to budget.

The approved amount will be divided into two categories:

**A. Cash Bonus:** Paid immediately after the general assembly.

**B. Shares Bonus:** which will vest to employees on the following basis:

- 25% of granted shares after one year.
- 25 % at the end of second year
- 50% at the end of third year.

### 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 realized 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 utilized.

### **Convertible loans**

Convertible loans are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible loan, the fair value of the liability component is determined using the market rate for an equivalent non-convertible loan/bond; and this amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognized and included in the shareholders' equity, net of the transaction cost. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are allocated between the liability and the equity components of the convertible loan based on the allocation of the relative values upon initial recognition.

### **Increase in paid in capital fees**

Any expenses incurred as a result of issuing additional paid in capital shall be recognized 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.

### **Fiduciary assets**

Assets held in a fiduciary capacity are not recognized as assets of the Bank. Fees and commissions received for administering such assets are recognized in the income statement. A provision is recognized for decreases in the fair value of guaranteed fiduciary assets below their original principal amount.

### **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 realize 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 recognized in the income statement.

Expenses are recognized on an accrual basis.

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

### **Trade date accounting**

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

### **Financial instruments and hedge accounting**

#### **Fair value hedges**

A fair value hedge is a hedge of the exposure to changes in the fair value of the Bank's recognized 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 recognized 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 recognized in the income statement.

#### **Cash flow hedges**

A cash flow hedge is a hedge of the exposure to variability in the Bank's actual and expected cash flows which is attributable to a particular risk associated with a recognized asset or liability.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity, and is subsequently transferred to the income statement in the period in which the hedged cash flows affect income, or at such time as the hedge becomes ineffective. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement.

#### **Hedge of net investments in foreign operations**

Hedges of net investments in a foreign operation are accounted for by measuring the fair value of the hedging instrument. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity, while the ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the income statement.

For hedges which become ineffective, gains or losses resulting from the change in fair value of the hedge instrument is recognized directly 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 recognized 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 recognized 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 recognized in the Bank's financial statements as assets since the Bank is not able to control these assets. The related payments are recognized as part of deposits at banks and financial institutions or direct credit facilities as applicable, and the difference between purchase and resale price is recognized in the income statement over the agreement term using the effective interest method.

### **Financial assets pledged as collateral**

The assets pledged by the bank are strictly for the purpose of providing collateral for the counter party to the extent that counter party is permitted to sell and /or re-pledge the assets. The method of valuation is related to the financial policies for its basic classification.

### **Assets Seized by the Bank**

Assets seized 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 recognized 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 recognized for the asset in prior years.

### **Intangible assets**

#### **a) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arising from the investment in subsidiaries will be separately shown under intangible assets, while that arising from the investment in associates will be shown as part of investment in associates and subsequently adjusted for any impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is from the date of acquisition allocated to each of the Bank's cash-generating units, or groups of cash-generating units. Where the recoverable amount of the cash-generating unit is less than the carrying value, an impairment loss is recognized.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the estimated recoverable amount of a cash-generating unit or group of cash-generating units is less than their carrying amount, Impairment losses are transferred to the income statement.



## **b) Other 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 amortized 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 capitalized 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 trademarks, computer software and programs. Management estimates the useful lives for each item. Amortization is calculated using straight-line method at 25%.

## **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 recognized 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 assumption also affect the revenues and expenses and the resultant provision 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 provision required for non – performing credit facilities. Such estimates are necessarily based on assumption about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future change in such provision.

- a) Provision for credit losses: The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.
- b) Impairment losses on collaterals acquired by the Bank are determined based on appraisal reports prepared by certified appraisers. Provisions are recognized 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 amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.
- e) Legal provision is calculated for facing any legal liabilities according to the lawyer's opinion.

#### 4 CASH AND BALANCES WITH CENTRAL BANKS

	2008 JD	2007 JD
Cash on hand	7,380,653	5,576,545
<b>Balances at Central Banks-</b>		
Current and demand deposits	1,245,790	8,557,995
Time deposits	17,882,495	16,135,183
Statutory cash reserve	41,255,063	27,778,434
Certificates of deposits	<u>19,000,000</u>	<u>30,000,000</u>
	<u>86,764,001</u>	<u>88,048,157</u>

Except for the statutory cash reserve, there are no restricted cash balances as at 31 December 2008 and 2007.

Certificates of deposit maturing after three months amounted to JD 3,000,000 as at 31 December 2008 (2007: JD 7,000,000).

## 5 BALANCES AT BANKS AND FINANCIAL INSTITUTIONS

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	2008 JD	2007 JD	2008 JD	2007 JD	2008 JD	2007 JD
Current and demand deposits	132,545	130,575	24,867,640	22,633,571	25,000,185	22,764,146
Deposits maturing within 3 months	<u>27,165,151</u>	<u>30,475,637</u>	<u>22,283,728</u>	<u>83,669,137</u>	<u>49,448,879</u>	<u>114,144,774</u>
	<u>27,297,696</u>	<u>30,606,212</u>	<u>47,151,368</u>	<u>106,302,708</u>	<u>74,449,064</u>	<u>136,908,920</u>

Non interest bearing balances at banks and financial institutions amounted to JD 4,683,358 as at 31 December 2008 (2007: JD 10,586,934).

Restricted balances amounted to JD 415,150 as of 31 December 2008 (2007: JD 402,719) see note (18).

## 6 FINANCIAL ASSETS HELD FOR TRADING

	2008 JD	2007 JD
Local treasury bills	-	3,765,420
Quoted equities	1,371,889	12,058,297
Quoted debt securities	17,868,688	18,147,834
Investment funds	-	2,605,160
Commercial Papers	-	13,294,250
Unquoted equities	<u>176,452</u>	<u>-</u>
	<u>19,417,029</u>	<u>49,870,961</u>

## 7 DIRECT CREDIT FACILITIES

	2008 JD	2007 JD
<b>Consumer lending</b>		
Overdrafts	1,087,799	642,485
Loans and bills *	39,747,905	31,059,187
Credit cards	1,577,940	1,113,577
<b>Residential mortgages</b>	74,480,993	67,904,314
<b>Corporate lending</b>		
Overdrafts	68,712,888	45,715,905
Loans and bills *	416,215,345	359,596,224
<b>Small and medium enterprises lending "SMEs"</b>		
Overdrafts	2,979,090	3,256,319
Loans and bills *	<u>11,483,816</u>	<u>5,439,312</u>
<b>Total</b>	<u>616,285,776</u>	<u>514,727,323</u>
Less: Suspended interest	4,487,872	3,406,942
Less: Allowance for impairment losses	<u>18,926,224</u>	<u>13,908,474</u>
<b>Direct credit facilities, net</b>	<u>592,871,680</u>	<u>497,411,907</u>

\* Net of interest and commissions received in advance of JD 1,629,253 as at 31 December 2008 (2007: JD 3,265,661).

Non-performing credit facilities amounted to JD 31,440,139 as at 31 December 2008 (2007: JD 19,032,363), representing %5.1 (2007: 3.70%) of gross facilities.

Non-performing credit facilities, net of suspended interest, amounted to JD 26,952,267 as at 31 December 2008 (2007: JD 15,625,422), representing 4.4% (2007: 3.06%) of gross facilities after excluding the suspended interest.

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

	Consumer JD	Residential mortgages JD	Corporate JD	SMEs JD	Total JD
<b>2008</b>					
At 1 January 2008	1,429,637	162,665	12,234,915	81,257	13,908,474
Charge for the year	970,237	376,341	3,523,828	198,959	5,069,365
Amounts written off	( 3,511)	-	( 89,932)	-	( 93,443)
Foreign exchange differences	5,597	-	36,231	-	41,828
At 31 December 2008	<u>2,401,960</u>	<u>539,006</u>	<u>15,705,042</u>	<u>280,216</u>	<u>18,926,224</u>
Individual impairment	2,250,451	438,445	15,086,548	254,730	18,030,174
Collective impairment	<u>151,509</u>	<u>100,561</u>	<u>618,494</u>	<u>25,486</u>	<u>896,050</u>
At 31 December 2008	<u>2,401,960</u>	<u>539,006</u>	<u>15,705,042</u>	<u>280,216</u>	<u>18,926,224</u>
<b>2007</b>					
At 1 January 2007	1,072,163	5,732	6,674,214	198,295	7,950,404
Charge (Surplus) for the year	347,651	156,933	5,514,842	( 94,659)	5,924,767
Amounts written off	( 3,112)	-	-	( 22,379)	( 25,491)
Foreign exchange differences	12,935	-	45,859	-	58,794
At 31 December 2007	<u>1,429,637</u>	<u>162,665</u>	<u>12,234,915</u>	<u>81,257</u>	<u>13,908,474</u>
Individual impairment	920,065	162,665	10,884,499	63,238	12,030,467
Collective impairment	<u>509,572</u>	<u>-</u>	<u>1,350,416</u>	<u>18,019</u>	<u>1,878,007</u>
At 31 December 2007	<u>1,429,637</u>	<u>162,665</u>	<u>12,234,915</u>	<u>81,257</u>	<u>13,908,474</u>

Non-performing credit facilities that were settled or collected amounted to JD 3,152,110 as at 31 December 2008 (2007: JD 2,690,220).

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

	Consumer JD	Residential mortgages JD	Corporate JD	SMEs JD	Total JD
<b>2008</b>					
At 1 January 2008	223,136	31,433	3,152,373	-	3,406,942
Add: Suspended interest during the year	386,160	119,661	847,319	40,987	1,394,127
Less: Amount transferred to income on recovery	( 25,256)	( 14,652)	( 215,827)	-	( 255,735)
Less: Amounts written off	( 1,685)	-	( 96,676)	-	( 98,361)
Foreign exchange differences	<u>35,473</u>	<u>-</u>	<u>5,426</u>	<u>-</u>	<u>40,899</u>
At 31 December 2008	<u>617,828</u>	<u>136,442</u>	<u>3,692,615</u>	<u>40,987</u>	<u>4,487,872</u>
<b>2007</b>					
At 1 January 2007	109,090	1,325	2,209,918	110,282	2,430,615
Add: Suspended interest during the year	129,147	30,108	1,203,328	-	1,362,583
Less: Amount transferred to income on recovery	( 15,470)	-	( 186,757)	-	( 202,227)
Less: Amounts written off	( 1,775)	-	( 81,717)	( 110,282)	( 193,774)
Foreign exchange differences	<u>2,144</u>	<u>-</u>	<u>7,601</u>	<u>-</u>	<u>9,745</u>
At 31 December 2007	<u>223,136</u>	<u>31,433</u>	<u>3,152,373</u>	<u>-</u>	<u>3,406,942</u>

## 8 FINANCIAL INVESTMENTS- AVAILABLE FOR SALE

	2008 JD	2007 JD
<b>Quoted Investments</b>		
Treasury bills	30,080,314	3,621,525
Government debt securities	43,813,675	33,092,017
Corporate debt securities	5,101,452	1,250,895
Equities	6,515,800	1,518,525
Investment Funds	<u>2,296,030</u>	<u>-</u>
Total quoted investments	<u>87,807,271</u>	<u>39,482,962</u>
<b>Unquoted Investments</b>		
Equities *	<u>1,403,153</u>	<u>552,909</u>
Total unquoted investments	<u>1,403,153</u>	<u>552,909</u>
<b>Total financial Investments available for sale</b>	<u>89,210,424</u>	<u>40,035,871</u>
<b>Analysis of debt instruments</b>		
Fixed rate	74,127,054	36,393,160
Floating rate	<u>4,868,388</u>	<u>1,571,277</u>
<b>Total</b>	<u>78,995,442</u>	<u>37,964,437</u>

\* Included in unquoted equities are investments of JD 1,403,153 (2007: JD 552,909) carried at cost as their fair value could not be measured reliably.

## 9 FINANCIAL Investments - HELD TO MATURITY

	2008 JD	2007 JD
<b>Quoted Investments</b>		
Treasury bills	-	2,957,730
Government debt securities	23,873,037	46,415,562
Corporate debt securities	22,000,000	19,000,000
Other debt securities	<u>3,459,354</u>	<u>4,928,816</u>
Total quoted investments	<u>49,332,391</u>	<u>73,302,108</u>
<b>Analysis of debt instruments</b>		
Fixed rate	44,205,391	68,175,108
Floating rate	<u>5,127,000</u>	<u>5,127,000</u>
<b>Total</b>	<u>49,332,391</u>	<u>73,302,108</u>

- Held to maturity bonds mature in one payment at maturity date except for an amount of JD 1,332,352 representing Sudan Sukuk which matures within three years and first payment matured at 12 December 2008.
- No repurchase agreements exist as at 31 December 2008 (2007: JD 34,400,000).

## 10 FINANCIAL Investments- AVAILABLE FOR SALE PLEDGED AS COLLATERAL

	Pledged assets JD	Related liabilities JD
Financial assets available for sale	<u>5,983,890</u>	<u>6,000,000</u>
	<u>5,983,890</u>	<u>6,000,000</u>

These bonds are pledged as collaterals against advances from Real-Estate Mortgage Finance Company. (Note 18)

Maturities for these bonds as of 31 December 2008 as follows:

Maturity Date	Bond Balance
23 March 2011	4,973,500
15 December 2009	<u>1,010,390</u>
	<u>5,983,890</u>

\* There are no financial investments pledged as collateral as of 31 December 2007.

## 11 PROPERTY AND EQUIPMENT

	Land JD	Buildings JD	Furniture & Fixtures JD	Vehicles JD	Computers JD	Others* JD	Total JD
<b>2008</b>							
<b>Cost:</b>							
At 1 January 2008	1,111,639	3,734,661	2,370,429	269,140	1,899,282	2,880,849	12,266,000
Foreign exchange translation differences	5,155	13,789	12,300	1,331	-	-	32,575
Additions	6,600,000	-	373,360	65,514	254,921	991,932	8,285,727
Disposals	-	-	( 129,343)	( 10,469)	( 82,533)	( 69,254)	( 291,599)
<b>At 31 December 2008</b>	<b>7,716,794</b>	<b>3,748,450</b>	<b>2,626,746</b>	<b>325,516</b>	<b>2,071,670</b>	<b>3,803,527</b>	<b>20,292,703</b>
<b>Depreciation:</b>							
At 1 January 2008	-	214,475	1,137,140	88,821	890,233	654,322	2,984,991
Depreciation charge during the year	-	92,851	301,793	46,649	359,499	357,545	1,158,337
Foreign exchange translation differences	-	3,016	9,359	869	-	-	13,244
Disposals	-	-	( 87,225)	( 9,729)	( 36,331)	( 27,213)	( 160,498)
<b>At 31 December 2008</b>	<b>-</b>	<b>310,342</b>	<b>1,361,067</b>	<b>126,610</b>	<b>1,213,401</b>	<b>984,654</b>	<b>3,996,074</b>
	7,716,794	3,438,108	1,265,679	198,906	858,269	2,818,873	16,296,629
Projects under construction	-	2,127,501	1,361,095	-	-	242,554	3,731,150
<b>Net book value of property and equipment at 31 December 2008</b>	<b><u>7,716,794</u></b>	<b><u>5,565,609</u></b>	<b><u>2,626,774</u></b>	<b><u>198,906</u></b>	<b><u>858,269</u></b>	<b><u>3,061,427</u></b>	<b><u>20,027,779</u></b>
<b>2007</b>							
<b>Cost:</b>							
At 1 January 2007	1,105,114	3,691,714	1,849,868	192,932	1,158,992	1,819,958	9,818,578
Foreign exchange translation differences	6,525	42,947	7,944	17,159	109,948	6,260	190,783
Additions	-	-	565,083	124,098	630,342	1,138,462	2,457,985
Disposals	-	-	( 52,466)	( 65,049)	-	( 83,831)	( 201,346)
<b>At 31 December 2006</b>	<b>1,111,639</b>	<b>3,734,661</b>	<b>2,370,429</b>	<b>269,140</b>	<b>1,899,282</b>	<b>2,880,849</b>	<b>12,266,000</b>
<b>Depreciation:</b>							
At 1 January 2007	-	112,631	744,176	90,236	637,449	506,042	2,090,534
Depreciation charge during the year	-	92,071	286,184	35,772	252,784	212,378	879,189
Foreign exchange translation differences	-	9,773	136,559	17,429	-	1,850	165,611
Disposals	-	-	(29,779)	(54,616)	-	( 65,948)	( 150,343)
<b>At 31 December 2007</b>	<b>-</b>	<b>214,475</b>	<b>1,137,140</b>	<b>88,821</b>	<b>890,233</b>	<b>654,322</b>	<b>2,984,991</b>
	1,111,639	3,520,186	1,233,289	180,319	1,009,049	2,226,527	9,281,009
Projects under construction	-	-	97,470	-	59,598	346,609	503,677
<b>Net book value of property and equipment at 31 December 2007</b>	<b><u>1,111,639</u></b>	<b><u>3,520,186</u></b>	<b><u>1,330,759</u></b>	<b><u>180,319</u></b>	<b><u>1,068,647</u></b>	<b><u>2,573,136</u></b>	<b><u>9,784,686</u></b>

\* Represents refurbishment, interior design and decoration of buildings and branch offices.

- The estimated costs to complete the purchase of premises and equipment amounted to 2,440,483 as at 31 December 2008.  
Fully depreciated property and equipment amounted to JD 883, 741 as of 31 December 2008 (2007: JD 565,229), and are still in use.

## 12 INTANGIBLE ASSETS

	Trade Marks JD	Computer Software JD	Goodwill JD	Total JD
<b>2008</b>				
<b>Net book value:</b>				
At 1 January 2008	4,555	631,957	3,920,755	4,557,267
Additions	-	1,236,617	-	1,236,617
Foreign currency translation differences	-	-	155,909	155,909
Amortization	( 4,555)	( 489,616)	-	( 494,171)
	-	1,378,958	4,076,664	5,455,622
Projects under construction	-	260,506	-	260,506
<b>At 31 December 2008</b>	<u>-</u>	<u>1,639,464</u>	<u>4,076,664</u>	<u>5,716,128</u>

\* Goodwill as of 31 December 2008 has been translated using year end exchange rates.

<b>2007</b>				
<b>Net book value:</b>				
At 1 January 2007	8,130	357,771	3,187,164	3,553,065
Additions	-	509,771	-	509,771
Foreign currency translation differences	-	-	733,591	*733,591
Amortization	( 3,575)	( 235,585)	-	( 239,160)
	4,555	631,957	3,920,755	4,557,267
Projects under construction	-	1,052,301	-	1,052,301
<b>At 31 December 2007</b>	<u>4,555</u>	<u>1,684,258</u>	<u>3,920,755</u>	<u>5,609,568</u>

- As at 31 December 2008, the estimated cost to complete projects under progress is JD 112,242.
- Fully amortized intangible assets amounted to JD 1,055,356 as at 31 December 2008, compared to JD 709,089 as at 31 December 2007

### Impairment Testing of Goodwill

Goodwill arose from the acquisition of 59.2% of the National Bank of Iraq.

The bank has tested the goodwill using the following key assumptions:

- The recoverable amount of NBI has been determined based on the value in use calculation, using five-year cash flow projections approved by senior management based on National Bank of Iraq performance assumptions verified against financial economic indicators such as interest rates.
- The cash flow projections showed that the return on equity is estimated at 17% during the coming five years.
- The discount rate used by the Bank is 35%.
- In the opinion of the Bank's management based on the discounted cash flow projections, goodwill is not impaired.



- \* Goodwill as at 31 December 2008 has been retranslated using year-end exchange rates therefore goodwill balance increased by JD155,909, compared to JD 733,591 last year, this increase was recorded within foreign currency translation in the statement of changes in equity.

### 13 ACQUISITION of National Bank of Iraq

In its extraordinary meeting held in 2004, the General Assembly decided to acquire 59.2% of the paid in capital of the National Bank of Iraq. Accordingly, the financial statements were consolidated as of 1 January 2005; being the date on which control was transferred to the Bank, and the resultant goodwill recognized and recorded on that date.

The regulations of the Central Bank of Iraq state that all Iraqi banks should increase their paid in capital to be no less than 50 billion Iraqi Dinars by the end of 2009, this was not enforced by the Central Bank up to the date of the financial statements. Capital Bank's share in the National Bank of Iraq will amount to JD 9,134,264 upon the increase of share capital.

There were no acquisitions or disposal of operations during 2008 and 2007.

### 14 OTHER ASSETS

	2008 JD	2007 JD
Accrued interest and revenue	4,522,684	3,934,491
Prepaid expenses	1,663,909	1,897,776
Assets seized by the Bank by calling on collateral	11,778,324	16,391,255
Positive fair value of derivatives (note 39)	-	160,964
Export documents & bills purchased	15,050,428	11,457,333
Others	<u>1,244,589</u>	<u>1,478,638</u>
	<u>34,259,934</u>	<u>35,320,457</u>

Reconciliation of assets seized by the Bank by calling on collateral during the year is as follows:

	2008			2007
	Real estate JD	*Others JD	Total JD	Total JD
At 1 January	1,118,083	15,273,172	16,391,255	1,704,847
Foreign currency translation differences	283	-	283	358
Additions	258,450	-	258,450	16,020,740
Retirements	( 668,170)	( 4,075,493)	( 4,743,663)	( 1,334,690)
Impairment losses	-	( 128,001)	( 128,001)	-
At 31 December	<u>708,646</u>	<u>11,069,678</u>	<u>11,778,324</u>	<u>16,391,255</u>

- \* This amount represents stocks seized by the Bank by calling on collaterals, from which a part was sold during 2008.

## 15 BANKS AND FINANCIAL INSTITUTIONS' DEPOSITS

	2008			2007		
	Inside Jordan JD	Outside Jordan JD	Total JD	Inside Jordan JD	Outside Jordan JD	Total JD
Current and demand deposits	1,181,510	4,893,749	6,075,259	391,759	9,725,946	10,117,705
Time deposits	<u>41,205,686</u>	<u>4,055,333</u>	<u>45,261,019</u>	<u>16,202,983</u>	<u>6,467,590</u>	<u>22,670,573</u>
Total	<u>42,387,196</u>	<u>8,949,082</u>	<u>51,336,278</u>	<u>16,594,742</u>	<u>16,193,536</u>	<u>32,788,278</u>

## 16 CUSTOMERS' DEPOSITS

	Consumer JD	Corporate JD	SMEs JD	Governmental Sectors JD	Total JD
<b>2008</b>					
Current and demand deposits	61,626,050	11,417,339	7,475,191	1,147,081	81,665,661
Saving accounts	7,852,917	37,965	-	-	7,890,882
Time and notice deposits	181,222,078	128,389,272	9,335,062	71,825,366	390,771,778
Certificates of deposit	46,204,096	942,304	938,900	1,200,000	49,285,300
Others	<u>494,077</u>	<u>96,662</u>	<u>-</u>	<u>-</u>	<u>590,739</u>
Total	<u>297,399,218</u>	<u>140,883,542</u>	<u>17,749,153</u>	<u>74,172,447</u>	<u>530,204,360</u>
<b>2007</b>					
Current and demand deposits	33,224,936	31,434,596	2,542,672	1,126,838	68,329,042
Saving accounts	2,969,410	24,772	-	-	2,994,182
Time and notice deposits	155,183,218	119,384,409	-	64,269,718	338,837,345
Certificates of deposit	59,216,077	3,145,024	656,237	2,250,000	65,267,338
Others	<u>506,946</u>	<u>88,852</u>	<u>-</u>	<u>-</u>	<u>595,798</u>
Total	<u>251,100,587</u>	<u>154,077,653</u>	<u>3,198,909</u>	<u>67,646,556</u>	<u>476,023,705</u>

- Governmental institutions' and public sector deposits amounted to JD 74,172,447 as at 31 December 2008 (2007: JD 67,646,556) representing 13.99% (2007: 14.21%) of total customers' deposits.
- Non-interest bearing deposits amounted to JD 64,903,306 as at 31 December 2008 (2007: JD 61,588,182) representing 12.24% (2007: 12.94%) of total deposits.
- Restricted deposits amounted to JD 1,023,631 as at 31 December 2008 (2007: JD 2,444,118).
- Dormant accounts amounted to JD 4,411,370 as at 31 December 2008 (2007: JD 1,206,267).

## 17 MARGIN ACCOUNTS

	2008 JD	2007 JD
Margins on direct credit facilities	24,160,319	29,749,034
Margins on indirect credit facilities	22,757,958	27,147,847
Deposits against cash margin dealings' facilities	71,408	107,670
Others	<u>7,564,992</u>	<u>4,289,307</u>
Total	<u>54,554,677</u>	<u>61,293,858</u>

## 18 LOANS AND BORROWINGS

	Amount JD	Total no of. installments	Outstanding instalments	Collaterals JD	Interest rate %
<b>2008</b>					
Amounts borrowed from Central Bank of Jordan	1,285,121	211	99	-	3% - 6.75%
Amounts borrowed from local banks and institutions	57,718,393	13	12	-	5.15% - 9.25%
Amounts borrowed from foreign banks and institutions	<u>48,348,455</u>	127	115	<u>415,150</u>	6.00% - 1.13%
Total	<u>107,351,969</u>			<u>415,150</u>	
<b>2007</b>					
Amounts borrowed from Central Bank of Jordan	2,287,381	532	222	-	2.5% - 7.0%
Amounts borrowed from local banks and financial institutions	49,219,533	13	10	-	5.45% - 8.6%
Amounts borrowed from foreign banks and financial institutions	86,190,499	86	80	402,719	2% - 6.75%
Other loans and borrowings	<u>35,732,240</u>	1	1	-	4.85%
Total	<u>173,429,653</u>			<u>402,719</u>	

Amounts borrowed from Central Bank of Jordan are due during the period from 2009 to 2010.

Included in the borrowings from local financial institutions are amounts due to Real Estate Mortgage Finance Co. of JD 40,000,000. The mortgage loans were refinanced at a rate of 8.75%. Governmental bonds of JD 5,983,890 as at 31 December 2008 were pledged as collaterals against JD 6,000,000 of these loans. (Note 10)

Capital Investment and Brokerage Company signed loan agreements with local banks with total limits of JD 23,370,000 and utilized amounts as of 31 December 2008 amounted to JD 17,718,393 with interest rates range between 8.5%- 9.25%.

At 31 December 2008, fixed-rate loans amounted to JD 44,092,790, while loans with floating-rates amounted to JD 63,259,179.

Included in the borrowings from foreign banks and institution borrowings are syndicated loan due to Citibank amounted to USD 60,000,000 which are subject to contractual covenants, which give the lender the right to claim back the amount(s) if the Bank did not comply with its covenants. The covenants state that tangible net worth and capital adequacy should not fall below JD 115 million and 12% respectively up to the date of financial statements. In addition, the ratio of loan loss provisions to non-performing loans shall not at any time during the term of the facility be less than the amount set in the instruction for classification of credit facilities and calculation of the credit provision and general bank risk reserve number (30/2006) issued by the Central Bank of Jordan and the amendments issued at November 2008. The amount due to banks shall not at any time during the facility term exceed 30 percent of the total gross direct facilities.

## 19 SUBORDINATED LOANS (CONVERTIBLE TO SHARES)

	Amount JD	number of instalment Total outstanding		Frequency of instalments	Collaterals	Interest rate
<b>2008</b>				Semi annual instalments		
Subordinated Loan With floating Interest Rate	<u>14,180,000</u>	12	12	starting December 2012	-	3,623%
Total	<u>14,180,000</u>				-	

The convertible loan has been recorded as follows:

	<u>31 December 2008</u>
Nominal value of the convertible loan	14,180,000
Less: Equity component	1,022,784
Less: Issuing cost	<u>205,215</u>
Total	<u>12,952,001</u>

The Bank has signed on 2 January 2008 a subordinated loan agreement with International Finance Corporation (IFC), amounting to USD 20 million, equivalent to JD 14,180,000 convertible to shares starting from the fourth year till the seventh year. The applicable conversion price per share shall be one point seven five (1.75) multiplied by the book value per share of the Bank. The book value per share will be calculated by dividing the book value of the Bank (as the most recent audited annual financial statements of the Bank) by number of shares outstanding of the Bank. Interest rate on this loan is equal to LIBOR 6 months + 1.3%.

The loan is subject to certain financial covenants which give the right to claim back the amount if the Bank does not comply with these covenants, which include the following:

1. Capital adequacy ratio not less than 12%.
2. Equity to Assets ratio not less than 15%.
3. Comply with other ratios regarding credit concentration and uses of fund.

## 20 SUNDRY PROVISIONS

	Balance at 1 January JD	Provided during the year JD	Utilised during the year JD	Transferred to income JD	Balance at December 31 JD
<b>2008</b>					
Provision for impairment loss on stocks seized by the bank	3,226,979	-	-	-	3,226,979
Other Provisions*	<u>-</u>	<u>155,038</u>	<u>( 23,509)</u>	<u>-</u>	<u>131,529</u>
<b>Total</b>	<u>3,226,979</u>	<u>155,038</u>	<u>(23,509)</u>	<u>-</u>	<u>3,358,508</u>
<b>2007</b>					
Provision for impairment loss on stocks seized by the bank	-	3,226,979	-	-	3,226,979
Other Provisions*	<u>289,534</u>	<u>-</u>	<u>( 35,974)</u>	<u>( 253,560)</u>	<u>-</u>
<b>Total</b>	<u>289,534</u>	<u>3,226,979</u>	<u>( 35,974)</u>	<u>( 253,560)</u>	<u>3,226,979</u>

\* Other provisions are provided for decreases in the fair value of guaranteed fiduciary assets below their original principal amount.

## 21 INCOME TAX

### - Income Tax liabilities

The movements on the income tax liability were as follows:

	2008 JD	2008 JD
At 1 January	7,292,527	7,558,863
Foreign exchange translation differences	10,671	2,449
Income tax paid	( 7,251,641)	( 7,543,007)
Income tax charge for the year	6,640,331	6,922,078
Income tax charge for previous year	<u>116,506</u>	<u>352,144</u>
<b>At 31 December</b>	<u><b>6,808,394</b></u>	<u><b>7,292,527</b></u>
Income tax appearing in the statement of income represents the following:		
Current income tax charge	6,640,331	6,922,078
Previous years income tax charges	116,506	352,144
Movement on deferred tax assets	( 2,167,579)	( 2,927,232)
Movement on deferred tax liabilities	( 115,863)	115,863
Foreign exchange translation differences	<u>1,001</u>	<u>( 672)</u>
	<u><b>4,474,396</b></u>	<u><b>4,462,181</b></u>

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

The Income Tax Department reviewed the Bank's records for 2007 and they did not yet issue their final report.

The Income Tax Department reviewed the accounts of Capital Investment and Brokerage Company for the years ended 2005, 2006 and 2007 on which they did not yet issue their final report.

The National Bank of Iraq reached a final settlement with the Income Tax Department for the year ended 2006.

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

	2008			2007		
	Balance at 1 January JD	Released during the year JD	Additions during the Year JD	Balance at 31 December JD	Deferred Tax JD	Deferred Tax JD
<b>a) Deferred tax assets</b>						
Shares granted to employees	1,366,041	( 587,383)	7,500	786,158	274,405	478,115
Impairment loss on stocks seized by the bank	3,226,979	-	-	3,226,979	1,129,443	1,129,443
Allowance for credit losses and interest in suspense	4,968,693	(608,506)	4,985,567	9,345,754	3,271,015	1,739,042
Unrealized loss from financial assets held for trading	-	-	887,987	887,987	232,772	-
Impairment loss on financial investments- available for sale	-	-	1,732,984	1,732,984	606,544	-
	<u>9,561,713</u>	<u>(1,195,889)</u>	<u>7,614,038</u>	<u>15,979,862</u>	<u>5,514,179</u>	<u>3,346,600</u>
<b>b) Deferred tax liabilities</b>						
Unrealised gain from financial assets held for trading	234,436	( 1,829,813)	707,390	( 887,987)	-	115,863
Unrealised gain from financial investments- available for sale	<u>604,871</u>	<u>(3,372,422)</u>	<u>477,538</u>	<u>(2,290,013)</u>	<u>-</u>	<u>140,079</u>
	<u>839,307</u>	<u>(5,202,235)</u>	<u>1,184,928</u>	<u>(3,178,000)</u>	<u>-</u>	<u>255,942</u>

- There are no deferred tax liabilities resulting from revaluation gains of financial investments- available for sale as at 31 December 2008 compared to JD 140,079 as at 31 December 2007.
- Income tax rate for deferred tax assets is 35% while for deferred tax liability of local financial securities is 26.25% and foreign financial securities 35%.

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

	2008		2007	
	Assets JD	Liabilities JD	Assets JD	Liabilities JD
At 1 January	3,346,600	255,942	419,368	95,789
Additions	2,586,140	-	3,023,169	600,603
Reductions	( 418,561)	( 255,942)	( 95,937)	( 440,450)
At 31 December	<u>5,514,179</u>	<u>-</u>	<u>3,346,600</u>	<u>255,942</u>

Reconciliation between taxable profit and the accounting profit is as follows:

	2008 JD	2007 JD
Accounting profit	19,724,565	17,970,847
Non-taxable profit	( 6,056,737)	( 4,177,785)
Expenses not deductible in determining taxable profit	<u>6,767,589</u>	<u>9,232,405</u>
Taxable profit	<u>20,435,417</u>	<u>23,025,467</u>
Effective rate of income tax	22.68%	24.83%

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

## 22 OTHER LIABILITIES

	2008 JD	2007 JD
Accrued interest expense	3,666,187	3,780,481
Accrued expenses	1,084,266	923,090
Certified cheques	517,420	372,543
Cheques payable	1,539,085	664,168
University fees	141,064	139,050
Scientific research fees	141,064	139,050
Educational, vocational, training and technical fund fees	117,082	106,574
Checks under collection	4,328	4,328
Board of directors' remuneration	60,000	55,000
Brokerage payable	4,342,980	6,286,153
Escrow agreement funds	776,355	-
Negative fair value of derivatives (Note 39)	461,248	-
Others	<u>967,688</u>	<u>482,732</u>
	<u>13,818,767</u>	<u>12,953,169</u>

## 23 PAID IN CAPITAL AND SHARE PREMIUM

The authorized and paid in capital amounted to JD 132,280,000 divided into 132,280,000 shares at a par value of JD 1 per share as at 31 December 2008 (2007: JD 123,000,000).

On 3 January 2008, the Bank increased its paid in capital by 9,280,000 shares at a par value of JD 1 per share. The increase in capital was subscribed and paid for by the International Finance Corporation (IFC). As part of the increase IFC paid JD 11,971,200 as a share premium.

## 24 RESERVES

### Statutory Reserve

As required by the Law, 10% of the profit before tax 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.

### 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:

Description	Amount JD	Restriction Law
Statutory reserve	14,719,693	Companies Law and Banks law
General banking risk reserve	5,883,391	Central Bank of Jordan

## 25 FOREIGN CURRENCY TRANSLATION RESERVE

This represents exchange differences resulted from translation of the net assets of National Bank of Iraq upon consolidation of the financial statements.

	2008 JD	2007 JD
At 1 January 2008	2,420,483	1,235,542
Additions	<u>563,960</u>	<u>1,184,941</u>
At 31 December 2008	<u>2,984,443</u>	<u>2,420,483</u>

## 26 CUMULATIVE CHANGES IN FAIR VALUE

	Financial investments- available for sale		
	Stocks JD	Bonds JD	Total JD
<b>2008</b>			
At 1 January	239,520	( 781)	238,739
Net unrealised (losses) gains	(2,823,533)	533,520	(2,290,013)
Deferred tax liabilities	59,897	80,182	140,079
Impairment losses of financial investments- available for sale	1,746,722	-	1,746,722
Realised losses (gains)	<u>456,394</u>	<u>( 108,299)</u>	<u>348,095</u>
<b>At 31 December</b>	<u>( 321,000)</u>	<u>504,622</u>	<u>183,622</u>
<b>2007</b>			
At 1 January	55,993	( 265,826)	( 209,833)
Net unrealised gains	346,788	301,021	647,809
Deferred tax liabilities	( 46,976)	2,686	( 44,290)
Realised gains	<u>(116,285)</u>	<u>( 38,662)</u>	<u>(154,947)</u>
<b>At 31 December</b>	<u>239,520</u>	<u>( 781)</u>	<u>238,739</u>



The cumulative change in fair value is presented net of deferred tax liabilities which equal to zero as at 31 December 2008 (2007: JD 140,079).

## 27 RETAINED EARNINGS

Included in the retained earnings an amount of JD 5,514,179 representing deferred tax assets, in addition to JD 10,000,000 restricted for law suits held against the Bank, and according to the Central Bank of Jordan's regulations, these balances are not available for distribution.

## 28 INTEREST INCOME

	2008 JD	2007 JD
Consumer lending		
Overdrafts	96,158	101,021
Loans and bills	3,411,734	2,774,076
Credit cards	192,253	185,534
Residential mortgages	6,229,173	5,373,804
Corporate lending		
Overdrafts	6,074,003	5,432,254
Loans and bills	35,725,559	32,361,556
Small and medium enterprises lending (SMEs)		
Overdrafts	263,342	400,278
Loans and bills	985,705	495,543
Balances at central Banks	4,134,146	4,628,661
Balances at banks and financial institutions	2,737,420	6,168,991
Financial assets held for trading	1,858,213	2,610,400
Financial investments- available for sale	4,523,271	1,916,775
Financial investments-held to maturity	4,088,599	2,456,404
Others	97,985	279,256
Total	<u>70,417,561</u>	<u>65,184,553</u>

## 29 INTEREST EXPENSE

	2008 JD	2007 JD
Banks and financial institution deposits	1,641,759	2,164,659
Customers' deposits -		
Current accounts and deposits	308,250	451,819
Saving accounts	471,942	199,930
Time and notice placements	20,531,056	18,250,309
Certificates of deposits	3,665,024	3,643,375
Margin accounts	2,107,125	4,046,245
Loans and borrowings	8,312,208	9,992,697
Deposit guarantee fees	736,072	633,075
Total	<u>37,773,436</u>	<u>39,382,109</u>

### 30 NET COMMISSION INCOME

	2008 JD	2007 JD
Commission income -		
Direct credit facilities	456,004	249,007
Indirect credit facilities	4,120,307	4,795,818
Other commission	1,334,076	1,127,322
Less: commission expense	<u>490,181</u>	<u>617,518</u>
Net Commission Income	<u>5,420,206</u>	<u>5,554,629</u>

### 31 NET GAIN FROM FOREIGN CURRENCIES

	2008 JD	2007 JD
Resulting from:		
Revaluation of foreign currencies	1,653,511	2,299,004
Trading in foreign currencies	<u>( 71,792)</u>	<u>( 121,321)</u>
	<u>1,581,719</u>	<u>2,177,683</u>

### 32 NET (LOSS) GAIN FROM FINANCIAL ASSETS HELD FOR TRADING

	Realized (loss) Gain JD	Unrealized (loss) Gain JD	Dividend income JD	Total JD
<b>2008</b>				
Treasury bills	13,386	-	-	13,386
Equities	( 1,699,333)	( 908,090)	274,574	( 2,332,849)
Debt Securities	<u>-</u>	<u>20,103</u>	<u>-</u>	<u>20,103</u>
Total	<u>(1,685,947)</u>	<u>( 887,987)</u>	<u>274,574</u>	<u>( 2,299,360)</u>
<b>2007</b>				
Treasury bills	1,895	( 1,908)	-	( 13)
Equities	1,999,461	175,392	341,981	2,516,834
Debt Securities	<u>46,181</u>	<u>60,949</u>	<u>-</u>	<u>107,130</u>
Total	<u>2,047,537</u>	<u>234,433</u>	<u>341,981</u>	<u>2,623,951</u>

### 33 NET REALIZED (LOSS) GAIN FROM FINANCIAL INVESTMENTS- AVAILABLE FOR SALE

	2008 JD	2007 JD
Dividend income	150,813	9,572
(Loss) gain from sale of financial investments- available for sale	( 348,095)	154,947
Less: impairment losses	<u>( 1,746,722)</u>	<u>-</u>
Total	<u>( 1,944,004)</u>	<u>164,519</u>

**34 OTHER INCOME**

	2008 JD	2007 JD
Commission on customers' funds management	4,782,528	3,426,563
Other income	<u>2,054,488</u>	<u>1,613,787</u>
Total	<u>6,837,016</u>	<u>5,040,350</u>

**35 EMPLOYEES' EXPENSES**

	2008 JD	2007 JD
Salaries and benefits	6,675,150	4,328,897
Employee bonuses	796,500	801,782
Bank's contribution to social security	582,514	423,619
Medical expenses	585,071	810,219
Training and research	226,818	333,002
Per Diems	116,924	149,240
Paid vacations	62,156	14,968
Bank's contribution to social activities fund	13,583	20,794
Others	<u>66,145</u>	<u>-</u>
	<u>9,124,861</u>	<u>6,882,521</u>

**36 OTHER EXPENSES**

	2008 JD	2007 JD
Rent	933,993	841,245
Consulting and professional fees	681,645	631,577
Stationary and printing	194,952	203,191
Board of Directors' transportation	126,697	129,231
Reuters' subscription expense	136,270	146,272
Donations	200,092	140,000
Advertisement	1,352,059	1,867,114
Subscriptions, fees and licenses	137,005	92,192
Travel and transportation	78,966	167,268
Computer expenses	498,229	395,479
Post, telephone and swift	518,242	479,364
Subscriptions	154,448	171,972
Jordanian universities fees	141,064	139,050
Scientific research and vocational training fees	141,064	139,050
Technical and vocational education and training support fund fees	117,082	106,574
Board of Directors' remuneration	60,000	55,000
Maintenance	214,556	44,240
Impairment losses of assets seized by the bank	128,001	-
Others	<u>699,000</u>	<u>744,854</u>
	<u>6,513,365</u>	<u>6,493,673</u>

### 37 EARNINGS PER SHARE

#### A- Basic Earnings per share

	2008 JD	2007 JD
Profit for the year attributable to ordinary equity holders of the parent	14,302,506	12,956,462
Weighted average number of shares during the year	<u>132,280,000</u>	<u>123,000,000</u>
	<u>JD/Fils</u>	<u>JD/Fils</u>
Basic earnings per share (JD/Fils)	<u>0,108</u>	<u>0,105</u>

#### B- Diluted Earnings per share

	2008 JD	2007 JD
Profit for the year attributable to ordinary equity holders of the parent	14,302,506	12,956,462
Add: Subordinated loan convertible to shares interest after tax	<u>213,565</u>	<u>-</u>
Adjusted Profit	14,516,071	12,956,462
Weighted average number of shares	<u>135,363,523</u>	<u>123,000,000</u>
	<u>JD/Fils</u>	<u>JD/Fils</u>
Diluted earnings per share (JD/Fils)	<u>0,107</u>	<u>0,105</u>

The amount of the syndicated loan convertible to shares was received on on 26 June 2008

### 38 CASH AND CASH EQUIVALENTS

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

	2008 JD	2007 JD
Cash and balances with Central Banks	83,764,001	81,048,157
Add: Balances at banks and financial institutions maturing within 3 months	74,449,064	136,908,920
Less: Banks and financial institutions' deposits maturing within 3 months	<u>( 48,265,992)</u>	<u>( 25,545,308)</u>
Less: Restricted cash balances	<u>( 415,150)</u>	<u>( 402,719)</u>
Cash and cash equivalents	<u>109,531,923</u>	<u>192,009,050</u>

### 39 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.

	Negative fair value JD	Total notional amount JD	Par value maturity	
			Within 3 months JD	3-12 months JD
2008				
Derivatives held For Trading (Selling Contracts)	461,248	43,599,904	43,599,904	-
Derivatives held For Trading (Buying Contracts)	-	43,306,916	43,306,916	-
2007				
Derivatives held For Trading (Selling Contracts)	160,964	20,742,492	20,742,492	-
Derivatives held For Trading (Buying Contracts)	-	20,494,254	20,494,254	-

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.

### 40 RELATED PARTY TRANSACTIONS

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

Company name	Ownership JD	Paid in Capital	
		2008 JD	2007 JD
Capital Investment and Brokerage Company	100 %	10,000,000	10,000,000
National Bank of Iraq	59.2%	11,392,587	11,392,587
Capital Investment Fund Company	100%	1,888	1,888

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.

The following related party transactions took place during the years:

	Related parties		
	BOD members and executive management JD	2008 JD	2007 JD
Balance sheet items:			
Direct credit facilities	22,104,260	22,105,046	2,800,698
Balances at banks	31,088,104	32,118,721	25,586,129
Margin accounts	24,000	1,483,581	1,011,148
Deposits at banks and financial institutions	-	854,902	-
Off balance sheet items:			
Indirect credit facilities	24,000	10,622,806	9,427,387
Income statement items:			
Interest and commission income	984,694	992,302	561,194
Interest and commission expense	1,277,523	1,397,309	261,153

Debt interest rates on credit facilities in Jordanian Dinar range between 4.25% - 15%

No credit facilities were granted in foreign currency.

Credit interest rates on deposits in Jordanian Dinar range between 4% - 7%

Credit interest rates on deposits in foreign currency range between 0.4% - 2.25%

Compensation of the key management personnel is as follows:

	2008 JD	2007 JD
Benefits (Salaries, wages, and bonuses) of senior management	<u>2,058,517</u>	<u>1,416,744</u>
Total	<u>2,058,517</u>	<u>1,416,744</u>

#### 41 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As mentioned in note (8) there is an amount of JD 1,403,153 representing financial investments- available for sale carried at cost (2007: JD 552,909). These investments were stated at cost since the fair value could not be measured reliably.

There are no material differences between the fair value of financial instruments and their carrying value.

#### 42 RISK MANAGEMENT POLICIES

The Bank manages its various banking risks in many ways based on a comprehensive strategy for risks and means of controlling and mitigating them through Risk Management Department, ALCO, Investment

Committee, and Credit Quality Department. Moreover, all bank's departments are responsible for defining the risks related to bank operations setting the appropriate controls and monitoring its continuity and efficiency in accordance with the risk control system.

Capital Bank is exposed to risks, and that is why it resorts to managing its risks to maintain solvency and profit levels.

Risk is managed through a process of ongoing identification, measurement and monitoring of financial and non-financial risks that can have adverse effects on the Bank's performance and reputation.

The Bank is exposed to the following risks:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Regulatory Compliance Risk

The Bank's risk management is inline with the main principles and objectives of corporate governance that are consistent with: the size and complexity of its operations, regulatory authorities' instructions, and International best practices. These principles constitute the following:

- Board's strategies for Risk Management.
- Risk management policies approved by the Board.
- Setting acceptable risk appetite limits by the Risk Committee, which are subsequently approved by the Board.
- Communication of risk management to all employees and developing risk awareness.
- Distribution of tasks and responsibilities to staff in accordance with specialization.
- Ensuring the effectiveness of the policies and procedures of risk management by the Audit and Risk Committee.

Determining the ideal employment of capital by the Assets and Liabilities Management Committee (ALCO), and ensuring the continuous monitoring of market and liquidity risks.

Risk Management is an independent department that manages credit, market, liquidity, operational, and compliance risks in a centralized and comprehensive approach using systems that help in managing such risks. The department directly reports to the General Manager, Audit, Risk and Compliance Committees that emanates from the Board of Directors.

The Internal Audit Department provides independent assurance on compliance with policies and procedures set by the Risk Management department, and the degree of effectiveness of its risk framework in the Bank.

The Bank's risk management policy is continuously reviewed and updated with the industry's most recent developments and services. Its risk management philosophy is based on knowledge, experience, management supervision, ability to judge on banking issues, and the availability of a clear manual of authorities set by the Board.

Risk Management department provides recommendations to senior management and Risk Committee. In addition, it sets the rules and instructions for implementing effective regulatory controls, reporting the degree



of compliance with controls, providing analytical resources for senior management, and following up on all technical developments relating to the tools of measurement and management of risk.

### **Measuring Risks & Reporting Systems**

The risk controlling process monitors the Bank's risk appetite and capacity, which is determined by the Bank's strategy as well as various market factors surrounding its activities.

Information is collected from different management units within the Bank and analyzed to determine the expected possible exposure. The results are subsequently communicated and explained to the Risk Committee.

### **Credit Risk**

Is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on levels of risk it is willing to accept for individuals and corporate counterparties and for geographical and industry sectors, and by monitoring exposures in relation to such limits and continually assessing the credit worthiness of counterparties. In addition, the Bank obtains security where appropriate.

The Bank's risk management policy includes the following:

#### **Defining credit concentration and limits:**

The credit policy contains clear and specified ratios for maximum credit allowed to any client or group of clients based on pre-approved concentration ratios defined by the Central Bank of Jordan, in addition to concentration limits for various economic sectors. Moreover, there are approval limits set for each administrative level.

#### **Customer Credit Rating:**

Corporate customers are rated according to our own internal rating method based on their credit worthiness and their commitment of repayment using financial and non-financial criteria that are reviewed and evaluated by the Risk Management Department. The bank has also developed a credit scoring system to cover the retail/SMEs, in collaboration with risk department.

#### **Risk Mitigation Techniques:**

The risk management process in the Bank depends on various methods to mitigate against risk:

Collaterals, which are based on availability for liquidation and their percentage of granted credit. Collaterals are monitored and evaluated continuously.

The types of collateral used against facilities are as follows:

- Mortgages on real estate.
- Mortgages on cars and vehicles.
- Pledges on machinery.
- Possessory mortgage on the goods stored in the bonded warehouse on behalf of the bank.



- Financial instruments such as Bonds and Stocks.
- Banks Guarantees.
- Cash Collateral.
- Government Guarantees.
- Assignment of proceeds.
- Borrowing instruments, whereby, external ratings issued by international rating institutions such as Moody's, Standard & Poors and Fitch or equivalent institutions are used to manage credit exposures.
- The Credit Administration Department monitors the market value of collateral on a regular basis, and upon decline in value, more collateral is demanded to cover the risk exposure.

Adopting a Credit Committee System for granting credit that depends on customer size, amount of facility, maturity, and customer risk level.

Diversification is a key principle for mitigating against credit risk. For this reason, the Bank's Credit Policy contains targeted distribution of credit and investments over various sectors and markets based on risk rating systems of economic and geographic sectors.

### **Credit granting, monitoring, and follow up:**

The Bank develops the policies and procedures necessary to: define credit granting techniques, maintaining the neutrality and integrity of the decision making process, and ensure that credit risks are accurately evaluated and approved. The Corporate Credit Group has been restructured, creating new sections, and the process of the credit goes through the following:

**Corporate Credit Department:** the main role of this department is to get selected clients, and prepare and evaluate credit reports and studies.

**Credit Review Department:** the main role is to receive credit studies and attached documents sent by the corporate credit department, then review these documents to create independent analysis for credit and financial status, monitoring proposed limits, and check compatibility with the bank's credit policies.

**Corporate Control and Documentation Unit:** the role of this department is to review and evaluate proposed credit limits, follow up on the documentation of the legal contracts, prepare the contracts and legal documents, and monitor any exceeded limits.

**Credit Studies Unit:** the main role is to keep following due payments and exceeded limits.

The general framework for credit policy contains credit approval delegations, credit limit definitions, and risk level methods. The Bank currently relies on internal credit rating and capital adequacy requirements based on Basel II to measure credit risk.



## 1) Credit Risk Exposures:

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.

	2008 JD	2007 JD
<b>Balance sheet items:</b>		
Cash and balances at Central Banks	79,383,348	82,471,612
Balances at banks and financial institutions	74,449,064	136,908,920
<b>Direct credit facilities</b>		
Consumer lending	39,393,856	31,162,476
Residential mortgages	73,805,545	67,710,216
<b>Corporate lending:</b>		
Large corporations	465,530,576	389,924,841
Small and medium enterprises (SMEs)	14,141,703	8,614,374
<b>Bonds and treasury bills:</b>		
Within financial assets held for trading	17,868,686	35,207,504
Within financial investments- available for sale	78,995,442	37,964,437
Within financial investments- held to maturity	49,332,391	73,302,108
Within financial investments- available for sale pledged as collateral	5,983,890	-
Other assets	<u>19,573,112</u>	<u>15,552,788</u>
<b>Total Balance Sheet Items</b>	<u>918,457,613</u>	<u>878,819,276</u>
<b>Off balance sheet items</b>	109,797,492	100,239,536
Letters of guarantee	78,469,263	119,931,197
Letters of credit	17,598,644	20,229,612
Acceptances	20,783,852	26,130,086
Irrevocable commitments to extend credit	<u>43,306,916</u>	<u>20,742,492</u>
Forward Deals		
	<u>269,956,167</u>	<u>287,272,923</u>
<b>Total off Balance Sheet</b>		
	<u>1,188,413,780</u>	<u>1,166,092,199</u>
<b>Total</b>		

2) Credit exposures are classified by the level of risks according to the following table:

	Consumer JD	Residential mortgages JD	Corporate JD	SMEs JD	Banks and other Financial Institutions and other items JD	Total JD
<b>2008</b>						
Low risk	853,596	959,675	14,940,894	907,020	168,874,378	186,535,563
Acceptable risk	34,814,380	65,241,986	418,106,883	11,382,179	156,711,555	686,256,983
Maturing:						
Up to 30 days	3,027,592	65,100	11,581,947	338,225	-	15,012,864
From 31 to 60 days	5,035,989	159,275	23,105,434	317,128	-	28,617,826
Watchlist	2,014,667	6,704,035	27,221,132	1,699,190	-	37,639,024
Non performing:						
Substandard	705,564	-	12,233,578	-	-	12,939,142
Doubtful	1,708,000	84,816	68,036	206,723	-	2,067,575
Loss	2,073,930	1,451,409	11,762,172	267,645	-	15,555,156
Overdrawn accounts	<u>243,507</u>	<u>39,072</u>	<u>595,538</u>	<u>149</u>	<u>-</u>	<u>878,266</u>
Total	<u>42,413,644</u>	<u>74,480,993</u>	<u>484,928,233</u>	<u>14,462,906</u>	<u>325,585,933</u>	<u>941,871,709</u>
Less: Suspended interest	( 617,828)	( 136,442)	( 3,692,615)	( 40,987)	-	( 4,487,872)
Less: allowance for impairment losses	<u>( 2,401,960)</u>	<u>( 539,006)</u>	<u>( 15,705,042)</u>	<u>( 280,216)</u>	<u>-</u>	<u>( 18,926,224)</u>
<b>Net</b>	<u>39,393,856</u>	<u>73,805,545</u>	<u>465,530,576</u>	<u>14,141,703</u>	<u>325,585,933</u>	<u>918,457,613</u>
<b>2007</b>						
Low risk	938,033	4,058,903	21,237,652	488,388	270,834,562	297,557,538
Acceptable risk	29,539,145	62,119,420	330,131,616	7,122,848	110,572,807	539,485,836
Maturing :						
Up to 30 days	236,883	160,774	12,354,150	923,962	-	13,675,769
From 31 to 60 days	489,302	164,132	11,775,773	786,891	-	13,216,098
Watchlist	742,361	-	38,715,922	600,672	-	40,058,955
Non performing:						
Substandard	293,522	1,214,045	3,439,583	478,816	-	5,425,966
Doubtful	385,496	463,274	1,273,831	-	-	2,122,601
Loss	732,462	47,872	9,998,061	-	-	10,778,395
Overdrawn accounts	<u>184,230</u>	<u>800</u>	<u>515,464</u>	<u>4,907</u>	<u>-</u>	<u>705,401</u>
Total	<u>32,815,249</u>	<u>67,904,314</u>	<u>405,312,129</u>	<u>8,695,631</u>	<u>381,407,369</u>	<u>896,134,692</u>
Less: Suspended interest	( 223,136)	( 31,433)	( 3,152,373)	-	-	( 3,406,942)
Less: allowance for impairment losses	<u>( 1,429,637)</u>	<u>( 162,665)</u>	<u>( 12,234,915)</u>	<u>( 81,257)</u>	<u>-</u>	<u>(13,908,474)</u>
<b>Net</b>	<u>31,162,476</u>	<u>67,710,216</u>	<u>389,924,841</u>	<u>8,614,374</u>	<u>381,407,369</u>	<u>878,819,276</u>

The following table shows the distribution of collaterals measured at fair value over credit facilities:

	Consumer JD	Residential mortgages JD	Corporate JD	SMEs JD	Total JD
<b>2008</b>					
<b>Collaterals</b>					
Low risk	853,596	959,675	14,940,894	907,020	17,661,185
Acceptable risk	3,761,190	51,209,457	167,794,019	5,686,813	228,451,479
Watch list - From 61 to 90 days	1,420,862	6,564,548	19,371,282	1,319,277	28,675,969
Non performing:					
Substandard	610,645	-	5,020,487	-	5,631,132
Doubtful	832,911	69,008	64,655	85,695	1,052,269
Loss	775,418	1,270,649	3,433,125	73,019	5,552,211
Overdrawn accounts	646	-	-	-	646
<b>Total</b>	<u>8,255,268</u>	<u>60,073,337</u>	<u>210,624,462</u>	<u>8,071,824</u>	<u>287,024,891</u>
Comprising of:					
Cash margin	853,596	959,675	14,940,894	907,020	17,661,185
Real Estate	3,548,709	54,891,759	124,180,654	6,146,285	188,767,407
Traded equities	25,122	2,812,936	46,000,719	431,135	49,269,912
Vehicles and machinery	<u>3,827,841</u>	<u>1,408,967</u>	<u>25,502,195</u>	<u>587,384</u>	<u>31,326,387</u>
<b>Total</b>	<u>8,255,268</u>	<u>60,073,337</u>	<u>210,624,462</u>	<u>8,071,824</u>	<u>287,024,891</u>
<b>2007</b>					
<b>Collaterals</b>					
Low risk	938,033	4,058,903	21,237,652	488,388	26,722,976
Acceptable risk	6,210,641	16,353,978	115,978,519	3,001,378	141,544,516
Watch list - From 61 to 90 days	168,594	-	36,655,977	378,045	37,202,616
Non performing:					
Substandard	106,247	987,123	2,593,886	283,363	3,970,619
Doubtful	254,439	426,737	749,502	-	1,430,678
Loss	323,398	47,310	3,047,694	16,800	3,435,202
Overdrawn accounts	763	-	-	-	763
<b>Total</b>	<u>8,002,115</u>	<u>21,874,051</u>	<u>180,263,230</u>	<u>4,167,974</u>	<u>214,307,370</u>
Comprising of:					
Cash margin	938,033	4,058,903	22,148,241	488,388	27,633,565
Real Estate	1,617,340	16,728,640	106,708,351	2,704,833	127,759,164
Traded equities	855,527	700,654	34,930,522	611,611	37,098,314
Vehicles and machinery	<u>4,591,215</u>	<u>385,854</u>	<u>16,476,116</u>	<u>363,142</u>	<u>21,816,327</u>
<b>Total</b>	<u>8,002,115</u>	<u>21,874,051</u>	<u>180,263,230</u>	<u>4,167,974</u>	<u>214,307,370</u>

The fair value of collaterals shown does not exceed the value of the loan for each individual client.

### Rescheduled Debts

Are defined as debts that were classified as “non-performing” facilities, and subsequently removed and included under «Watch List» based on proper rescheduling that complies with the Central Bank of Jordan's regulations. The sum of these debts amounted to JD 3,254,800 as at 31 December 2008 (2007: JD 5,416,291).

### Restructured Debts

Restructuring is reorganizing credit facilities in terms of instalments, extending the term of credit facilities, deferment of instalments, or extending the grace period and accordingly are classified as «Watch List» according to CBJ instructions and its amendments. The sum of these debts amounted to JD 764,251 as at 31 December 2008 (2007: JD 2,296,252).

### 3) Bonds and Treasury Bills

The following table explains the classifications of bonds and treasury bills based on international classification standards:

#### Bonds and Bills

Risk Rating Class	Included in financial assets held for trading JD	Included in financial investments- available for sale JD	Included in financial investments- held to maturity JD	Included in Financial investments- available for sale pledged as Collaterals JD	Total JD
Non-rated	789,614	5,101,453	34,323,151	-	40,214,218
Governmental	<u>17,079,072</u>	<u>73,893,989</u>	<u>15,009,240</u>	<u>5,983,890</u>	<u>111,966,191</u>
Total	<u>17,868,686</u>	<u>78,995,442</u>	<u>49,332,391</u>	<u>5,983,890</u>	<u>152,180,409</u>



4) Credit Concentration based on geographic distribution is as follows:

	Inside Jordan JD	Other Middle Eastern countries JD	Europe JD	Asia * JD	Americas JD	Other JD	Total JD
<b>2008</b>							
Cash and balances at Central Banks	56,908,188	22,475,160	-	-	-	-	79,383,348
Balances at banks and financial institutions	27,297,696	6,102,946	23,613,707	1,610,399	15,797,819	26,497	74,449,064
Direct credit facilities:							
Consumer lending	38,644,473	749,383	-	-	-	-	39,393,856
Residential mortgages	73,805,545	-	-	-	-	-	73,805,545
Corporate lending:							
Large corporations	454,176,202	9,581,874	1,772,500	-	-	-	465,530,576
Small and medium enterprises	13,856,984	284,719	-	-	-	-	14,141,703
Bonds and treasury bills within:							
Financial held for trading	17,135,574	733,112	-	-	-	-	17,868,686
Financial investments- available for sale	78,995,442	-	-	-	-	-	78,995,442
Financial investments- available for pledged as collateral	5,983,890	-	-	-	-	-	5,983,890
Financial investments- held to maturity	37,009,241	10,990,797	-	-	-	1,332,353	49,332,391
Other assets	13,266,093	4,163,749	-	-	706,359	1,436,911	19,573,112
<b>Total 2008</b>	<u>817,079,328</u>	<u>55,081,740</u>	<u>25,386,207</u>	<u>1,610,399</u>	<u>16,504,178</u>	<u>2,795,761</u>	<u>918,457,613</u>
<b>Total 2007</b>	<u>741,601,198</u>	<u>44,729,854</u>	<u>84,360,446</u>	<u>49,463</u>	<u>7,973,352</u>	<u>104,963</u>	<u>878,819,276</u>

\* Excluding Middle-Eastern countries.

5) Concentration in credit exposures based on the economic sectors is as follows:

	Financial JD	Industrial JD	Commercial JD	Real estate* JD	Agriculture JD	Trading JD	Consumer JD	Public and governmental JD	Other JD	Total JD
2008										
Cash and balances at Central Banks	79,383,348	-	-	-	-	-	-	-	-	79,383,348
Balances at banks and financial institutions	74,449,064	-	-	-	-	-	-	-	-	74,449,064
Direct credit facilities:	10,290,286	102,566,073	145,761,352	138,744,051	17,025,134	149,425,075	20,847,278	-	8,212,431	592,871,680
Bonds and treasury bills within:										
Financial assets held for trading	-	246,023	-	89,653	-	-	-	17,079,072	453,938	17,868,686
Financial investments- available for sale	-	3,545,000	-	1,423,824	-	-	-	73,893,989	132,629	78,995,442
Financial investments- held to maturity	-	3,459,354	-	22,000,000	-	-	-	15,009,240	8,863,797	49,332,391
Financial investments- available for sale pledged as collaterals	-	-	-	-	-	-	-	5,983,890	-	5,983,890
Other assets	19,573,112	-	-	-	-	-	-	-	-	19,573,112
<b>Total 2008</b>	<b>183,695,810</b>	<b>109,816,450</b>	<b>145,761,352</b>	<b>162,257,528</b>	<b>17,025,134</b>	<b>149,425,075</b>	<b>20,847,278</b>	<b>111,966,191</b>	<b>17,662,795</b>	<b>918,457,613</b>
<b>Total 2007</b>	<b>243,772,136</b>	<b>103,813,884</b>	<b>135,168,176</b>	<b>172,414,018</b>	<b>12,444,306</b>	<b>88,902,928</b>	<b>10,329,711</b>	<b>107,640,266</b>	<b>4,333,851</b>	<b>878,819,276</b>

\* The balance includes real estate loans granted to corporations and mortgage lending institutions.



## **Market Risk**

This is the risk of fluctuation in the fair value or the cash flows from financial instrument due to changes in market prices, interest rates, currency rates, and equity prices. These risks are monitored based on specific policies and procedures carried out through specialized committees and concerned business units.

Market risk is measured and monitored using different methods such as sensitivity analysis, “stop loss limits reports”, and monitoring of trading limits.

Sensitivity analysis is based on estimating the possible loss as a result of changes in the interest and foreign exchange rates. The fair value is calculated based on the present value of future cash flows adjusted for changes in interest rates.

### **1- Interest rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches in interest rates between assets and liabilities. Accordingly, it manages these risks by reviewing the rates on a regular basis.

The Asset & liability policy provides limits for interest rate sensitivity and the “Asset and Liability Committee” (ALCO) analyses interest rate gaps and compares them to the approved limits. Positions are monitored on a regular basis and hedging strategies are used to ensure positions are maintained within the established limits.

#### **Balancing Maturity dates for assets & liabilities:**

The Bank attempts to harmonize the effect of interest rate changes across categories of assets and liabilities, and limit the adverse effects that can emerge as a result.

#### **Interest Rate Gaps**

The Bank attempts to avoid having interest rate gaps by matching between interest rates and maturities.

#### **Hedging for interest rates**

The Bank acquires long term financing to meet its long-term investments using fixed interest rates where possible to avoid fluctuations. Conversely, it enters into short-term investments to hedge against fluctuations that occur on floating and variable interest rates.

The sensitivity of income statement is represented by the effect of the possible expected changes in interest rates on the Bank’s profits for one year. It is calculated based on the financial assets and liabilities that carry a variable interest rate as of 31 December 2008.



2008 Currency	Increase in interest rate %	Sensitivity of net interest income JD	Sensitivity of equity JD
US Dollar	1	( 594,742)	( 57,966)
European Currency	1	18,837	-
Pound Sterling	1	3,806	-
Japanese Yen	1	228,225	-
Other Currencies	1	( 8,570)	-

2007 Currency	Increase in interest rate %	Sensitivity of net interest income JD	Sensitivity of equity JD
US Dollar	1	( 281,658)	34,389
European Currency	1	( 4,526)	-
Pound Sterling	1	16,441	-
Japanese Yen	1	154,847	-
Other Currencies	1	( 606,351)	-

2008 Currency	Increase in interest rate %	Sensitivity of net interest income JD	Sensitivity of equity JD
US Dollar	1	579,059	59,077
European Currency	1	( 18,778)	-
Pound Sterling	1	( 3,806)	-
Japanese Yen	1	( 228,225)	-
Other Currencies	1	( 8,570)	-

2007 Currency	Increase in interest rate %	Sensitivity of net interest income JD	Sensitivity of equity JD
US Dollar	1	( 1,011,420)	( 35,366)
European Currency	1	4,526	-
Pound Sterling	1	( 16,441)	-
Japanese Yen	1	( 154,847)	-
Other Currencies	1	606,351	-

## 2- Currency Risks

Foreign currency risk is the risk of change in the value of financial instruments as a result of change in foreign currency rates. Jordanian Dinar is the basic currency of the Bank. The Board sets position limits for each foreign currency in the Bank. These positions are monitored on daily basis, and hedging strategies are adopted to ensure that the foreign currency positions held are within the approved limits.

The Bank's investment policy allows it to hold positions in major foreign currencies as long as it does not exceed 5% of shareholders equity in each currency, and the net currencies position of 15% of shareholders equity. Foreign currency positions are monitored on daily basis. In addition, market instruments are used to hedge against fluctuations in currency exchange rates in order to protect the Bank from additional risk exposures.

The following table illustrates the possible effect on the income statement as a result of fluctuations in exchange rates against the Jordanian Dinar assuming that all other variables remain constant:



2008 Currency	Increase in currency exchange rate %	Effect on profit before tax JD
Euro	5	1,729
Pound Sterling	5	( 15,685)
Japanese Yen	5	41,702
Other currencies	5	1,008,302

2007 Currency	Increase in currency exchange rate %	Effect on profit before tax JD
Euro	5	15,502
Pound Sterling	5	47,259
Japanese Yen	5	1,817,691
Other currencies	5	912,609

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

### 3- Equity Price Risk

Equity price risk arises from the change in the fair value of equity investments. The Bank manages this risk by distributing its investments over various geographic and economic sectors. Most of the Bank's investments are listed in Amman stock market, Palestine, Egypt, Dubai, Abu Dhabi and Iraq securities market, in addition to some international markets such as London Stock Exchange.

The following table illustrates the income statement sensitivity and the accumulative change in fair value as a result of possible reasonable changes in the equity prices while assuming that all other variables remain constant:

2008 Market	Decrease in equity price %	Effect on profit before tax JD	Sensitivity of equity JD
Amman Stock exchange	5	77,418	347,534
Shuaa Capital	5	-	98,723
International markets	5	-	5,260
Iraq Stock Exchange	5	22,361	-

2007 Market	Decrease in equity price %	Effect on profit before tax JD	Sensitivity of equity JD
Amman Stock exchange	5	( 314,230)	( 354)
Shuaa Capital	5	( 18,308)	-
Dow Jones	5	( 19,694)	-
Iraq Stock Exchange	5	( 13,278)	-

In the event of an opposite change in the indicator, the effect will be for the same amount but in an opposite direction.

The following analysis shows interest rate re-pricing or maturity dates; whichever is earlier:

	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-inter- est bearing JD	Total JD	Average Interest rate %
<b>2008</b>									
<b>Assets</b>									
Cash and balances at Central Banks	33,495,019	8,000,000	3,000,000	-	-	-	42,268,982	86,764,001	
Balances at banks and financial institutions	64,365,706	5,400,000	-	-	-	-	4,683,358	74,449,064	
Financial assets held for trading	3,004,391	-	89,654	1,465,138	13,309,505	-	1,548,341	19,417,029	7.14
Direct credit facilities	104,477,173	57,443,106	68,366,657	102,732,054	137,803,734	122,048,956	-	592,871,680	7.16
Financial investments- available for sale	4,978,250	2,960,940	20,342,844	16,296,092	20,355,806	14,061,509	10,214,983	89,210,424	5.44
Financial investments-held to maturity	-	9,863,797	5,000,000	10,998,906	15,469,688	8,000,000	-	49,332,391	7.21
Financial investments- available for sale pledged as collaterals	-	-	-	1,010,390	4,973,500	-	-	5,983,890	
Property and equipment	-	-	-	-	-	-	20,027,779	20,027,779	
Intangible assets	-	-	-	-	-	-	5,716,128	5,716,128	
Deferred tax assets	-	-	-	-	-	-	5,514,179	5,514,179	
Other assets	489,092	5,248,146	233,034	1,225,152	7,855,004	-	19,209,506	34,259,934	
<b>Total Assets</b>	<u>210,809,631</u>	<u>88,915,989</u>	<u>97,032,189</u>	<u>133,727,732</u>	<u>199,767,237</u>	<u>144,110,465</u>	<u>109,183,256</u>	<u>983,546,499</u>	
<b>Liabilities</b>									
Banks and financial institution deposits	45,403,776	2,129,600	-	3,070,287	-	-	732,615	51,336,278	3.31
Customers' deposits	267,336,261	109,127,553	24,855,902	47,735,912	16,245,425	-	64,903,307	530,204,360	4.62
Margin accounts	36,184,960	10,215,786	3,415,075	3,055,921	144,845	192,915	1,345,175	54,554,677	4.45
Loans and borrowings	2,158,057	3,173,682	17,081,447	59,785,986	6,081,997	19,070,800	-	107,351,969	5.88
Subordinated loans (convertible to shares)	-	-	-	-	-	12,952,001	-	12,952,001	6.91
Sundry provisions	-	-	-	-	-	-	3,358,508	3,358,508	
Tax provision	-	-	-	-	-	-	6,808,394	6,808,394	
Other Liabilities	4,922,111	853,563	1,461,486	388,037	196,732	-	5,996,838	13,818,767	
<b>Total Liabilities</b>	<u>356,005,165</u>	<u>125,500,184</u>	<u>46,813,910</u>	<u>114,036,143</u>	<u>22,668,999</u>	<u>32,215,716</u>	<u>83,144,837</u>	<u>780,384,954</u>	
<b>Interest rate sensitivity gap</b>	<u>(145,195,534)</u>	<u>(36,584,195)</u>	<u>50,218,279</u>	<u>19,691,589</u>	<u>177,098,238</u>	<u>111,894,749</u>	<u>26,038,419</u>	<u>203,161,545</u>	
<b>2007</b>									
<b>Total Assets</b>	<u>195,110,439</u>	<u>174,202,602</u>	<u>286,763,347</u>	<u>36,489,237</u>	<u>107,835,999</u>	<u>27,430,085</u>	<u>111,807,526</u>	<u>939,639,235</u>	
<b>Total Liabilities</b>	<u>327,491,177</u>	<u>153,426,836</u>	<u>106,860,887</u>	<u>58,037,569</u>	<u>20,394,829</u>	<u>15,577,560</u>	<u>85,475,253</u>	<u>767,264,111</u>	
<b>Interest rate sensitivity gap</b>	<u>(132,380,738)</u>	<u>20,775,766</u>	<u>179,902,460</u>	<u>(21,548,332)</u>	<u>87,441,170</u>	<u>11,852,525</u>	<u>26,332,273</u>	<u>172,375,124</u>	

### Concentration in currency risk:

	US Dollar JD	Euro JD	British Pound JD	Japanese Yen JD	Other JD
<b>2008</b>					
<b>Assets</b>					
Cash and balances at Central Banks	15,087,051	1,515,595	9,638	-	22,415,705
Balances at banks and financial institutions	36,198,084	14,506,528	8,215,787	1,610,399	5,573,508
Financial assets held for trading	699,959	-	-	-	-
Direct credit facilities	81,226,675	887,636	57,672	22,836,339	1,840,530
Financial investments- available for sale	7,989,999	-	105,197	-	775,502
Financial investments- held to maturity	2,127,000	1,332,353	-	-	8,863,797
Other assets	8,062,321	23,633	16,727	7,952,393	1,736,869
<b>Total Assets</b>	<u>151,391,089</u>	<u>18,265,745</u>	<u>8,405,021</u>	<u>32,399,131</u>	<u>41,205,911</u>
<b>Liabilities</b>					
Banks and financial institution deposits	38,551,865	4,551,504	1,537,927	-	1,208,740
Customers' deposits	92,157,368	12,983,428	6,839,293	4,395	17,971,299
Margin accounts	22,401,082	589,940	314,279	13,802	412,081
Loans and borrowings	45,996,654	-	-	-	-
Subordinated loans convertible to shares	12,952,001	-	-	-	-
Other liabilities	3,998,261	106,294	27,235	-	1,447,760
<b>Total Liabilities</b>	<u>216,057,231</u>	<u>18,231,166</u>	<u>8,718,734</u>	<u>18,197</u>	<u>21,039,880</u>
Net concentration in the balance sheet	( 64,666,142)	34,579	( 313,713)	32,380,934	20,166,031
Future contracts	30,328,141	-	-	(31,546,904)	-
<b>Net concentration in foreign currency</b>	<u>( 34,338,001)</u>	<u>34,579</u>	<u>( 313,713)</u>	<u>834,030</u>	<u>20,166,031</u>
<b>2007</b>					
<b>Total Assets</b>	<u>193,384,760</u>	<u>10,067,919</u>	<u>13,686,561</u>	<u>24,890,120</u>	<u>33,586,774</u>
<b>Total Liabilities</b>	<u>246,981,127</u>	<u>9,810,035</u>	<u>14,864,299</u>	<u>6,701,310</u>	<u>15,334,590</u>
Net concentration in the balance sheet	( 53,596,367)	257,884	( 1,177,738)	18,188,810	18,252,184
Future contracts	( 20,484,061)	52,154	2,122,909	18,165,018	-
<b>Net concentration in foreign currency</b>	<u>( 74,080,428)</u>	<u>310,038</u>	<u>945,171</u>	<u>36,353,828</u>	<u>18,252,184</u>

### Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due, or to finance its activities without bearing additional costs or losses. The liquidity policy was approved by the Board of Directors.

The asset and liability management policy is carried out by ALCO which works on diversifying the funding sources and matching between their maturity dates, in addition to maintaining sufficient reserves of cash, cash equivalents and trading investments to mitigate against liquidity risks.

#### - Diversifying Funding Sources

The Bank seeks to diversify its financing sources and customer base. Borrowing from local and foreign banks and financial institutions will allow the Bank to obtain reasonable maturity dates and interest rates.

- **Analysing and Monitoring Asset & liability maturity dates**

The Bank reviews the liquidity of its assets and liabilities and monitors the changes that can affect them on a daily basis. It aims to match between maturities of assets and liabilities to decrease liquidity gaps.

The policy also includes a "Liquidity Contingency Plan" to be applied in dire situations.

The Risk Management Department raises recommendations regarding the policies and procedures of liquidity risk management, sets implementation methods for effective controls, and reports about liquidity risks and the extent of compliance with laws and regulations. In addition, it provides analytical resources to be used by management.

- **The Geographical and Sector Distribution:**

The Bank's assets and liabilities are distributed between local and foreign investments based on several financial markets. Credit facilities are also distributed over various sectors and geographical areas to balance between corporate and retail customers.

- **Reserves with Banking Regulatory Authorities**

The Bank holds compulsory cash reserves with banking regulatory authorities amounting to JD 41,255,063 as at 31 December 2008.



**First:** The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations

	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-inter- est bearing JD	Total JD
<b>Liabilities 2008</b>								
Banks and Financial institution deposits	46,266,189	2,147,222	-	3,171,913	-	-	-	51,585,324
Customers' deposits	290,416,677	124,794,587	34,799,512	58,404,434	31,966,500	-	-	540,381,710
Margin accounts	36,851,347	10,403,821	3,623,764	3,338,181	667,792	-	-	54,884,905
Loans and borrowings	2,165,460	3,228,612	10,962,266	69,119,540	6,833,093	22,996,048	-	115,305,019
Subordinated loan (convertible to shares)	-	-	489,919	489,919	1,959,676	15,159,838	-	18,099,352
Sundry provisions	-	-	-	-	3,358,508	-	-	3,358,508
Tax provision	6,808,394	-	-	-	-	-	-	6,808,394
Other liabilities	10,914,620	853,563	1,461,488	388,037	196,732	-	4,327	13,818,767
<b>Total Liabilities</b>	<b>393,422,687</b>	<b>141,427,805</b>	<b>51,336,949</b>	<b>134,912,024</b>	<b>44,982,301</b>	<b>38,155,886</b>	<b>4,327</b>	<b>804,241,979</b>
<b>Total Assets</b>	<b>260,030,495</b>	<b>99,750,892</b>	<b>98,816,619</b>	<b>137,672,860</b>	<b>209,476,519</b>	<b>145,252,381</b>	<b>32,546,733</b>	<b>983,546,499</b>
<b>Liabilities 2007</b>								
Banks and Financial institution deposits	20,631,451	5,059,625	2,047,700	5,493,060	-	-	-	33,231,836
Customers' deposits	300,034,457	104,237,265	27,266,455	41,051,453	16,174,504	-	-	488,764,134
Margin accounts	29,401,037	4,069,348	4,973,257	6,002,160	9,830,950	5,478,470	5,369,143	65,124,365
Loans and borrowings	35,139,303	57,048,249	3,699,567	10,237,864	66,556,091	24,779,133	-	197,460,207
Sundry provisions	-	-	-	-	3,226,979	-	-	3,226,979
Deferred tax liabilities	-	255,942	-	-	-	-	-	255,942
Tax provision	7,292,527	-	-	-	-	-	-	7,292,527
Other liabilities	11,296,070	484,182	700,434	468,156	-	-	4,327	12,953,169
<b>Total Liabilities</b>	<b>403,794,845</b>	<b>171,154,611</b>	<b>38,687,413</b>	<b>63,252,693</b>	<b>95,788,524</b>	<b>30,257,603</b>	<b>5,373,470</b>	<b>808,309,159</b>
<b>Total Assets</b>	<b>261,133,244</b>	<b>141,574,192</b>	<b>112,052,386</b>	<b>117,887,245</b>	<b>186,406,855</b>	<b>106,701,928</b>	<b>13,883,385</b>	<b>939,639,235</b>

**Second:** the below table summaries the maturities of financial derivatives as of the date of the financial statements:

Financial derivatives / liabilities, which are settled net, include foreign currency derivatives: off balance sheet market currency options, currency futures and on balance sheet foreign currency swapping contracts.

Financial derivative's / liabilities which are settled gross include: foreign currency derivatives: currency contracts that have passed their maturity dates.

#### Foreign Currency Derivative

2008	Less than 1 month JD	1 – 3 months JD	Total JD
Derivatives held for trading:			
Outflows	7,126,000	36,180,916	43,306,916
Inflows	8,561,805	35,038,099	43,599,904

2007	Less than 1 month JD	1 – 3 months JD	Total JD
Derivatives held for trading:			
Outflows	14,070,023	6,672,469	20,742,492
Inflows	13,813,924	6,680,330	20,494,254

#### Third: Off balance sheet items

2008	Less than 1 year JD	1 – 5 years JD	Total JD
Acceptances and Letters of Credit	91,128,142	4,939,765	96,067,907
Irrevocable commitments to extend credit	-	20,783,852	20,783,852
Letters of guarantee	105,547,595	4,249,897	109,797,492
Foreign Currency Forward Deals	43,306,916	-	43,306,916
Total	<u>239,982,653</u>	<u>29,973,514</u>	<u>269,956,167</u>

2007	Less than 1 year JD	1 – 5 years JD	Total JD
Acceptances and Letters of Credit	140,160,809	-	140,160,809
Irrevocable commitments to extend credit	-	26,130,086	26,130,086
Letters of guarantee	74,104,117	26,135,419	100,239,536
Foreign Currency Forward Deals	20,742,492	-	20,742,492
Total	<u>235,007,418</u>	<u>52,265,505</u>	<u>287,272,923</u>

#### Operational Risk

Operational Risk is the risk of loss resulting from inadequate or the failure of internal processes, people, and systems or from external events. This definition includes legal risk. Strategic and reputational risks were included for management purposes.

#### Strategic Risks

These are the losses that the Bank could be exposed to as a result of taking an improper strategic decision relating to its business that has an adverse effect on performance.



These risks are managed by various business units in addition to the decision maker party.

### Reputational Risks

There are losses that the Bank could be exposed to due to negative public opinion and lack of trust in its operational competency. These risks are managed within the framework of Operational Risk management or Compliance management depending on their nature.

Due to the nature of operational risks certainty of occurrence is not possible. Consequently, the risk management policies are established to mitigate against risks via effective control systems, continuous monitoring, qualified human resources, clarity of delegations, high-tech efficiency and creation of a risk awareness culture.

The Risk Management Department provides indicators and measures that assist in improving internal controls and monitoring systems. The department reviews procedures and policies preceding board approval, adopts the self assessment method to assess risks and controls (being one of the tools proposed by the Basel Committee), develops Key Risk Indicator tool, and provides a mechanism to collect operational events. The Bank is currently in the process of developing a comprehensive Business Continuity Plan.

The Operational Risk policy was approved by the Board of Directors.

### Regulatory Compliance Risk Management

This is the risk of regulatory or legal penalties, financial, and reputation risks that the Bank can be exposed to by non-compliance with laws, regulations, instructions, code of conduct, and good banking practice.

Compliance risk management process includes the evaluation of the appropriateness of procedures and compliance guidelines in the Bank, and following up on any inefficiencies or non-compliance issues, developing the appropriate recommendations to perform amendments, and ensuring the application of the approved regulatory compliance risk management policy. This is achieved by performing regular evaluations and submitting reports to the Board of Directors and executive management. Reports contain an evaluation of compliance risks, details of the tests conducted during the reporting process, discrepancies, deficiencies, and corrective actions taken.

The regulatory risk compliance policy was approved by the Board of Directors.

## 43 SEGMENT INFORMATION

### Primary segment information

For management purposes the Bank is organised into four 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;

**Corporate finance:** Principally arranging structured financing, and providing services relating to privatisations,



IPO's and mergers and acquisitions;

**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.

2008	Retail Banking JD	Corporate Banking JD	Corporate Finance JD	Treasury JD	Other JD	2008 JD	Total 2007 JD
Total revenue	<u>9,193,047</u>	<u>46,432,342</u>	<u>701,022</u>	<u>21,582,137</u>	<u>2,104,590</u>	<u>80,013,138</u>	<u>80,745,685</u>
Allowance for credit losses	<u>( 1,272,830)</u>	<u>( 3,796,535)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 5,069,365)</u>	<u>( 5,924,767)</u>
Segment result	<u>( 4,967,507)</u>	<u>19,433,042</u>	<u>701,022</u>	<u>19,899,190</u>	<u>2,104,590</u>	<u>37,170,337</u>	<u>35,438,809</u>
Unallocated expenses						<u>( 17,445,772)</u>	<u>( 17,467,962)</u>
Profit before tax	-	-	-	-	-	19,724,565	17,970,847
Income tax expenses	-	-	-	-	-	<u>( 4,474,396)</u>	<u>( 4,462,181)</u>
Net profit	-	-	-	-	-	<u>15,250,169</u>	<u>13,508,666</u>

#### Other information

Segmental assets	113,573,149	479,298,531	-	325,156,798	65,518,021	983,546,499	939,639,235
Segmental liabilities	287,643,873	242,560,488	-	226,194,925	23,985,668	780,384,954	767,264,111
Capital expenditure						( 11,958,741)	( 2,612,908)
Depreciation and amortization						( 1,652,508)	( 1,118,349)

## 2. Geographical Information

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

	Jordan		Outside Jordan		Total	
	2008 JD	2007 JD	2008 JD	2007 JD	2008 JD	2007 JD
Total revenue	72,165,912	70,766,337	7,847,226	9,979,348	80,013,138	80,745,685
Total assets	878,288,257	795,746,939	105,258,242	143,892,296	983,546,499	939,639,235
Capital expenditure	11,958,741	2,428,015	-	184,893	11,958,741	2,612,908



#### **44 CAPITAL MANAGEMENT**

The Bank maintains an appropriate paid in capital in order to meet its operational risk, and it regularly monitors its capital adequacy in accordance with BASEL to comply with the Central Bank of Jordan's regulations.

As per Central Bank of Jordan's regulations Number 17/2003, the minimum required paid in capital of Jordanian banks shall not be lower than JD 100 million before the end of year 2010, and the total shareholders equity shall not be less than 6% of total assets.

Through its operational years; the Bank maintained a capital adequacy ratio in excess of 12%, being the minimum capital adequacy rate required by the Central Bank of Jordan (8% as per Basel). Furthermore, the Bank regularly reviews and complies with the concentration ratios using regulatory capital as an indicator.

#### **DESCRIPTION OF PAID IN CAPITAL**

Regulatory capital comprises of primary capital and supplementary capital primary capital. Primary capital that consist of: paid in capital, share premium, declared reserves, retained earnings, minority interest after excluding current period losses, goodwill, treasury stock cost, deficiency of required provisions, deferred tax assets and any other restricted balances by law.

The second part of regulatory capital is supplementary capital that consists of: undeclared reserves, subordinated debts, foreign currency translation adjustment, banking risk reserve, and hybrid debts. The third part is used to meet market risk. Investments in other banks and unconsolidated subsidiaries are excluded from regulatory capital.

#### **REGULATORS REQUIREMENT FOR PAID IN CAPITAL**

Capital adequacy ratio as at 31 December 2008 was calculated in accordance with Basel II accord based on standardized approach for credit risk , basic indicator approach for operational risk and standardized approach for market risk , while Capital adequacy ratio as at 31 December 2007 was calculated in accordance with Basell accord.

	2008 JD	2007 JD
<b>Primary capital-</b>		
Paid in capital	132,280,000	123,000,000
Statutory Reserves	14,719,693	12,874,420
Share premium	12,680,672	709,472
Retained earning	24,944,515	13,278,669
Minority Interests	-	7,233,497
<b>Less-</b>		
Deferred tax assets	5,514,179	-
Goodwill	4,076,664	3,920,755
Intangible assets	1,639,464	-
Restricted cash balances	10,000,000	3,773,340
50% of Investments in Banks and Insurance companies Paid in Capital	1,376,364	-
<b>Total Primary capital</b>	<u>162,018,209</u>	<u>149,401,963</u>
<b>Supplementary Capital</b>		
Foreign Currency translation reserve	2,984,443	2,420,483
General banking risk reserve	5,883,391	5,119,844
45% of cumulative change in fair value of financial investments available for sale	82,630	107,433
Subordinated loan	13,974,785	-
<b>Total Supplementary Capital</b>	<u>22,925,249</u>	<u>7,647,760</u>
<b>Less</b>		
50% of Investments in Banks and Insurance companies Paid in Capital	<u>1,376,364</u>	<u>1,791,365</u>
<b>Total Regulatory Capital</b>	<u>183,567,094</u>	<u>155,258,358</u>
<b>Total Risk Reserve</b>	911,355,219	720,552,739
<b>Capital adequacy (%)</b>	20.14%	21.55%
<b>Primary Capital (%)</b>	17.78%	20.49%

#### 45 FIDUCIARY ACCOUNTS

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Bank making allocation, purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in the financial statements. At the balance sheet date, the Bank had investment custody accounts amounting to approximately JD 3,173,957 as at 31 December 2008 (2007: JD 5,661,016). The asset management fees and commissions are recorded in the income statement.

In the normal course of business, the Bank performs investment management services for its clients. Investments and other assets held by the Company in fiduciary capacity amounting to JD 1,933,213 as at 31 December 2008 are segregated from the Bank's assets and are not included in the financial statements.

#### 46 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
<b>Assets</b>			
Cash and balances at Central Banks	86,764,001	-	86,764,001
Balances at banks and financial institutions	74,449,064	-	74,449,064
Financial assets held for trading	6,107,523	13,309,506	19,417,029
Direct credit facilities	333,018,991	259,852,689	592,871,680
Financial investments- available for sale	54,476,943	34,733,481	89,210,424
Financial investments- held to maturity	25,862,703	23,469,688	49,332,391
Financial assets investments- available for sale pledged as collateral	-	5,983,890	5,983,890
Property and equipment	1,519,234	18,508,545	20,027,779
Intangible assets	791,359	4,924,769	5,716,128
Deferred tax assets	-	5,514,179	5,514,179
Other assets	<u>13,281,048</u>	<u>20,978,886</u>	<u>34,259,934</u>
<b>Total Assets</b>	<u>596,270,866</u>	<u>387,275,633</u>	<u>983,546,499</u>
<b>Liabilities</b>			
Banks and financial institution deposits	51,336,278	-	51,336,278
Customers' deposits	502,032,185	28,172,175	530,204,360
Margin accounts	53,712,506	842,171	54,554,677
Loans and borrowings	82,199,958	25,152,011	107,351,969
Subordinated loans	-	12,952,001	12,952,001
Sundry provisions	131,529	3,226,979	3,358,508
Tax provision	6,808,394	-	6,808,394
Other liabilities	<u>13,814,440</u>	<u>4,327</u>	<u>13,818,767</u>
<b>Total Liabilities</b>	<u>710,035,290</u>	<u>70,349,664</u>	<u>780,384,954</u>
<b>Net Assets</b>	<u>(113,764,424)</u>	<u>316,925,969</u>	<u>203,161,545</u>

2007	Within 1 year JD	More than 1 year JD	Total JD
<b>Assets</b>			
Cash and balances at Central Banks	88,048,157	-	88,048,157
Balances at banks and financial institutions	136,908,920	-	136,908,920
Financial assets held for trading	32,022,379	17,848,582	49,870,961
Direct credit facilities	296,077,115	201,334,792	497,411,907
Financial investments- available for sale	17,825,855	22,210,016	40,035,871
Financial investments- held to maturity	49,073,383	24,228,725	73,302,108
Property and equipment	1,218,708	8,565,978	9,784,686
Intangible assets	632,159	4,977,409	5,609,568
Deferred tax assets	304,492	3,042,108	3,346,600
Other assets	<u>10,535,899</u>	<u>24,784,558</u>	<u>35,320,457</u>
<b>Total Assets</b>	<u>632,647,067</u>	<u>306,992,168</u>	<u>939,639,235</u>
<b>Liabilities</b>			
Banks and financial institution deposits	32,788,278	-	32,788,278
Customers' deposits	462,419,086	13,604,619	476,023,705
Margin accounts	43,728,984	17,564,874	61,293,858
Loans and borrowings	100,207,008	73,222,645	173,429,653
Sundry provisions	-	3,226,979	3,226,979
Deferred tax liabilities	255,942	-	255,942
Tax provision	7,292,527	-	7,292,527
Other liabilities	<u>12,948,842</u>	<u>4,328</u>	<u>12,953,169</u>
<b>Total Liabilities</b>	<u>659,640,667</u>	<u>107,623,444</u>	<u>767,264,111</u>
<b>Net Assets</b>	<u>( 26,993,600)</u>	<u>199,368,724</u>	<u>172,375,124</u>

#### 47 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank.

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

	2008 JD	2007 JD
Letters of credit	78,469,263	119,931,197
Acceptances	17,598,644	20,229,612
Letters of guarantee -		
Payments	30,003,414	32,333,619
Performance	30,752,031	19,385,103
Other	49,042,047	48,520,814
Foreign Currency Forward	43,306,916	20,742,492
Irrevocable commitments to extend credit	<u>20,783,852</u>	<u>26,130,086</u>
	<u>269,956,167</u>	<u>287,272,923</u>

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

	2008 JD	2007 JD
Construction contracts	<u>1,954,000</u>	<u>413,739</u>
	<u>1,954,000</u>	<u>413,739</u>

Annual rent of the Bank's main building and branches amounted to JD 484,056 as at 31 December 2008 (2007: JD 469,797).

Included in the fiduciary assets are capital guaranteed investments amounting to JD 2,387,498 as at December 2008 (2007: JD 1,510,870).

#### 48 LAWSUITS

The value of lawsuits proceeding against the bank, as part of the ordinary course of business, total JD1,527,556 as at 31 December 2008 . According to the Bank's Management and legal counsel the Bank is not liable in any of these cases.

There is also another lawsuit of JD 15,577,127 proceeding against the Bank pertaining to ownership of shares, whereby the ownership of said shares was transferred to the bank as they had been put up as collateral by a customer. In addition, the plaintiff sought a claim for emotional damages valued (for the purpose of legal fees) at JD 3 million. In the opinion of the legal counsel there is no need to provide for this claim.

There is another case for JD 17,358,705 proceeding against the Bank in order to recover the value of cheques which were paid from the account of the plaintiff company. In addition, the plaintiff sought a claim for emotional damages estimated (for the purposes of the court fees) at JD 3 million. In the opinion of the Bank's legal counsel there is no need to provide for this claim.

In addition, there is a case for JD 3,332,816 proceeding against the bank to recover the value of two cheques drawn by a customer. In the opinion of the legal counsellor there is no need to provide for this claim.

There are no claims against the National Bank of Iraq.

#### 49 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 Company 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 Company, as the Company 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 Company, as the Company 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 Company 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 company.

#### **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 company.

### **50 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.









Other Disclosure



## **A CHAIRMAN'S STATEMENTS**

Include in the introduction of annual report.

## **B BOD'S REPORT**

Include in the introduction of annual report.

## **1 DESCRIPTION OF THE MAIN ACTIVITIES OF THE BANK**

- Capital Bank of Jordan offers all banking financial businesses products and services to all economic sectors in Jordan through its head office and branches in the Hashemite kingdom of Jordan. It also offers investment and brokerage services through Capital Investment and Brokerage Company: which is wholly owned by the bank with a paid in capital of JD 10 million. The Bank also owns 59.2% of the National Bank of Iraq with a paid in capital of 25 billion Iraqi dinars, by that providing all facilities and services to customers wishing in invest in Iraq's Promising market.

### **■ Geographical Locations and Number of Employees in Each One**

The Bank and Capital Investment and Brokerage Company employee's reached 385 distributed by geographical locations as follows:

Branch	City	Number of staff
Head Office / Main Branch	Amman	270
Shmesani Branch	Amman	14
Wehdat Branch	Amman	7
Sweifeyeh Branch	Amman	9
Madina Branch	Amman	12
Aqaba Branch	Aqaba	5
Aqaba Office	Aqaba	2
Zarqa Branch	Zarqa	6
Irbid Branch	Irbid	6
Capital Investment and Brokerage Company	Amman	54

\* There are no other branches out side Jordan

### **■ Capital expenditure**

Capital expenditures amounted to JOD 11,958,741

## **2 SUBSIDIARY COMPANIES:**

- Capital Investment and Brokerage Company
- National Bank of Iraq
- Capital Investment Fund in Bahrain

Subsidiary Company Name	Capital Investment and Brokerage Company	National Bank of Iraq	Capital Investment Fund Company
Subsidiary Companies	Limited responsibility	public shareholding	stock Bahrain company - closed
Main activity	Brokerage and Investment Company	Banking	Establishing Investment Funds
Paid in capital	10,000,000	25 Billion Iraqi dinar	1,000 Bahraini dinar
Percentage owned by Capital Bank	100%	59.2%	100%
Subsidiary Companies address	Amman -Shmesani	Iraq	Bahrain
Other information	-	-	Is not operating yet

### 3 BOARD OF DIRECTORS AND TOP MANAGEMENT

#### A - Board of Directors

##### ■ Dr. Ziad Mohammed Fariz Fariz

Position: Chairman (Representing Al-Bayader Trade and Investment Company)

Membership Date: 01/10/2007

Date of Birth: 14/06/1943

Academic Background: Holds PHD from Keel University - UK in 1978  
Holds a high diploma in Planning from the Arab Institution for Planning / Kuwait  
Holds BSc in Economics from Baghdad University in 1966

Professional Experience: Long Experience in Central Bank of Jordan since 1966, During that he occupied in many positions, became the Minister of Planning for five years then as the Minister of Commerce and Industry for two years and as the Minister of Planning for four years then as the mayor of Central Bank of Jordan for four years, he also worked as the chairman and the executive manager of Arab Banking Corporation Bank / Jordan in 2001, started his work in Capital Bank as the chairman starting September 2007.

##### ■ Dr. Fayez Mohammed Atawy Soheimat / resigned

Position: Vice Chairman

Membership Date: 22/11/1995

Resignation Date: 28/01/2009

Date of Birth: 01/01/1938

Academic Background: Holds PHD in Engineering

Professional Experience: Has a long professional experience, attended many banking courses, he is a board member on a number of public corporations and held many upper management posts General Manager of National Oil Company and General Manager of Industrial Estates Corporation.



■ **Mr. Hassan Ghalib Abdul Al Hussein Kubba**

Position: member of the Board of Directors  
Date of membership: 10/09/2008  
Date of birth: 14/06/1974  
Academic Background: Bachelor Degree in Law/ Basra University  
Professional Experience: Wide experience in the banking sector as General Manager of Basra International Bank for Investment/Iraq, vice chairman of Zab Investment Group /Jordan, vice chairman of Resources Company for Development and Investment/Jordan and chairman of the International Ghalibiyeh Company for Investment/ Sudan.

■ **Mr. Abdel Raouf Waleed Abdel Raouf Al-Bitar**

Position: Member of the Board of Directors  
Membership Date: 09/04/2002  
Date of Birth: 09/11/1956  
Academic Background: Holds a BSc in Civil Engineering from Syracuse University, USA  
Professional Experience: Has a long experience in the industrial business, and is currently the Chief Executive Officer at Al Manhal Water factory Co Ltd in Saudi Arabia and the Chairman of Jordan New Cables Company.

■ **Mr. Elia Costundy Faruh Nuqul**

Position: Member of the Board of Directors - Representative of Investments and Integrated Industries Company.  
Date of Membership: 22/11/1995  
Date of Birth: 25/12/1928  
Academic Background: Accounting and Business Administration Certificate by correspondence from Glasgow Scotland , Palestine Matriculation with distinction, London matriculation, First Grade for 1947.  
Professional Experience: He established Nuqul Group (30 companies) and occupies at present the chairman of the Board of Directors of Nuqul Group.  
Holds the AL-Hussein Medal for Excellence of the first order.

■ **Mr. Mazen Sameh Taleb Darwazah / resigned**

Position: Member of the Board of Directors  
Membership Date: 20/11/2003  
Resignation Date: 25/01/2009  
Date of Birth: 05/06/1958  
Academic Background: Holds an Advanced Management Program (Diploma) from INSEAD/ France  
Holds a Diploma from the International Marketing Institute Program from Boston, USA.  
Holds BSc Business Administration from Beirut University/ Lebanon.  
Professional Experience: Currently holds the position of Group Vice Chairman for Hikma Pharma, Jersey, and Chairman of Hikma Pharmaceuticals in the Middle East and South Africa.

■ **Mr. Bassam Wael Roshdy Kanaan /resigned**

Position: Member of the Board of Directors - Representative of Hotaf Investment Company.  
 Membership Date: 20/6/2007  
 Resignation Date: 26/01/2009  
 Date of Birth: 10/05/1965  
 Academic Background: Holds a BSc in Economic / Accounting from Claremont Mckenna College - Los Angeles 1986.  
 Holds a Masters Degree in Business Administration  
 Professional Experience: Long experience in the private sector, worked in companies such as Delloitte and Touche.  
 He is currently the CFO in Al-Hikma Pharmaceutical.  
 He was Board Member in several Companies such as: Electricity Generating Company, PALTEL.  
 Currently Board member in: Zara Investment, Jordan Dubai properties.

■ **Mr. Haitham Abdelmajed Mosleh Al-Majali**

Position: Member of the Board of Directors - Representative of the Social Security Corporation.  
 Membership Date: 22/11/1995  
 Date of Birth: 18/6/1956  
 Academic Background: Holds a BSc in Electromecanic Engineering from Kardeev University/ England  
 Professional Experience: He worked in the private sector in both Jordan and England.  
 He is a member of the Board of Directors and the General Manager of the Duty Free Markets and the Jordanian Businessmen Association.

■ **Mr. Kim Foad Sa'd Abu Jaber**

Position: Member of the Board of Directors  
 Membership Date: 20/6/2007  
 Date of Birth: 27/9/1956  
 Academic Background: Holds a BSc in Business Administration from Arizona University / Towson in 1980.  
 Professional Experience: He is entrepreneur and an investor in many companies such as Technical Packaging LLC, Solid Iron and Steel Manufacturing and Forming CO,PSC.

■ **Mr. Mohammed Mahmoud Mohammed Safouri / resigned**

Position: Member of the Board of Directors - Representative of Al-Jadara for Real Estate Investment.  
 Membership Date: 14/04/2008  
 Resignation Date: 26/01/2009  
 Date of Birth: 10/03/1962  
 Academic Background: Holds a BSc in management  
 Holds master degree in business Administration.  
 Professional Experience: Long experience in banking sector, he was credit officer at Kuwait Investment Bank.  
 Currently is the manager of Darhold for Investments.



■ **Mr. Fawzi Fwaz Hana Jumean / resigned**

Position: Member of the Board of Directors - Representative of Alkhaleel Company for investments.

Membership Date: 05/07/2005

Resignation Date: 06/01/2009

Date of Birth: 21/09/1978

Academic Background: Holds a Masters Degree in Business Administration from Stanford University.  
Holds a BSc in Business Administration from Yale University.

Professional Experience: He is the executive vice president heading the lower Gulf region at Amwal Alkhaleej.

■ **Mr. Roy Athanas Gurra Oglan**

Position: Member of the Board of Directors - Representative of International Finance Corporation (IFC).

Date of Membership: 14/4/2008

Date of Birth: 21/10/1935

Academic Background: He holds Bachelor and Masters Degrees from the American University of Beirut. Currently, he works with the World Bank and he is the banking advisor for the International Finance Corporation. In addition, he owns Karaoglan Company for financial Consultations in New/ York.

■ **Mr. Mohammed Seif Al-Seif / resigned**

Position: Member of the Board of Directors

Membership Date: 16/03/1999

Resignation Date: 14/04/2008

Date of Birth: 13/02/1956

Academic Background: Holds of BSc in Industrial Engineering from the University of Southern California in 1980.  
He attended many courses in advanced management at Harvard University

Professional Experience: He has a long banking and finance experience, and is currently the Chairman of Al-Seif for Development (UME) Holding Company.

■ **Mr. Mansoor Mohammed Fustog / resigned**

Position: Member of the Board of Directors - Represents Spumante Comercio International LDA.

Membership Date: 19/06/2003

Resignation Date: 17/07/2008

Date of Birth: 13/02/1956

Academic Background: Holds a of BSc in Civil Engineering from the University of Manchester/England

Professional Experience: is currently the Managing Director of Al-Hadaf Trading Establishment and the Chairman of the board in several other companies.



## B- Top Management

### ■ Mr. Haytham Yousef Abdulmonem Kamhiyah

Position: General Manager  
Date of appointment: 04/01/1996  
Date of Birth: 01/08/1969  
Academic Background: Diploma in Advanced Management Program (AMP) from INSEAD University / France.  
Holds a B. A. in Accounting from University of Jordan.  
Holds the following professional certificates CRA, CPA, CMA .  
Professional Experience: Has an extensive experience in the field of External Audit with Arthur Andersen, Amman.  
Joined the Bank in 1996.  
His latest position was Assistant General Manager for Finance and Risk, and subsequently became the General Manager in May 2005.  
He represents the Bank as a board member in the following institutions:  
- Association of Banks in Jordan Board of directors.  
- Jordan International Insurance Company.  
- Capital Investment and Brokerage Company.  
- INJAZ, a non-profit Organization.

■

### Mr. Ammar Bashir Ali Safadi

Position: Deputy General Manager  
Date of Appointment: 01/02/2008  
Date of Birth: 15/10/1967  
Academic Background: He holds a Masters degree in International Economics, University of Essex / U.K.  
Bachelors degree in Economics and Statistics, University of Jordan.  
Professional Experience: Occupied various administrative positions in banking, most of which in the treasury department.  
Worked in different banks of which:  
Citibank/ Jordan. Manager Treasury Department.  
Executive manager of private banking department/ HSBC.  
Deputy Chief Executive Officer of Arab Banking Corporation /Jordan.

■

### Mrs. Iman Mahmmod Allan Al Damen

Position: Chief Credit Officer  
Date of appointment: 16/12/2007  
Date of Birth: 05/06/1957  
Academic Background: Holds a Masters degree in Finance from University of Jordan, Diploma in Advanced Economic from UK, Manchester.  
Holds BSc in Business Administration from University of Kuwait.  
Professional Experience: She has a long experience in credit management. She worked in many positions at Cairo Amman Bank, Jordan Commercial Bank, Bank of Jordan then moved to Capital Bank in 2007 as Chief Credit Officer.



■ **Mrs. Ibtissam Mohammed Subhi El Ayoubi**

Position: Chief Support Officer  
Date of Appointment: 01/01/2008  
Date of Birth: 01/04/1959  
Academic Background: Holds Masters degree money and Banking from the American University of Beirut June 1990.  
Bachelor of Accounting from Beirut Arab University 1983.  
Professional Experience: Wide banking experience in local and Arab banks. (Executive manager in several banks: Bank of Jordan, Jordan and Gulf Bank, Arab Bank, assistant general manager of Saudi National Arab Bank) Joined Capital Bank in 2008 as Chief Support Officer. She also has academic experience.

■ **Mr. Sami Mohammad Musa Khair**

Position: Chief Human Resources and Administrative Affairs Officer.  
Date of Appointment: 01/02/2008  
Date of Birth: 09/12/1961  
Academic Background: Bachelor in Political Sciences and Public Administration, University of Jordan 1984.  
Practical Experience: Twenty four years of profound experience in Human Resources Managment, Administrative Affairs Managment and Consultation.  
Held senior managerial positions at different reputable institutions (Arab Banking Corporation, Central Bank of Jordan, Ministry of Planning, Jordan Export Development Corporation, Macmillan Publishers Co.).

■ **Mr. Rami Mohammad Jawad Hadid**

Position: Assistant General Manager / Corporate Banking  
Date of appointment: 21/11/2004  
Date of Birth: 28/2/1969  
Academic Background: Holds a Master degree in Accounting and Business Administration from USA.  
Holds BSc in Accounting and Economic from University of Jordan.  
Is a certified public accountant (CPA).  
Professional Experience: Has an experience in the field of external audit and banking.  
He worked at Ernst and Young/ Amman, and at many banks (Arab Banking Corporation/New York, BNP Paribas - Bahrain) in corporate Credit.  
He also participated in the establishment of the Commercial Branch of Housing Bank/Bahrain.

■ **Mr. George Farah Jeries Sofia**

Position: Assistant General Manager / Retail Banking, Branches and Marketing  
Date of appointment: 01/10/2005  
Date of Birth: 02/05/1966  
Academic Background: Holds a BSc in Business Administration / Management from London UK  
Professional Experience: Long experience in branches and retail credits Worked at HSBC. His last position there was Amman Branches Manager; He also worked at Societe General /Jordan as Retail Banking Manger

■ **Mr. Rafat Abdallah Ismail Khalil**

Position: Chief Audit Executive  
Date of appointment: 04/10/2007  
Date of Birth: 10/12/1964  
Academic Background: Holds a BSc in Accounting from Al Yarmouk University. Holds the professional certificate CBA and CICA.  
Professional Experience: Worked for seven years in Central Bank of Jordan and Oman's Commercial Bank for four years and Oman Arab Bank for seven years. He became Capital Bank's Chief Audit Executive in 2007

■ **Mr. "Mohammed Hafez" Abdel Kareem Mu'Az**

Position: Head of Legal Department / Legal counselor  
Date of appointment: 06/02/2003  
Date of Birth: 27/10/1969  
Academic Background: Holds Masters Degree in Commercial law from the UK.  
Holds Post graduate Diploma in International Law from the UK.  
Holds a B. A. In law from University of Jordan.  
Professional Experience: Joined "Dajani and Associates" Law firm for 5 years was appointed as a lawyer at Arab Bank PLC in the Legal Department / International Division for two years, Member of Jordanian Bar Association since 1997

■ **Mr. Ibrahim Salah Mohammed Samha**

Position: Financial Controller  
Date of appointment: 07/03/1999  
Date of Birth: 10/07/1973  
Academic Background: Holds a Masters degree in Finance from the Institute of Banking Studies / University of Jordan.  
Holds a BSc in Accounting from University of Jordan  
Professional Experience: Worked at HSBC / Jordan for 4 years then moved to Capital Bank in 1999 and held many positions in financial department. He became the Financial Controller in December 2006



■ **Mr. Michael Zaki Michael Nu'man**

Position: Head of Risk Management Department  
 Date of Appointment: 20/07/1999  
 Date of Birth: 04/10/1974  
 Academic Background: Master degree in finance and banking, specializing in financial management.  
 Bachelor of economics, university of Jordan 1/1995.  
 Professional diploma in Basel II from American Banking federation (American Banking Institute).  
 Certificate of Certified lender Business Banker from Arab Academy and institute of certified bankers and institute of banking and finance.  
 Professional Experience: 13 years of experience in banking, most of which in banking facilities, worked at HSBC for four years, he joined Capital Bank in July 1999, latest position was Head of Credit Corporate Department.

■ **Mr. Ali Mohammad Daoud Abu Swai**

Position: Head of Treasury and Investment Department.  
 Date of Appointment: 09/08/1997  
 Date of Birth: 02/02/1966  
 Academic Background: Masters degree in finance and banking.  
 Bachelor's degree in finance and banking  
 Practical Experience: Long banking experience in branches, operations, financial markets and treasury and investment.

■ **Mr. Ihab Shaker Mustafa Al Aqqad / resigned**

Position: Acting Assistant General Manager Operations/starting 12/12/2007  
 Date of appointment: 16/06/2002  
 Resignation Date: 27/11/2008  
 Date of Birth: 07/06/1965  
 Academic Background: Holds a Master degree in finance from Finance Studies Institution / University of Jordan.  
 Holds a BSc in Economic and Accounting from Al Yarmouk University  
 Professional Experience: Worked in Cairo Amman Bank and Bank of Jordan, Union Bank for Saving and investment, then he moved to Capital Bank in 2002, and Worked in many positions.

■ **Mr. Talal Mohammad Maher Yaish / resigned**

Position: Assistant General Manager / Strategy Management and Human Resource and Administration Affairs  
 Date of appointment: 01/01/2007  
 Resignation Date: 03/05/2008  
 Date of Birth: 08/07/1972  
 Academic Background: Holds a BSc in Industrial Engineering from University of Jordan  
 Professional Experience: Worked in administrative positions in different industrial fields such as (Nuqul Group, Shaheen Group for Businesses, Tawfeek Gargor Group) and his last position was head of human resources and administration affairs at Fast Link.

■ **Mss. Manal Omar Husni Omar / resigned**

Position: Risk and Compliance Department Manager  
 Date of appointment: 01/03/2005  
 Resignation Date: 30/07/2008  
 Date of Birth: 21/5/1969  
 Academic Background: Holds a BSc in Statistic and Computer Science from Al Yarmouk University.  
 Holds special professional certificates in risk management and high diploma in International Accord Basel II  
 Professional Experience: Worked in Jordan Kuwait Bank for 12 years in the financial controlling and audit department.

**4 MAJOR SHAREHOLDERS WHO OWN 5% OR MORE**

Name	Nationality	No. of Stock as of 31/12/2008	%	No. of Stock as of 31/12/2007	%
Social Security Corporation	Jordanian	11,976,469	9.05%	11,840,469	9.63%
Abdel Raouf Waleed Al-Bitar	Jordanian	10,840,770	8.2%	10,840,378	8.81%
Spumante Comercio Internacional LDA	Portuguese	25,000	0.02%	8,179,849	6.65%
Mohammed Mosaed Seif Al-Seif	K.S.A	7,284,117	5.51%	7,404,117	6.02%
Investment and Integrated Industrials Company	Jordanian	6,662,288	5.04%	6,662,288	5.42%
Basem Khalil Salem Al Salem	Jordanian	6,379,277	4.82%	6,379,277	5.19%
BLOM Bank	Lebanese	7,915,483	5.98%	835,585	0.68%
International Finance Corporation	International	9,280,000	7.02%	-	-
Hassan Ghaleb Abed-Alhussien					
Kubba	Iraqi	8,154,849	6.17%	5,000	0.004%

**5 COMPETITIVE POSITION AND MARKET SHARE**

The last few years witnessed an increase in Capital Bank market share, as its share of the sector reached 3.16% and 4.37% in terms of assets and credit facilities, respectively. Owner's equity increased to 5.83% of the sector's equity, while customer's deposits rose to 2.82% of total customer's deposits, in the Jordanian banking sector.

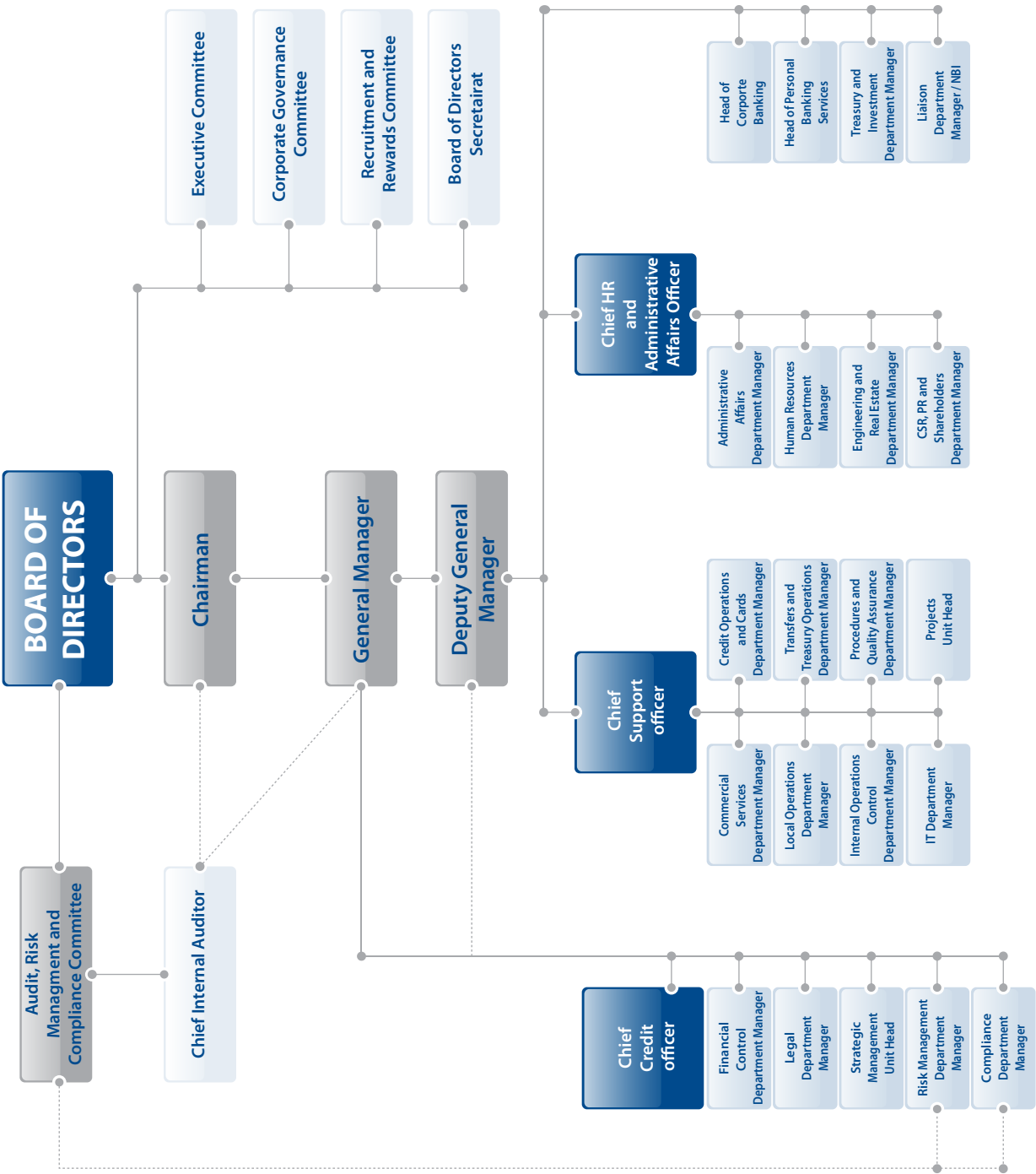
**6** There is no reliability degree on certain vendors and or key customers in case it is 10% or more

**7** There is no governmental protection or privileges awarded to the Bank or any of its products. The Bank has no patent of invention or copyrights.

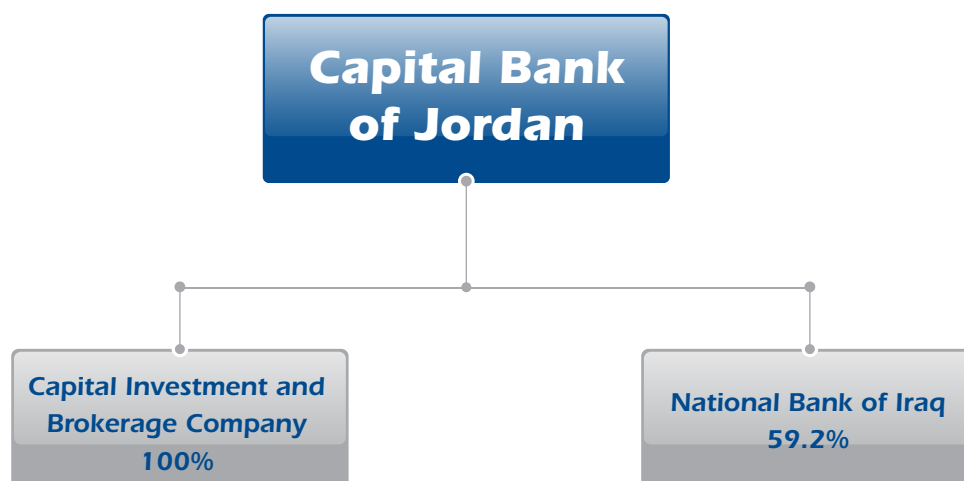
**8** There are no decisions issued by the government or any international organization that have a material effect on the Bank's operations, products or competitive capability.

9 ORGANIZATION CHARTS, NUMBER OF EMPLOYEES, AND THEIR QUALIFICATIONS

A - Organization Charts



■ **B - Organization Charts for the bank and its Subsidiaries**



■ **C - Number of employees and their Qualifications for the Bank and Capital Investment and Brokerage Company:**

Scientific Degree	Capital Bank	Capital Investment and Brokerage Company
PHD	1	-
Masters	27	5
High Diploma	3	-
B.A / BSc	245	38
Diploma	32	1
Secondary School	11	3
Lower than Secondary School	12	7
Total	331	54

■ **D - Training and qualifying programs for the Bank and Capital Investment and Brokerage Company**

A 124 courses were held inside and outside Jordan besides our in house training with total of 521 employees.

Training Course	Number of training courses	Number of employees
In house Training	10	172
In side Jordan	95	326
Out side Jordan	18	20
E- Learning Courses	1	3
Total	124	521



## ■ Training Courses

Training Course	No. of Employees
Specialized courses in Human resources and skills development.	227
Specialized courses in marketing, credit cards and customer service	16
Participation in local and Abroad conferences	25
Specialized courses in investment and treasury operations	35
Specialized courses in Risk management, banking crisis, audit and control	88
Specialized courses in information technology and systems application	64
Specialized courses in banking facilities and projects lending	10
Specialized courses in internal and external banking operations	53
Specialized courses in legal Issues	3
Total	521

## 10 DESCRIPTIONS OF RISKS

As stated in the financial statements disclosure number 42

## 11 ACHIEVEMENT OF THE BANK FOR THE YEAR 2008

As included in chairman statements and board of directors report.

## 12 THE FINANCIAL EFFECT FOR EXTRAORDINARY OPERATIONS

There are no extraordinary operations during the year 2008

## 13 TIME CHAIN FOR REALIZED PROFIT AND LOSS. DIVIDENDS AND NET SHAREHOLDERS EQUITY (2001-2008)

Year	Equity	Net Income	Dividends		Closing Price
			Cash Dividend	Stock Dividend	
2001	32,106,664	5,056,890	-	3.3 Million	1.84
2002	37,590,373	5,568,252	-	4.7 Million	1.38
2003	45,779,476	8,061,827	-	4.5 Million	3.93
2004	59,872,518	12,346,354	-	7.0 Million	4.41
2005	135,934,724	21,358,989	-	10.5 Million	3.32
2006	156,991,770	18,059,905	-	14 Million	1.93
2007	172,375,124	13,508,666	-	7 Million	2.02
2008	203,161,545	15,250,169	7.5 Million	-	1.80

2001	Stock Dividend of 15% of capital
2002	Stock Dividend of 18.58% of capital
2003	Stock Dividend of 15% of capital
2004	Stock Dividend of 20.29% of capital
2005	Private subscription of 48.20% of capital
2005	Stock Dividend of 17.08% of capital
2006	Private subscription of 41.66% of capital
2006	Stock Dividend of 13.73% of capital
2007	Stock Dividend of 6.03% of capital
2008	Cash Dividend of 7.5 million which represents 6.1% of capital



#### 14 ANALYSIS OF THE BANK'S FINANCIAL POSITION AND RETURN

Financial Ratio	31/12/2008	31/12/2007
Return on assets	1.6%	1.5%
Return on equity	7.95%	8.20%
Earning per share	0.108	0.105
Equity / Assets	20.7%	18.3%
Capital adequacy ratio	20.14%	21.55%
Non performing loans ratio	4.4%	3.06%
Provisions coverage ratio	70.22%	89.01%

#### 15 FUTURE DEVELOPMENTS AND PLAN

In line with our strategic plan and aims at expanding and increasing shareholders profits, we will concentrate on the distinguished products offered by the Bank such as foreign trade transactions including credits, guarantees, etc. We will also focus on foreign trade financing operations with Iraq, taking into consideration the nature of Iraqi economy that is full of investment opportunities and unaffected by the global financial crisis. Our strategic relation with Basrah International Bank as well as our investments in the National Bank of Iraq will constitute a solid foundation for a considerable share in the Iraqi Market.

We will also seek the development of banking transactions related to money markets including bank transfers and currency exchange in addition to the establishment of strategic relations with world financial institutions in order to find the necessary financing resources for all commercial transactions, which we aim to expand.

Furthermore, we will be focused on the expansion and growth of the Bank's integrated banking transactions, which includes corporate and individuals finance and various investment activities with a focus on promoting the efficiency and quality of services provided. Further focus will be made for increasing the market share of deposits and spreading out a network of branches to serve the accomplishment of such goals.

Moreover, we will enhance the network of subsidiaries in the Kingdom with the propose of providing integrated financial services, including financial investments, brokerage and insurance. This will be made possible through direct partnerships or through signed agreements with global banks as well as searching for regional and international strategic partnerships that will contribute to the Bank's expansion regionally and internationally and to the opening of new markets for the Bank's operations and clients.

#### 16 EXTERNAL AUDITOR'S FEES

Ernst and Young's fees for auditing the Bank and its subsidiaries in 2008 amounted to JD 141,532 Including Tax.

## 17 STATUS FOR NUMBER OF FINANCIAL SECURITIES

- **A- Status for number of financial securities issued by the bank and owned by the Board of Directors, top management, with executive authority and Board of Directors relatives.**
- **Members of the Board of Directors as of 31/12/2008.**

Members	Representative	Position	Nationality	Number of Stock as of 31/12/2008	Number of Stock owned by representative as of 31/12/2008
Dr. Ziad Mohammad Fariz Fariz	Himself	Chairman	Jordanian	40,000	
Dr. Fayez Mohammed Atawy Soheimat	Himself	Vice Chairman	Jordanian	700,193	
Investment and Industrial Integrated Company	Mr. Elia Nuqul	Member	Jordanian	6,662,288	
Mr. Mazen Sameh Taleb Darwazeh	Himself	Member	Jordanian	1,493,394	
Social Security Corporation	Mr. Haitham Al-Majali	Member	Jordanian	11,976,469	
Mr. Kim Foad Sa'd Abu Jaber	Himself	Member	Jordanian	1,545,909	
Mr. Abdel Raouf Waleed Abdel Raouf Al-Bitar	Himself	Member	Jordanian	10,840,770	
Alkhaleel Company for Investments	Mr. Fawzi Jumean	Member	Jordanian	42,707	
Mr. Hassan Ghalib Abdul Al-hussien Kubba	Himself	Member	Iraqi	8,154,849	
Hotaf Investment Company	Mr. Bassam kanaan	Member	Jordanian	6,063,907	6,137
International Finance Corporation	Mr. Roy Athanas karaoglan	Member	International	9,280,000	
Jadara for Real Estate Investment	Mr. Mohammed Safouri	Member	Jordanian	99,289	6
Al-Bayader Trade and Investment Company	Dr. Ziad Fariz	Member	Jordanian	530,645	
Mr. Mohammed Seif Al-Seif	Himself	Member	K.S.A	7,284,117	
Spumante Comercio Internacional LDA	Mr. Mansoor Fustoq	Member	Portuguese	25,000	
Total				64,739,537	6,143

- **Relative of members of Board of Directors as of 31/12/2008**

Member's Relatives	Members	Relation	Number of Stocks
Mss. Houda hamdi fariz Hussien	Dr. Ziad Mohammad Fariz Fariz	Wife	13,294
Mss. Rola Samer Khalel Naser	Mr. Mazen Sameh Taleb Darwazeh	Wife	134,313
Mr. Emad Kim Foad Abu Jaber	Mr. Kim Foad Sa'd Abu Jaber	Son	1,205
Mr. Foad Kim Foad Abu Jaber	Mr. Kim Foad Sa'd Abu Jaber	Son	3,205
Total			152,017

## ■ Members of the Board of Directors as of 31/12/2007

Members	Representative	Position	Nationality	Number of Stock as of 31/12/2007	Number of Stock owned by representative as of 31/12/2007
Al-Bayader Trade and Investment Company	Dr. Ziad Fariz	Chairman	Jordanian	555,645	
Dr. Fayez Mohammed Atawy Soheimat	Himself	Vice Chairman	Jordanian	700,193	
Mr. Mohammed Mosaed Seif Al-Seif	Himself	Member	K.S.A	7,404,117	
Spumante Comercio Internacional LDA	Mr. Mansoor Fostoq	Member	Portuguese	8,179,849	
Mr. Abdel Raouf Waleed Abdel Raouf Al-Bitar	Himself	Member	Jordanian	10,840,378	
Investment and Integrated Industrials Company	Mr. Elia Nuqul	Member	Jordanian	6,662,288	
Mr. Mazen Samih Taleb Darwazeh	Himself	Member	Jordanian	1,493,394	
Hotaf Investment Company	Mr. Bassam kanaan	Member	Jordanian	6,063,907	6,137
Social Security Corporation	Haitham Al-Majali	Member	Jordanian	11,840,469	
Mr. Kim Foad Sa'd Abu Jaber	Himself	Member	Jordanian	941,685	
Alkhaleel Company for Investments	Mr. Fawzi Jumean	Member	Jordanian	42,707	
Total				54,724,632	6,137

## ■ Relative of members of Board Directors

Member's Relatives	Members	Relation	Number of Stocks
Mss. Rola Samir Khalel Naser	Mr. Mazen Sameh Taleb Darwazeh	Wife	134,313
Mr. Waleed mazen samih darwazeh	Mr. Mazen Sameh taleb darwazeh	Son	66,600
Mr. Emad Kim Foad Abu Jaber	Mr. Kim Foad Sa'd Abu Jaber	Son	1,205
Mr. Foad Kim Foad Abu Jaber	Mr. Kim Foad Sa'd Abu Jaber	Son	1,205
Total			203,323

## ■ Members of Top Management

Members	Position	Nationality	Number of Stock as of 31/12/2008	Number of Stock as of 31/12/2007
Mr. Haytham Yousef Abdelminaem Kamhiyah	General manager	Jordanian	15,782	-
Mr. Rami Mohammad Jawad Hadid	Assistant General Manager/ Corporate Banking	Jordanian	-	3,565
Mr. George Farah Jeres Sofia	Assistant General Manager/ Retail Banking, Branches and Marketing	Jordanian	2,936	100
Mr. Mohammed Hafeth Abdel Al-Kareem Mu'az	Head of legal Department / legal Counselor	Jordanian	-	2,593
Mr. Ali Mohammad Daoud Abu Swai	Manager of Treasury and Investment Department	Jordanian	-	1,404
Mr. Michael Zaki Michael Nu'man	Manager of Risk Management Department	Jordanian	705	-
Total			19,423	7,662

There are no stocks owned by the remaing Board of Directors relatives or top executive management relatives.

## 18 BOARD OF DIRECTORS AND TOP EXECUTIVE MANAGEMENT REMUNERATION AND OTHER BENEFITS

### ■ A: Board of Directors

Members	Position	Overall yearly salaries	Transporta- tion	Yearly Bonuses *	Yearly traveling expenditure	Yearly total benefits
Dr. Ziad Mohammad Fariz	Chairman	420,000	15,300	1,250	-	436,550
Dr. Fayez Mohammed Atawy Soheimat	Vice chairman		14,900	5,000		19,900
Mr. Mazen Sameh Taleb Darwazeh	member		11,500	5,000		16,500
Investment and Industrial Integrated Company	member		14,100	5,000		19,100
Mr. Elia Costundy Faruh Nuqul Spumante Comercio International LDA	member		14,900	5,000		19,900
Mr. Mansoor Mohammed Fustog Social Security Corporation	member		11,700	5,000		16,700
Mr. Haitham Abdelmajed Al-Majali						
Mr. Abdel Raouf Waleed Abdel Raouf Al-Bitar	member		6,100	5,000	1,330	12,430
Mr. Mohammed Seif Al-Seif	member		1,700	5,000	926	7,627
Alkhaleel Company for Investments	member		4,900	5,000	2,706	12,606
Mr. Fawzy Jumeen						
Kim Foad Sa'd Abu Jaber	member		14,000	2,917		16,917
Hotaf Investment Company	member		10,900	2,917		13,817
Jadara for Real Estate Investment	member		5,150			5,150
Mr. Mohammed Safouri						
Mr. Roy Athanas Karaolgan	member		3,550		1,945	5,495
Hassan Ghalib Abdul Al-hussien Kubba	member		3,390			3,390
Al Bayader Trade and Investments Company	Pre- Member			3,750		3,750
Mr. Amer Fariz				833		833
Mr. Marwan Jameel Mou'sher	Pre- Member			417		417
Mr. Sa'd Sameh Taleb Darwazeh	Pre- Member			2,083		2,083
		420,000	132,090	54,167	6,907	613,164

\* This item represents bonuses for the years 2005, 2006, 2007 paid during the year 2008.

## 19 DONATIONS PAID BY THE BANK DURING 2008

Requesting Party	Amount
SOS Children's Village Association of Jordan	32,250
Queen Rania's Madrasati Initiative	25,000
Jordan Hashemite Fund for Human Development	23,636
Charity and Good Works Campaign	23,607
Young Women Muslim Association (YWMA)/sponsoring 12 students	21,000
Association for Orphan Care/ AL-Mafraq	18,000
Hikmat Road Safety	10,000
Tkiyet Um Ali (Food Packages)	7,750
National Society for Petra Preservation	5,000
Circassian Welfare Association/Amman	5,000
World Affairs Council	5,000
Miscellaneous	23,849
Total	200,092

- 20 There are no contracts or projects or engagements taken with the subsidiaries companies or the chairman or the board of directors or top management or general manager or any employee in the bank or their relatives.

## 21 BANK CONTRIBUTION FOR ENVIRONMENT PROTECTION AND COMMUNITY SERVICE

### ■ A- Contribution and environment protection

Participation in the exerted efforts to protect the environment. In example of this is the participation of the bank in the national forestation project for the forestation and land development of unplanted areas in Eira/ Salt, Sahab of the program of agricultural reform that is led by the Ministry of Agriculture.

### ■ B- Contribution and community service

Stemming from its social responsibility commitment towards its local community, and realizing the importance of continuous effective interaction with its social surroundings, and to achieve mutual benefit for it and the different social strata, this year Capital Bank continued to:



## Community Service

Out of its commitment to social responsibility towards local environment, its recognition of the importance of effective communication with social surrounding and its endeavor to realize mutual benefit between various segments of the community, the Capital Bank has maintained the approach it followed throughout the past years and has launched many creative social initiatives, including for example:

- Supporting Queen Rania's Madrasati Initiative through the Bank's sponsorship of Mahmoud Al-Abedy School in Wadi Al-Seer area.
- Supporting Hikmat Road Safety Initiative "Safer School Zone" by making the necessary maintenance for six schools in Al-Wehdat area.
- Supporting Charity and Good Works Campaign launched in early days of the Holy month of Ramadan.
- Extending assistance to non-profit organizations and charities, and providing support to parties concerned with helping orphans and needy. The Bank sponsors two houses of SOS Children's Village Association of Jordan.
- Providing moral and material support to institutions and associations for children with special needs. For example, the support provided by the Bank to King Hussein Cancer Center and associations of children with special needs.
- Sponsoring 25 orphans from the Charitable Association for Orphan Care in Al-Mafraq.
- Collaborating with "Al-Qeema" Institution for Distinguished Initiatives in supporting education and awareness programs with respect to certain important issues in the community.
- Covering the study tuitions of 12 students with special needs through the Special Education Center of Young Women Muslim Association.
- Blood donation campaign by the Bank's employees in cooperation with the Blood Bank.
- Distributing food packages through charities in cooperation with Tkiyet Um Ali to 152 families in Amman and Al-Zarqa.
- Group Iftar and distributing food packages and gifts during the Holy month of Ramadan to 100 orphans in AL-Mafraq with the participation of the Bank's employees.
- Providing meals and Eid gifts to SOS children during the Holy month of Ramadan with the participation and contribution of the Bank's employees.
- Participating in seminars and conference related to social responsibility.

## ■ C – Affirmation

1. Capital Bank Board of Directors admit according to its knowledge and its belief of nonexistence of major matters that might affect the Bank's continuity during 2009.
2. Capital Bank Board of Directors admit its responsibility for preparation the financial data and for existence of an effective control system.

Mr. Hassan Ghalib Kubba



Mr. Kim Foad Sa'd Abu Jaber



Mr. Khalifa Bin Omayer Yousef



Nahyan Bin Hamdan Al  
Nahyan

International Finance Company  
Mr. Roy Athanas Karaoglan



Mr. Abdel Raouf Al-Bitar



Investment and Industrial  
Integrated Company Mr. Elia Nuqul



Social Security Corporation  
Mr. Haitham Al – Majali



Al-Jadara For Real Estate  
Integrated Investment  
Mr. Awad Fadayeel



Alkhaleel Company for Investment  
Mr. Khaleel Al-SaLem



3. The Chairman, General Manager and Financial Controller admit the accuracy and completeness of the provided information in this report.

Chairman  
Mr. Hassan Ghalib Kubba



General Manager  
Mr. Haytham Kamhiyah



Financial Controller  
Mr. Ibrahim Samha





■ D - Branches

Branch	Address
<b>Main Branch</b> Telephone: Fax: P.O.Box: E- mail:	Shmesani - Esam Al- ajlony street +962-6-5100200 +962-6-5692062 Amman 941283 jordan 11194 Main@capitalbank.jo
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<b>Madina Street Branch</b> Telephone: Fax: P.O.Box: E- mail:	Madina Monawarh Street +962-6-5529994 +962-6-5549252 Amman 941283 jordan 11194 Madinah@capitalbank.jo
<b>Sweifeyeh Branch</b>  Telephone: Fax: P.O.Box: E- mail:	Cross Tareq Aljondy street with NasooH Altaher street +962-6-5833799 +962-6-5885176 Amman 941283 jordan 11194 Sweifeyeh@capitalbank.jo
<b>Wehdat Branch</b> Telephone: Fax: P.O.Box: E- mail:	Madaba street +962-6-4750801 +962-6-4750845 Amman 941283 jordan 11194 wehdat@capitalbank.jo

Branch	Address
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<b>Aqaba office</b>  Telephone: Fax: P.O.Box: E- mail:	Airport Street  +962-3-2039710 +962-3-2039711 Amman 941283 jordan 11194 Aqaba@capitalbank.jo