

## Table of Contents

Board of Directors	4
Mission Statement	5
EFB's Performance in 2003	6
Chairman & Chief Executive's Statement	9
Board of Directors' Report of 2003	13
Auditor's Report	23
Financial Statements 2003	25
Other Disclosures	56

Annual Report 2003

# Board of Directors

Chairman	Ali K. Al-Husry
Vice Chairman	Fayiz M. Soheimat
Members	Shaker Bin Zeid General Manager / New Work Company (till 19/6/2003)
	Spumante Comercio International LDA represented by Rashad Khorsheid (from 19/6/2003)
	Bassem K. Salem General Manager / Packaging Industries Company
	Mohammed M. El-Seif Chairman / El-Seif Development Company
	Said S. Darwazah Chairman / Hikma Investment (till 26/10/2003)
	Mazen S. Darwazah Chairman / Hikma Pharmaceuticals (from 26/10/2003)
	Abdel Raouf W. Al-Bitar Chairman / Al-Manhal Water Factory
	Investment & Integrated Industries Company represented by Chairman / Elia C. Nuqul
	Social Security Corporation represented by Manager of Pension Department / Yehya Abu Ersheid
	Jordan Phosphate Mines Company represented by Deputy Managing Director for Finance / Marwan Rshaydat
	Jordan Loan Guarantee Corporation represented by General Manager / Mohammed Said Hamami
	Bayader Trade & Investment Company Ltd. represented by Chairman / Amer M. Fariz
	Jaloul Trade & Investment Company represented by General Manager / Mohamed Saleh Hourani

## EFB's Mission Statement

EXPORT & FINANCE BANK (EFB) aims to be:

- The first class provider of comprehensive commercial and investment banking services.
- The Bank with the innovative edge in Jordan.
- The preferred choice for exporters, corporate clients and talented employees.
- A major contributor to the growth and development of Jordan's capital market.

EFB's core values are dedication to clients, maximization of employees' potential and provision of superior services.

# Chairman & Chief Executive's Statement

On behalf of our board of directors I am delighted to present to you the Eighth Annual Report of the Export and Finance Bank covering the financial year 2003. Looking back over the past twelve months leaves no doubt that this has been yet another year of great success. The year 2003 demonstrated our strength and ability in enhancing performance at all levels even as the tide was pulling against us. Net profits went up by 45% to JD 8.062 million. Lending increased to JD 180 million, while deposits and customer accounts increased by 29% to reach JD 220 million. Total assets now stand at JD309 million, and our shareholders equity has grown significantly over the past year reaching JD 45.8 million. Moreover, those impressive results have reflected positively on the Bank's market capitalization, where it increased by 227% over the past year to reach JD 135.6 million.

The year 2003 was rife with political turmoil at the regional level arising from the war and occupation of Iraq and the continuing violence in the occupied Palestinian Territories. In spite of this, the Jordanian economy was able to exhibit strong resilience in face of the turbulence in the region due in part to foreign grants, which played an important role in offsetting some of the negative impacts of war in the neighboring country. Nevertheless, the war did take its toll on some Jordanian sectors more than others. Despite of a slowdown in the GDP growth rate where it reached 3.3% in 2003 compared to 5.0% in 2002, inflation remained low at 2.2%, and official foreign currency reserve reached record high levels. Furthermore, the Amman Stock Market has also witnessed an unprecedented surge in market capitalization and traded volume, due to the low interest rate environment, healthy corporate profit forecasts and high liquidity.

Collectively, this called for strong leadership and decisive action on our behalf to ensure that the Bank would not only maintain past profits but also position itself advantageously to ensure growth in the years to come.

Thus our strategy looking forward focuses on increasing our market share in the retail-banking sector while expanding our already established base in corporate banking, trade finance, asset management and various other investment banking related services. Our Bank has earned the reputation of being the client driven Bank in Jordan, it has earned such a reputation by structuring products to cater for the ever-changing needs of our clients. Thus, a wide range of new products have been introduced over the past year, and more will be launched in the years to come.

Aside from expanding our business in almost every area of operation, the Bank believes that technological advancement is imperative for its sustainable future growth. Thus, we are firmly committed to launching our comprehensive e-banking services during 2004. Apart from being a convenient 24x7 channel, our e-banking service will enhance product delivery for existing customers whilst making it possible to attract a whole new category of clientele. The initial launch will focus on commercial and retail banking services to be followed by trade finance services, for both retail and corporate clients.

Our Bank is continuously looking into opportunities for expanding its branch network to effectively service our customer needs wherever they are. Thus we have recently opened a new branch in Aqaba, and two more branches are slated to open during 2004.

On the regional level, we are proud to be the first Bank, among local and international institutions, to initiate the provision of money transfer services to Iraq as early as June 2003. Providing this service was instrumental in assisting a various number of NGO's, relief agencies and official authorities in channeling funds to and from Iraq to sustain their operations during those difficult and uncertain times.

During 2003, our Bank has also reinforced business channels with Iraqi banks and continued providing clients in Iraq with a variety of banking services that were vital for their work to help in the rebuilding of Iraq.

Iraq will be witnessing massive economic activity in the years to come rendering our physical presence in Iraq crucial. Thus, our efforts at carefully orchestrating regional expansion will start to take shape in the coming years; we have already signed a strategic partnership agreement with the National Bank of Iraq (NBI), whereby Export & Finance Bank is to acquire 49% of NBI's paid up capital for USD 7.3 million injected in the Bank. As a result of this agreement, NBI's board of directors will be restructured to reflect the change in ownership. Export & Finance Bank will have management control over the National Bank of Iraq and will make available to its new subsidiary the services and resources it needs as well as the technical support required in addition to providing proper training for NBI's employees. In the meantime a team of our people are already in Iraq tapping into the vast pool of opportunities there.

Despite a challenging operating environment, we were able to close the year 2003 with a well diversified and high performing credit portfolio. We managed to increase the credit extended to the retail sector while simultaneously attracting prime corporate customers in Jordan. Non-performing loans ratio went down to an unprecedented level reaching 8.7% compared to the industry's average of 19% while bad debts coverage ratio increased to 67% compared to a 50% average in the banking industry. The coverage ratio of provisions and collaterals to non-performing loans have also risen to unprecedented levels of 127%.

We are confident that the results we achieved in 2003 have positioned us favorably to tackle the challenges and reap the opportunities we will be presented with in 2004 as well as in the years to follow. Our focus in the years ahead will be on adding value for our customers by providing them with quality services, while ensuring high rates of return to shareholders.

Our strategy of retaining earnings has proved its success over the years. It has provided us with a considerable position of strength to grow domestically and regionally, thus capturing all opportunities as soon as they become available. This in turn has been instrumental in increasing shareholder value for the past 8 years.

With a great share of charged energy and dynamism, EFB is resolutely committed to shake up the rather staid and conventional methods of business and service in Jordan, thus crafting a new dynamic model in the sector, in continuously adapting to the increasingly volatile environment pertinent to our region, that will in turn enable us to always evolve, progress and sustain our competitive advantage.

On behalf of Export & Finance Bank I would like to take this opportunity to thank our clients and shareholders for their trust. I would also like to thank and give credit to our dedicated employees, our management and board, without whom these results would not have been achieved. Finally, I wish to extend my sincere appreciation to the Central Bank of Jordan for their continuous support and guidance.

Ali K. Al-Husry  
Chairman & CEO

# Board of Directors' Report

The Board of Directors takes pleasure in welcoming the general assembly in its eighth ordinary annual meeting and in presenting the Annual Report of the Export & Finance Bank for the year 2003, incorporating its activities, results and notes to its financial statements.

The Bank has witnessed another year of great achievements having posted a net income, after tax and provisions, of JD8.062 compared to JD5.568 million for the previous year, representing a growth rate of 45%. Total assets grew by 13% to reach JD309 million, while earnings per share (EPS) have increased to JD0.234 in the year 2003 from the JD0.161 in the previous year. On the other hand the Bank's performance at the Amman Stock Exchange (ASE) was outstanding, where market capitalization increased by 227%, and the share price by 185% over the year. As further reaffirmation of the growing public confidence in the bank's solid financial position, the customers' deposit has recorded an increase of 29%.

The return on average assets reached 2.8% during 2003 while the return on average equity reached 19% up from 16% for 2002. The liquidity ratio reached 111% compared to the 100% required by the Central Bank of Jordan. In addition, the Bank maintained the strength of its capitalization with a capital adequacy of 20% compared to the 12% required by the Central bank of Jordan. Non-performing loans (NPL) were also kept under control reaching 8.7%, which is significantly lower than the industry's average of 19%. The Bank has also continued to pursue an aggressive NPL provisioning policy with the total of both specific and general provisions increasing to 67% of NPLs at the end of the year.

Overall, the Bank's total operating revenues increased by 35% amounting to JD19.6 million, of which 55% represented fee-based income, up from 42% in the year 2002. This is in line with the Bank's standard policy for diversification of its sources of revenue by promoting non-lending activities. On the other hand, total operating revenues (TOR and total

operating expenses (TOE) which include provisions for bad and doubtful debts, have increased by an almost similar ratio, thereby maintaining a healthy management efficiency ration of 2.1:1.

Whilst the growth in revenues has occurred in almost every area of operation, special credit should go to the improved performance of the Amman Stock Exchange (ASE) posting a 54% increase in the ASE index for the year, as a result of which, our own portfolio of capital gains and brokerage revenues increased by 76% reaching JD5.67 million in 2003, 28.9% of operating revenues.

In line with our primary objective of further capital consolidation and in preparation for the new Central Bank of Jordan's regulation, which requires all banks to increase their capital by 2007 to JD40 million, the Board of Directors is pleased to recommend a 20.3% capital increase to reach JD41.5 million. This will be achieved through capitalizing JD7 million of the Bank's reserves and retained earnings and then distributing it as stock dividends to shareholders. The Bank's shareholder equity will thus be maintained at about 45.8 million which represents an increase of 22% over the previous year. We strongly believe that this ongoing policy of capital consolidation in order to be stronger as we go forward, is in the best long-term interest of the Bank's shareholders and will remain our primary objective for the foreseeable future.

## Credit Facilities and Operations

Total direct facilities grew by 27.6% over the past year to reach JD 192.5 million, while net direct facilities (after deduction of provisions for bad and doubtful advances) stood at around JD 179.7 million at the end of 2003 representing approximately 58% of total assets as compared to 52% at the

end of 2002. On the other hand, indirect credit facilities extended throughout 2003 amounted to JD 379 million, dropping from JD 436 million in 2002 which is attributable to a considerable curtailment of our re-export business with the Iraqi market as a result of the past year's turbulent events. However, this reversal in a particular aspect of our business was compensated for, by the initiation of a new business activity in remittance services with Iraq, which the Bank pioneered and developed extensively since June 2003. Accordingly, as reflected by the Bank's income statement, commission revenues on banking facilities were maintained at the same level as the previous year. Having recently positioned ourselves advantageously through a strategic alliance with an Iraqi bank, we anticipate to achieve a substantial growth in our business with the potentially lucrative Iraqi market as well as to see a diversification of our product range along with the stabilization of the situation.

Our growth in other areas has remained on course. We have particularly pressed upon our advantage in the Qualifying Industrial Zones (QIZ) sector, where manufacturing companies are engaged in duty-free and unrestricted exports to the US market, capitalizing on the long experience that we have gained through our diversified commercial dealings with this fastest growing export sector over the past four years. In this regard, we have been assisted by the presence of our offices in three QIZ areas. The new operational office in Aqaba will allow us to serve our client base in a more efficient way.

To achieve further diversification of our lending outlets, we have expanded our real estate financing business by launching an attractively packaged product for which there has been a very favorable reception in the local market. This is part of our strategy to develop our retail services in the Bank, side by side with our corporate business and trade financing activities.

The table below illustrates how our loan portfolio is spread out among various economic sectors:

SECTOR	JD MILLION	PERCENT
Manufacturing	57.4	29.8
General Trade	33.2	17.2
Transport Services	10.7	5.6
General Services	11.3	5.9
Real Estate	10.3	5.3
Investment in Shares	58.3	30.3
Other	11.3	5.9
<b>Total</b>	<b>192.5</b>	<b>100</b>

Non-performing loans (NPL) amounted to JD 18.6 million of which 69% is covered by provisions and interest in suspense. The ratio of NPL to our total lending portfolio has shown an improvement over the past year, having dropped from 13.2% at year end 2002 to 8.7% at year end 2003, which is well below the banking sector average. We remain comfortable with the credit quality of our credit portfolio and further reduction of the NPL ratio will remain a major objective and challenge as we go forward.

#### Treasury and Money Market Operations

The Bank's dealings in foreign exchange and money market activities continued to be managed by the treasury department in an effective and efficient manner. Additionally, treasury satisfies clients' necessities in financial services by hedging against interest rate and currency risk related to their normal trading activities through forward and swap contracts. In 2003, revenues from our foreign currency dealings reached JD 644 thousand and our net interest earnings on our surplus funds have been maximized by making optimum use of the available money market instruments.

We continued trading in the international bond markets both for our own portfolio and our customers, and we have continued in asserting ourselves as market makers in the local bond market.

## Investment Banking

### Corporate Finance and M&A

The Export & Finance Bank continued to play a pioneering role in providing investment banking services to our clients. Investment Banking services at EFB cover a wide range of corporate finance activities including the arrangement of corporate bond issues, financial structuring for new ventures including capital raising and private equity placements, and financial advisory services related to privatizations, valuations and mergers and acquisitions.

In 2003, we successfully acted as a lead arranger and facility agent in a syndicated term-loan facility in the amount of USD 42 Million to Indo-Jordan Chemicals Company Ltd. The issue was oversubscribed with a coverage ratio of 1.23 times the amount of the loan, whereby the total commitments from participants in the syndicate totaled USD 51.75 Million.

The Bank also acted as the lead arranger, underwriter, and primary dealer for the renewal of Jordan Phosphate Mines Company Ltd commercial paper program. The bank issued approximately JD3.4 million worth of 180-day commercial paper for the Jordan Phosphate Mines Company Ltd. The commercial paper program was issued in series, and placed with local and regional banks, insurance companies, pension funds, and other large institutional investors.

On the mergers & acquisition front the Export & Finance Bank acted as Financial Advisor & Trustee to the 41% acquisition of Jordan New Cable Company (JNCC) by the Middle East Cables Company Ltd. (Saudi Arabia) & Partners. MESC acquired 41% of the shares in JNCC with the objective to maximize shareholders' wealth by adding new products to the production range to supply a complete package of cables.

## Research

Our research team continued to produce publications and studies on individual public shareholding companies, macroeconomic conditions, financial markets, and various sector analyses. In 2003, we initiated Jordan Facts & Figures pamphlet, which was distributed at various conferences and will be updated on annual basis. Our strong and credible research remains an integral part of our advisory functions to several local, regional and international funds on Jordanian equity and macroeconomic developments.

## Capital Markets

### Securities Brokerage

Our Brokerage office faces competition from 29 local firms at the Amman Stock Exchange. In 2003, and in its fifth year of operations our brokerage office closed the year ranking first among the licensed brokerage houses, with a volume of JD 286.2 million (JD 102.5 for 2002) representing over 7.7% of all transactions on the Amman Stock Exchange. Furthermore, our brokerage office executed the sale of 21,662,550 shares of the Arab Potash Company owned by the Government of Jordan through its investment arm, Jordan Investment Corporation to one of the world's biggest producer of fertilizers Potash Corporation of Saskatchewan Inc. (PCS).

We also remained active in bond trading activities where we executed 19.8% of all bonds traded on the Amman Stock Exchange, and closed the year ranking third among other brokerage houses.

The growth of the activities and services rendered by our capital markets division has been maintained with revenues generated from these activities exceeding JD 5.7 million, representing a 44% growth over the previous year. Other revenues, including brokerage commissions and custodian services, reached JD 1.3 million for the year 2003 representing a 87%

growth over the previous year.

We continued to offer investment and trading in the US market through a specialized unit available to service, advise, and process our clients' orders. We also continue to offer our clients margin trading by passing their positions directly over to our US-based brokers while preserving overall management over their accounts.

#### Asset Management

EFB's Asset Management team provides tailor-made portfolios to reach a broad range of investors' requirements and preferences. The objective of EFB's Asset Management activities is to design a personalized investment program for clients, based on their individual needs. Examples of managed portfolios include capital guaranteed, growth, balanced, leveraged portfolios, and non-capital guaranteed portfolio accounts, in addition to a broad range of specifically tailored portfolios in either JOD or US\$. The unit encompasses Individual and Corporate clients, as well as Pension Funds.

EFB's investment policy is based on active asset allocation, which is believed to be the most important factor in determining portfolio returns and risk levels. The stated investment policy and objective of each portfolio determines its asset allocation, after adjusting for the general economic outlook and equity valuations. The unit's overall strategy is to increase total funds under management while ensuring a superior investment performance track record. Assets under management have grown 3 folds during 2003. Moreover, the Rate of Return for portfolios under management at EFB stood at 16.3% for 2003.

#### Outlook

In the domestic market, the overriding task for the Bank is to expand its customer base beyond enterprises and to further penetrate retail banking. Thus, adding value for retail clients through new, innovative products and superior service continues to be a high priority. In terms of geographical expansion, the Bank's representative office in the Aqaba Special Economic Zone is currently operational, and is expected to attract investors there. The Bank is also planning to open two new branches in Jordan and has taken on a lease of a building at a close distance from the main branch in order to accommodate for the growing needs of the Bank for extra space.

At a regional level the strategic partnership that our Bank will soon have with the National Bank of Iraq will allow us to tap into the pool of opportunities in Iraq. Our Bank will make available to its new subsidiary the services and resources as well as the technical and technological support needed in addition to providing proper training for the National Bank of Iraq's employees. This strategy of selective expansion will allow us to respond quickly and efficiently to our clients' needs wherever they may be.

As part of the Bank's commitment to meet the requirement of work and the aspirations of customers, the Bank will launch e-banking during 2004. Initially, the launch will focus on retail clients followed by corporate clients at a later stage, while in the meantime a new website will be launched during the first quarter of 2004. In addition, the Bank is keen on developing and expanding its product range, and has thus introduced housing loans during the third quarter of 2003 which by year-end amounted to JD 10 million.

We believe that in order to maintain both local and international confidence in our policies and future strategies, we have to maintain our policy of capital consolidation in order to be stronger as we go forward. This in turn will be in the long-term interest of the Bank's shareholders and will remain a primary core objective. The outlook for the Bank remains positive as it expands its product range and client base.

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The Financial Statements  
as of December 31, 2003  
& Auditors' Report

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TO THE SHAREHOLDERS OF  
EXPORT & FINANCE BANK  
AMMAN - JORDAN

We have audited the accompanying balance sheet of EXPORT AND FINANCE BANK (a public shareholding company ) as of December 31, 2003 and the related statement of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of EXPORT AND FINANCE BANK as of December 31, 2003 and the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

The Bank maintains proper books of account and the accompanying financial statements and the financial information in the Board of Directors' report are in agreement therewith.

AMMAN - JORDAN  
January 15, 2004

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# STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2003 *(In Jordanian Dinars)*

		2003	2002
	Notes		
Interest income	24	15,760,072	14,600,283
Interest expense	25	6,911,432	8,063,830
Net interest income		8,848,640	6,536,453
Net commission	26	3,065,622	3,013,631
Net Interest and Commission Income		11,914,262	9,550,084
Other income -			
Gain from financial assets and instruments	27	5,676,577	3,219,182
Other operating income	28	1,972,472	1,713,127
Total other income		7,649,049	4,932,309
Net operating income		19,563,311	14,482,393
Expenses -			
Employees' costs	29	2,521,878	1,645,331
Other operating expenses	30	1,722,043	1,385,477
Depreciation and amortization		286,996	279,732
Provision for possible loan losses	7	5,048,699	3,129,157
Sundry Provisions	16	-	219,317
Total operating expenses		9,579,616	6,695,014
Excess in Sundry Provisions	16	473,654	-
Net Income Before income tax and appropriations		10,457,349	7,787,379
Less: Income tax	18	2,050,506	1,950,000
Jordanian Universities fees		104,573	77,874
Scientific research and vocational training		104,573	77,874
Educational, Vocational training and Technical Fund fees		70,870	48,379
Board of Directors' remuneration		65,000	65,000
Net Income	31	8,061,827	5,568,252
Earnings per share		0.234	0.161

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003 *(In Jordanian Dinars)*

	Paid In Capital	Reserves		Fair Value Reserve	Retained Earnings	Total
		Statutory	Voluntary			
2003						
Balance as of January, 2003	30,000,000	2,601,091	1,558,055	147,229	3,283,998	37,590,373
Increase in capital	4,500,000	-	(1,267,962)	-	(3,232,038)	-
Portion of realized gain on sale of available for sale investment <i>(previously included in retained earnings on adoption of IAS 39)</i>	-	-	-	-	(15,977)	(15,977)
Net income	-	-	-	-	8,061,827	8,061,827
Transfers to reserves	-	1,045,735	2,091,470	-	(3,137,205)	-
Net movement in cumulative changes in fair value reserve	-	-	-	143,253	-	143,253
Balance as of December 31, 2003	34,500,000	3,646,826	2,381,563	290,482	4,960,605	45,779,476
2002						
Balance as of January, 2002	25,300,000	1,822,353	1,706,000	131,013	3,147,298	32,106,664
Increase in capital	4,700,000	-	(1,705,421)	-	(2,994,579)	-
Portion of realized gain on sale of available for sale investment <i>(previously included in retained earnings on adoption of IAS 39)</i>	-	-	-	-	(100,759)	(100,759)
Net income	-	-	-	-	5,568,252	5,568,252
Transfers to reserves	-	778,738	778,738	-	(2,336,214)	-
Net movement in cumulative changes in fair value reserve	-	-	-	16,216	-	16,216
Balance as of December 31, 2002	30,000,000	2,601,091	1,558,055	147,229	3,283,998	37,590,373

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2003 *(In Jordanian Dinars)*

Notes

## CASH FLOWS FROM OPERATING ACTIVITIES

Net income before income tax

Adjustments for -

Depreciation

Provision for possible loan losses

Fair value reserve for available for trading investment

Effect of exchange rate changes

(Excess in)Sundry Provisions

Changes in assets and liabilities -

Decrease in restricted balances at banks and financial institutions

Decrease in deposits at banks and financial institutions

Increase in credit facilities

Decrease (increase) in trading investments

Decrease (increase) in other assets

Decrease in banks and financial institutions' deposits that mature within three months

Increase in customers' deposits

Increase (decrease) in margin accounts

Increase (decrease) in other liabilities

Net cash from operating activities before income tax

Income tax paid

Net cash from operating activities

## CASH FLOWS FROM INVESTING ACTIVITIES

Sale (purchase) of available for sale investments

Sale (purchase) of held to maturity investments

Purchase of fixed assets

Sale of fixed assets

Net cash from (used in) investing activities

## CASH FLOWS FROM FINANCING ACTIVITIES

Decrease (increase) in loans

Net cash (used in) from financing activities

Effect of exchange rate changes

Net increase in cash and cash equivalents

Cash and cash equivalents, beginning of the year

Cash and cash equivalents, end of the year

	2003	2002
Net income before income tax	10,112,333	7,518,252
Adjustments for -		
Depreciation	286,996	279,732
Provision for possible loan losses	5,048,699	3,192,157
Fair value reserve for available for trading investment	(3,344,907)	(164,822)
Effect of exchange rate changes	(471,603)	(693,558)
(Excess in)Sundry Provisions	(473,654)	219,317
	11,157,864	10,351,078
Changes in assets and liabilities -		
Decrease in restricted balances at banks and financial institutions	3,160,119	8,838,459
Decrease in deposits at banks and financial institutions	500,000	-
Increase in credit facilities	(68,669,550)	(7,128,920)
Decrease (increase) in trading investments	14,651,713	(5,047,901)
Decrease (increase) in other assets	479,399	(729,961)
Decrease in banks and financial institutions' deposits that mature within three months	(8,091,265)	(10,658,735)
Increase in customers' deposits	40,216,864	42,002,116
Increase (decrease) in margin accounts	9,067,802	(110,675)
Increase (decrease) in other liabilities	485,673	(2,734,144)
Net cash from operating activities before income tax	2,958,619	34,781,317
Income tax paid	(1,993,564)	(1,615,000)
Net cash from operating activities	965,055	33,166,137
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale (purchase) of available for sale investments	1,276,368	( 7,230,742)
Sale (purchase) of held to maturity investments	3,091,081	(11,472,668)
Purchase of fixed assets	(281,903)	( 662,924)
Sale of fixed assets	-	19,000
Net cash from (used in) investing activities	4,085,546	(19,347,334)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Decrease (increase) in loans	(243,162)	1,466,869
Net cash (used in) from financing activities	(243,162)	1,466,869
Effect of exchange rate changes	471,603	693,558
Net increase in cash and cash equivalents	5,279,042	15,979,410
Cash and cash equivalents, beginning of the year	42,593,109	26,613,699
Cash and cash equivalents, end of the year	47,872,151	42,593,109

# NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

*(In Jordanian Dinars)*

## (1) GENERAL

The Export and Finance Bank was established as a public shareholding company on August 30, 1995 in accordance with the companies law no. (1) of (1989). The Bank has an authorized and subscribed capital of JD 34,500,000 divided into 34,500,000 share of JD 1 each.

The Bank provides its banking operations through its main branch located in Amman, and through its offices in Jordan.

The Bank's principal activities include the provision of direct and indirect credit facilities primarily to the export and manufacturing sectors, trade in marketable securities for the Bank and its customers, and as a broker at Amman Stock Exchange.

The Bank originally had a paid up capital of JD 20 million from 1999, the Bank increased its capital four times to reach JD 34.5 million during 2003. The increases in capital were effected through capitalising its distributable reserves. In total the Bank issued 14.5 million bonus shares.

The Bank's total number of employees as of December 31, 2003 and 2002 was 134 employees and 113 employees respectively.

The financial statements were authorized for issue by the Bank's Board of Directors in their meeting No. 2/2004 held on January 15, 2004.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The presentation of the accompanying financial statements conform with the guidelines provided by the Central Bank of Jordan. The significant accounting policies adopted in the preparation of the financial statements are set out below:

### a) Basis of preparation

The accompanying financial statements are prepared in accordance with the standards issued, or adopted by the International Financial Standards Board and interpretations issued by the, as published by the International Financial Reporting Interpretations committee and Central Bank of Jordan laws and regulations under the historical cost convention except for the trading investments, available for sale investments and financial derivatives which are stated at fair value. Also the hedged financial assets and liabilities were stated at fair value.

### b) Financial transaction's recognition date

Sales and purchases of financial assets are recognized as of the commitment date.

### c) Trading Investments

Trading investments are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in net trading income in the income statement.

#### d) Credit facilities

Credit facilities are carried at amortized cost after allowance for possible loan losses, interest and commission in suspense.

Allowance for non-performing facilities is recognized to provide for the possible loan losses. The provision is recorded in the statement of income.

Interest and commission of non-performing facilities are suspended based on Central Bank of Jordan regulations.

General provision for direct and indirect credit facilities is established to provide for the unidentified possible loan losses based on Central Bank of Jordan regulations.

Loans provided for are written off from the allowance of possible loan losses when the 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.

#### e) Available for sale investments

Available for sale investments are initially measured at cost and subsequently remeasured at fair value. Unrealised gains or losses on measurement to fair value of available-for-sale investments are reported as a separate component of shareholders equity, until the investment is derecognised, or the investment is determined to be impaired. On derecognising or impairment the cumulative gain or loss previously reported in equity, along with any transition adjustment to retained earnings arising from the adoption of IAS 39, is included in the statement of income.

#### f) Held to maturity investments, net

Held to maturity investments are carried at amortized cost less provision for impairment, and the discount or premium is amortized using the effective interest rate method.

#### g) Fair value

For financial instruments traded on an organised financial market, fair value is determined by reference to quoted market prices.

Where no quoted market prices are available, a reasonable estimate of fair value is used based on one of the following methods:

- Comparison with the current market value of a similar financial instrument.
- Forecasted discounted cash flow.
- Options pricing models.

In case the fair value of an investment can not be reliably measured, it is stated at cost or amortized cost, any impairment in the value is recorded in the statement of income.

#### h) Revenue and expense recognition

Revenues and expenses are recognized on the accrual basis except for interest and commission income of non-performing facilities which are recorded as interest and commission in suspense in accordance with the central Bank of Jordan regulations.

Income from shares (dividends income) are recorded as an income only when earned.

Commission income is recognized when it is earned.

#### i) Fixed assets

Fixed assets are stated at cost and are depreciated over their estimated useful lives using the straight line method at annual rates ranging from 10% to 25%, except for freehold land.

Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount, and the impairment loss is recorded in the statement of income.

j) Income Tax

The Bank provides for income tax in accordance with the Income Tax Law no. (57) of 1985 and its subsequent amendments, and in accordance with IAS 12.

k) Properties held for resale

Properties held for resale are recorded at fair value upon the transfer of title to the Bank. Such properties are acquired by the Bank in connection with bad loans. The properties are appraised on an individual basis annually and declines in market value are recorded in the income statement.

l) Investment accounts managed on behalf of the customers

Represents investments managed by the bank on behalf of customers and it is not part of the bank's assets, therefore it is not included in the financial statements.

m) Derivative Financial Instruments

1- Financial derivatives held for trading

Derivative financial instruments such as, foreign currencies forward deals, interest rate future deals, swaps, foreign currencies options and others, are recorded at cost in the balance sheet as other assets / liabilities, and subsequently carried at fair value.

The fair value is determined according to the market price, if such prices are not available discounted cash flow models, standard forms, or internal pricing forms are used whichever is more suitable as of the financial statement date. Changes in the fair value are recognised in the statement of income.

2- Financial derivatives for hedging purposes

1- Fair value hedge:

Derivatives that qualify as fair value hedges are carried at fair value with the corresponding change in fair value recognised in the income statement.

2- Cash flow hedge:

Changes in the fair value of a hedging instrument that qualifies as a highly effective cash-flow hedge are recognised directly in the hedging reserve in shareholders' equity. The ineffective portion is immediately recognized in net profit or loss.

3- Hedge of net investments in a foreign entity:

Changes in the fair value of a hedging instrument that qualifies as a highly effective hedge of net investments in a foreign entity are recognized directly in the hedging reserve in shareholders' equity. The ineffective portion is immediately recognized in net profit or loss.

n) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated to Jordanian Dinars using the Central Bank of Jordan's middle exchange rates at year end. Foreign currency transactions during the year are recorded using exchange rates that were in effect at the dates of transactions. Gains or losses arising from foreign currency translations are reflected in the statement of income.

Foreign currencies' forward deals are revalued using the Central Bank of Jordan's middle exchange rates at year end, gains and losses from the re-evaluation are reflected in the statement of income.

o) Cash and cash equivalents

Represents cash on hand and cash balance that mature within 3 months, it includes cash on hand, balances at banks and financial institutions, less banks' and financial institutions deposits' that mature within three months.

p) Repurchase and resell agreements

Assets sold with a simultaneous commitment to repurchase at a specific future date will continue to be recognized in the bank's financial statements due to the Bank's continuing control over these assets using the same accounting policies with the proceeds of the sale recorded as a liability. The difference between the sale and the repurchase price is recognized as an interest expense over the agreement term.

Assets purchased with a corresponding commitment to resell at a specified future date 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 customers' loans as applicable, and the difference between purchase and resale price is recognized in the statement of income.

q) Risk management

The Bank's management attempts to mitigate the credit and market risks through setting investment ceilings and applying set percentages that correspond with the Central Bank of Jordan and board of directors regulations and through diversification of investments and a conservative credit granting policy to mitigate credit risk. The Bank has a risk evaluation system to assess the financial standing of its clients.

The Bank's management reviews and assesses cash commitments and available assets on a daily basis. The assets and liabilities management committee analyses liquidity, and reviews assets and liabilities management plans on a timely basis. The review includes also analysing the maturities of assets and liabilities.

Interest rate risk is managed by matching the maturities of assets and liabilities and through interest sensitivity reviews.

r) End of service indemnity

In accordance with labor law no. (8/96) companies subject to Social Security Law are not required to pay end of service indemnity.

## (3) CASH ON HAND AND BALANCES AT THE CENTRAL BANKS OF JORDAN

	2003	2002
Cash on hand	1,997,370	1,195,620
Balances at the Central Bank of Jordan		
Current accounts	2,769,496	2,707,802
Time and notice deposits	-	2,500,000
Statutory cash reserve	10,513,676	7,774,653
Certificates of deposit	-	1,000,000
	<u>15,280,542</u>	<u>15,178,075</u>

Except for the statutory cash reserve held at the Central Bank of Jordan there are no restricted cash balances as of December 31, 2003 and 2002.

## (4) BALANCES AT BANKS AND FINANCIAL INSTITUTIONS

	2003	2002
Local Banks and financial institutions		
Current accounts	137,373	169,240
Deposits maturing within 3 months	5,605,652	1,444,959
Foreign Banks and financial institutions		
Current accounts	14,007,652	8,245,286
Deposits maturing within 3 months	24,575,389	46,054,930
	<u>44,326,066</u>	<u>55,914,415</u>

Non interest bearing balances at banks and financial institutions amounted to JD 1,998,111 and JD 1,496,785 as of December 31, 2003 and 2002 respectively.

Restricted balances amounted to JD 2,402,652 and JD 5,562,771 as of December 31, 2003 and 2002 respectively.

## (5) DEPOSITS AT BANKS AND FINANCIAL INSTITUTIONS

	2003	2002
Local Banks and financial institutions		
Certificates of deposit	-	500,000
	<u>-</u>	<u>500,000</u>

There were no restricted deposits as of December 31, 2003 and 2002.

## (6) TRADING INVESTMENTS

	2003	2002
Shares not listed in financial markets *	131,600	140,000
Shares listed in financial markets **	12,040,803	29,122,975
Bonds listed in financial markets	9,784,321	4,000,555
	<u>21,956,724</u>	<u>33,263,530</u>

\* Fair value of shares not listed on financial markets is computed based on last sale transaction.

\*\* Included in investment in shares listed in financial markets are shares held under resale agreements, amounting JD 23,682,714 as of December 31, 2002. During 2003, the Bank amended the nature of such agreements to become facilities agreements and accordingly, such agreements were included in the credit facilities.

## (7) CREDIT FACILITIES, NET

	2003	2002
Discounted bills and notes	33,231,063	44,196,261
Overdraft facilities	21,654,659	14,761,269
Loans and advances	137,654,551	68,283,856
Credit cards	2,588	72
	<u>192,533,861</u>	<u>127,241,458</u>
Less: Interest in suspense	2,046,010	1,774,922
Allowance for possible loan losses	10,740,648	9,340,184
	<u>12,786,658</u>	<u>11,115,106</u>
Credit facilities, net	<u>179,747,203</u>	<u>116,126,352</u>

Credit facilities granted by sector are set forth below:

	2003	2002
Agriculture	953,706	1,045,696
Manufacturing and mining	57,355,193	61,571,943
Constructions	4,361,076	3,106,022
General trade	33,195,030	23,565,178
Transportation services	5,390,625	14,189,726
Tourism, hotels and restaurants	1,230,972	1,388,369
Services and public facilities	4,984,388	8,380,915
Financial services	706,838	1,392,922
Investment in shares	58,287,322	1,890,074
Vehicles	5,314,728	7,661,579
Real estate purchase	10,279,978	703,200
Consumable goods	696,543	454,983
Others	9,777,462	1,890,851
	<u>192,533,861</u>	<u>127,241,458</u>

The non-performing credit facilities as defined by the Central Bank of Jordan's regulations amounted to JD 18,574,144 representing 9.65% of total facilities and JD 16,781,585 representing 13.19% of total facilities as of December 31, 2003 and 2002 respectively.

The non-performing credit facilities after excluding interest in suspense as defined by the Central Bank of Jordan's regulations amounted to JD 16,528,134 representing 8.68% of the total credit facilities after excluding interest in suspense and JD 15,006,663 representing 11.96% of total credit facilities after excluding interest in suspense as of December 31, 2003 and 2002, respectively.

There are no credit facilities granted or guaranteed by the government as of December 31, 2003 and 2002 respectively.

The gross fair value of collaterals held against credit facilities amounted to JD 114,343,743 and JD 119,277,263 as of December 31, 2003 and 2002 respectively.

Allowance for possible loan losses:

	2003			2002		
	Specific	General	Total	Specific	General	Total
Balance at January 1,	7,348,409	1,991,775	9,340,184	5,647,137	1,869,124	7,516,261
Provision during the year	3,741,255	1,307,444	5,048,699	3,069,506	122,651	3,192,157
Write offs	(3,648,235)	-	(3,648,235)	(1,368,234)	-	(1,368,234)
Balance at December 31,	<u>7,441,429</u>	<u>3,299,219</u>	<u>10,740,648</u>	<u>7,348,409</u>	<u>1,991,775</u>	<u>9,340,184</u>

Allowances that were settled, collected or transferred against other non-performing credit facilities amounted to JD 799,013 and JD 946,367 as of December 31, 2003 and 2002 respectively.

Interest in suspense:

	2003	2002
Balance at January 1,	1,774,922	1,236,760
Suspended interest during the year	1,288,822	894,746
Less: Suspended interest on settled loans	95,062	202,816
Interest suspended written off	922,672	153,768
Balance at December 31,	2,046,010	1,774,922

(8) AVAILABLE FOR SALE INVESTMENTS

	2003		2002	
	Traded	Total	Traded	Total
Shares *	102,220	102,220	1,102,119	1,102,119
Bonds	23,645,692	23,645,692	23,794,885	23,794,885
	23,747,912	23,747,912	24,897,004	24,897,004

\* Included in investment in shares includes an amount of JD 100,000 represents shares of Jordan Loan Guarantee Company which are listed but not traded on the Amman Stock Exchange. This investment was stated at cost since the fair value could not be measured reliably. Management believes that there is no impairment in the value of this investment as of year end.

(9) HELD TO MATURITY INVESTMENTS

	2003	2002
Treasury bills	16,180,672	22,815,384
Bonds and debentures	4,043,653	500,022
	20,224,325	23,315,406

(10) FIXED ASSETS, NET

	Furniture and Fixture	Vehicles	Computers	Installations	Total
December 31, 2003					
Beginning balance	727,280	99,593	737,323	447,882	2,012,078
Additions	23,681	-	252,491	9,472	285,644
Retirements	(9,878)	-	-	-	(9,878)
Accumulated depreciation	(318,543)	(27,883)	(684,795)	(193,256)	(1,224,477)
Net Book Value at year end	422,540	71,710	305,019	264,098	1,063,367

December 31, 2002

Beginning balance	365,713	24,600	630,838	349,003	1,370,154
Additions	361,567	95,993	106,485	98,879	662,924
Retirements	-	(21,000)	-	-	(21,000)
Accumulated depreciation	(231,090)	(12,944)	(543,686)	(155,898)	(943,618)
Net Book Value at year end	496,190	86,649	193,637	291,984	1,068,460

(11) OTHER ASSETS

	2003	2002
Accrued revenues	926,630	1,157,004
Prepaid expenses	808,267	737,864
Brokerage office receivables	431,667	769,146
Tax paid in advance	50,226	203,991
Interest paid in advance / CBJ bills	20,037	18,739
Legal expenses	140,220	107,179
Margin dealings' facilities	194,177	86,909
Others	104,276	74,067
	2,675,500	3,154,899

## (12) BANKS AND FINANCIAL INSTITUTIONS DEPOSITS

	2003			2002		
	INSIDE JORDAN	OUTSIDE JORDAN	TOTAL	INSIDE JORDAN	OUTSIDE JORDAN	TOTAL
Current accounts and demand deposit	-	1,709,924	1,709,924	15,545,626	1,446,419	16,992,045
Deposits maturing within 3 months	4,076,881	2,127,000	6,203,881	5,189,649	754,916	5,944,565
Deposits maturing within 3 - 12 months	-	-	-	2,091,265	-	2,091,265
Certificates of deposit	1,418,000	-	1,418,000	6,000,000	-	6,000,000
	<u>5,494,881</u>	<u>3,836,924</u>	<u>9,331,805</u>	<u>28,826,540</u>	<u>2,201,335</u>	<u>31,027,875</u>

## (13) CUSTOMERS' DEPOSITS

	2003	2002
Current accounts and demand deposits	30,856,592	15,495,481
Saving deposits	52,417	61,033
Time and notice deposits	128,021,894	107,678,795
Certificates of deposit	14,146,836	9,625,566
	<u>173,077,739</u>	<u>132,860,875</u>

- Governmental institutions' deposits amounted to JD 42,016,276 representing 26.48% of total customers' deposits and JD 38,546,795 representing 29.01% of customers' deposits as of December 31, 2003 and 2002 respectively.

- Non-interest bearing deposits amounted to JD 18,361,521 representing 11.57% of total deposits and JD 10,315,848 representing 7.76% of total deposits as of December 31, 2003 and 2002 respectively.

- Dormant accounts amounted to JD 126,143 and JD 90,232 as of December 31, 2003 and 2002 respectively.

- Included in time and notice deposits, are restricted deposits related to the Frozen Deposits Management Fund in accordance with Law No. (33) of 2003. These amounted to JD 14,383,502 representing 8.31% of total deposits and JD 12,115,566 representing 9.12% of total deposits as of December 31, 2003 and 2002 respectively.

## (14) MARGIN ACCOUNTS

	2003	2002
Direct credit facilities	35,878,619	21,418,148
Indirect credit facilities	10,950,949	10,600,550
Deposits against cash margin dealings' facilities - currencies	504,061	1,954,952
Deposits against cash margin dealings' facilities - shares	-	4,292,177
	<u>47,333,629</u>	<u>38,265,827</u>

## (15) LOANS AND ADVANCES

	2003	2002
Amounts borrowed from Central Bank of Jordan	8,455,630	13,256,789
Amounts borrowed from foreign banks	4,018,875	5,971,200
Others	13,682,626	7,172,304
	<u>26,157,131</u>	<u>26,400,293</u>

Amounts borrowed from Central Bank of Jordan are due during the period from 2004 to 2007, with an annual interest rate ranging between 2.5% to 6.5%. Installments are paid according to monthly, quarterly, or semi-annually schedules.

Amounts borrowed from foreign banks are due during the period 2004 and 2007, with an annual interest rate ranging between 3.225% to 4.457%. Installments are paid semi-annually.

Amounts borrowed from Arab Investment Company / Bahrain amounting JD 4,963,000 are due in December 2004 and are renewable automatically, and have an annual interest rate ranging between 1.920% to 2.172%.

Amounts borrowed from Arab Trade Finance amounting JD 712,545 are due on March 2004 and are renewable automatically, with an annual interest rate of 1.198%.

Amounts borrowed from Real Estate Mortgage Finance Co. amounting to JD 2,065,726 are due on July 2005, with an annual interest ranging between 4.75% to 6.25%.

Included in borrowings from other parties an amount of JD 5,941,355 which represents a repurchase agreement entered into the Social Security Department and will be due on May 2004, with an annual interest rate of 2.38%.

An amount of USD 2,625,000 was deposited as a collateral against the loan from the Arab Investment Company with an annual interest of 1.12%.

There are no other collaterals against loans and advances from other parties.

#### (16) Sundry Provisions

2003

Sundry Provisions

Balance at January 1st	Provided during the Period	Used during the Period	Write back to revenue	Balance at December 31st
473,654	-	-	(473,654)	-
473,654	-	-	(473,654)	-

2002

Sundry Provisions

254,337	219,317	-	-	473,654
254,337	219,317	-	-	473,654

#### (17) OTHER LIABILITIES

	2003	2002
Accrued interest expenses	742,053	848,949
Interest and commissions received in advance	717,980	1,277,495
Deferred income	1,943,536	970,709
Accrued expenses	1,098,891	408,663
Certified cheques	222,456	333,366
Cheques payable	325,068	619,597
University fees	104,573	77,874
Scientific research fees	104,573	77,874
Educational, vocational training and technical fund fees	70,870	48,379
Board of directors' remuneration	65,000	65,000
Incoming transfers	-	92,161
Other	19,917	109,177
	<u>5,414,917</u>	<u>4,929,244</u>

#### (18) INCOME TAX PROVISION

The movement on the income tax provision was as follows:

	2003	2002
Beginning balance	1,870,000	1,535,000
Income tax paid	(1,993,564)	1,615,000
Provision for income tax for the year	1,926,942	1,950,000
Provision for income tax for previous year	123,564	-
Ending balance	<u>1,926,942</u>	<u>1,870,000</u>

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

Provision for income tax for the year	1,926,942	1,950,000
Accrued income tax from the previous years	123,564	-
	<u>2,050,506</u>	<u>1,950,000</u>

The Income Tax Department reviewed the Bank's records for 1999 and assessed an additional income tax amounting to JD 100,000. However the Bank has contested the decision. As of the date of the financial statements the Bank did not reach a final settlement with the Income Tax Department.

The Income Tax Department reviewed the Bank's records for 2002, and did not issue its final assessment as of the date of the financial statement.

(19) PAID IN CAPITAL

Authorized subscribed and paid in capital amounts to JD 34,500,000 divided to 34,500,000 shares at 1 JD per share.

(20) VOLUNTARY RESERVE

Voluntary reserve amounted to JD 2,381,563 and JD 1,558,055 as of December 31, 2003 and 2002, respectively.

(21) CUMULATIVE CHANGES IN FAIR VALUE

	2003				2002			
	Shares	Bonds	Derivatives	Total	Shares	Bonds	Derivatives	Total
Beginning balance	9,815	137,414	-	147,229	-	131,013	-	131,013
Unrealised gains	(139)	268,600	-	268,461	9,815	150,531	-	160,346
Realised gain transferred to statement of income	9,792	115,416	-	125,208	-	144,130	-	144,130
Net movement during the year	(9,931)	153,184	-	143,253	9,815	6,401	-	16,216
Ending balance	(116)	290,598	-	290,482	9,815	137,414	-	147,229

(22) RETAINED EARNINGS

	2003	2002
Beginning balance	3,283,998	3,147,298
Amount capitalized in bonus issue	(3,232,038)	(2,994,579)
Portion of realized gain on sale of available for sale investment (previously included in retained earnings on adoption of IAS 39)	(15,977)	(100,759)
Net income	8,061,827	5,568,252
Transfers to statutory and voluntary reserves	(3,137,205)	(2,336,214)
Ending balance	4,960,605	3,283,998

Included in the above balance amounts previously included in retained earnings upon the first time adoption of IAS 39 amounting to 35,983 and JD 51,960 as of December 31, 2003 and 2002, respectively.

(23) CAPITAL ADEQUACY

The capital adequacy ratio is computed in accordance with the Central Bank of Jordan regulations derived from Basel Committee resolutions. These regulations require that market risk be taken into consideration when computing the capital adequacy for the year 2003. However, the regulations applied during 2002 did not require such consideration.

	2003		2002	
	Amount in Thousand	% to assets weighted by risks	Amount in Thousand	% to assets weighted by risks
Regulatory capital	45,112,390	19.87	38,755,831	23.85
Core (primary) capital	45,566,656	18.75	36,804,559	24.71

## (24) INTEREST INCOME

	2003	2002
Direct credit facilities		
Bills and notes discounted	2,818,907	4,090,838
Overdrafts	1,761,820	1,610,689
Loans and advances	7,545,187	5,549,406
Credit cards	91	4,336
Other		
Balances at the Central Bank of Jordan	388,179	214,148
Balances and deposits at Banks and Financial institutions	860,974	863,727
Trading investments	495,072	383,131
Available for sale investments	1,159,182	1,155,834
Held to maturity investments	730,660	728,174
	<u>15,760,072</u>	<u>14,600,283</u>

## (25) INTEREST EXPENSE

	2003	2002
Banks and financial institutions deposits	391,454	1,348,268
Customers' deposits		
Current accounts and demand deposits	199,012	111,600
Saving deposits	1,517	744
Time and notice deposits	4,199,958	3,654,311
Certificates and deposit	433,062	703,214
Cash margins	654,766	993,848
Loans and advances	784,386	1,092,043
Deposits Guarantee Corporation fees	247,277	159,802
	<u>6,911,432</u>	<u>8,063,830</u>

## (26) NET COMMISSION

	2003	2002
Commission income		
Direct credit facilities	60,451	93,282
Indirect credit facilities	3,100,514	3,058,748
Less: Commission expense	95,343	138,399
Net commission	<u>3,065,622</u>	<u>3,013,631</u>

## (27) GAIN FROM FINANCIAL ASSETS AND INSTRUMENTS

	2003	2002
Gain from trading investments	5,174,372	2,436,046
Gain from available for sale investments	130,732	375,436
Dividends received	371,473	407,700
	<u>5,676,577</u>	<u>3,219,182</u>

## (28) OTHER OPERATING INCOME

	2003	2002
Revaluation gain	471,603	693,558
Foreign currency trading	172,862	309,856
Commission on customers' funds management	1,326,584	707,828
Other income	1,423	1,885
	<u>1,972,472</u>	<u>1,713,127</u>

## (29) EMPLOYEES EXPENSES

	2003	2002
Salaries and benefits	1,229,466	1,058,116
Employee Bonus	1,050,000	400,000
Social security	102,109	91,589
Medical expenses	60,556	60,808
Training and research	62,269	25,215
Paid vacations	3,261	2,618
Bank's contribution in social activities fund	14,217	6,985
	<u>2,521,878</u>	<u>1,645,331</u>

## (30) OTHER OPERATING EXPENSES

	2003	2002
Rent	215,435	195,309
Consulting and professional fees	168,234	135,287
Stationary and printing	74,420	89,829
Board of directors' transportation	40,167	29,943
Reuters' subscription expense	90,652	76,209
Donations	80,862	56,755
Advertisement	360,122	175,366
Subscriptions, fees and licenses	199,624	202,949
Hospitality	36,260	26,633
Travel and transportation	36,748	30,277
Computer expenses	86,856	53,932
Post, telephone, telex and swift	125,670	127,615
Brinks	13,881	11,133
Internet	3,451	7,951
Maintenance	26,821	19,031
Insurance	66,149	51,546
Subscriptions	62,489	42,306
Others	34,202	26,406
	<u>1,722,043</u>	<u>1,358,477</u>

## (31) EARNINGS PER SHARE

	2003	2002
Net income	8,061,827	5,568,252
Weighted average number of shares	34,500,000	34,500,000
Earnings per share	<u>0.234</u>	<u>0.161</u>

## (32) CASH AND CASH EQUIVALENTS

Cash and cash equivalent balances in the statements of cash flows consist of the following balance sheet items:

	2003	2002
Cash on hand and balances at the Central Bank of Jordan	15,280,542	15,178,075
Add: Balances at banks and financial institutions maturing within 3 months	44,326,066	55,914,415
Less: Banks and financial institutions' deposits maturing within 3 months	9,331,805	22,936,610
Restricted cash balance at banks and financial institutions	2,402,652	5,562,771
Net cash and cash equivalents	<u>47,872,151</u>	<u>42,593,109</u>

(33) DERIVATIVES

The following schedule shows the negative and positive fair values of the financial instruments' derivatives at year end, along with the distribution of the fair value according to the maturity:

	Positive Fair Value	Negative Fair Value	Total Par Value	Par Value Maturity			
				Within 3 Months	3 - 12 Months	1 -3 Years	Over 3 Years
December 2003	62,169	-	35,299,756	35,299,756	-	-	-
Derivatives held for trading	-	-	-	-	-	-	-
Fair value hedging derivatives	-	-	-	-	-	-	-
Cash flow hedging derivatives	-	-	-	-	-	-	-
Hedges of net investments in foreign entities derivatives	62,169	-	35,299,756	35,299,756	-	-	-
December 2002	98,735	-	18,918,844	18,918,844	-	-	-
Derivatives held for trading	-	-	-	-	-	-	-
Fair value hedging derivatives	-	-	-	-	-	-	-
Cash flow hedging derivatives	-	-	-	-	-	-	-
Hedges of net investments in foreign entities derivatives	98,735	-	18,918,844	18,918,844	-	-	-

(34) FAIR VALUE OF FINANCIAL INSTRUMENTS

Following are financial assets and financial liabilities that were not stated at fair value:

	2003			2002		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
Held to maturity investments	20,224,325	20,224,325	-	23,315,406	23,315,406	-
Direct facilities	179,747,203	*	-	116,126,352	*	-
Banks and financial Institutions' deposits						
Customers' deposit	9,331,805	9,331,805	-	31,027,875	31,027,875	-
Margin accounts	173,077,739	173,077,739	-	132,860,875	132,860,875	-
Loans and advances	47,333,629	47,333,629	-	38,265,827	38,265,827	-
Net difference between Book value and fair-value	26,157,131	26,157,131	-	26,400,293	26,400,293	-
			-			-

\* Fair value of credit facilities can not be measured reliably due to the fact that there are no secondary markets to trade such facilities, in addition to the cost and time constraints. Bank's management believes that fair value of credit facilities exceeds its carrying amount.

SETS

sh on hand and balances at the Central Bank of Jordan  
 lances at Banks and financial institutions  
 posits at Banks and financial institutions  
 iding investments  
 edit facilities, net  
 ailable for sale investments  
 ld to maturity investments, net  
 ed assets, net  
 er assets  
 tal Assets

	2017	2016	2015	2014	2013	2012	2011	%
sh on hand and balances at the Central Bank of Jordan	-	-	-	-	-	15,280,542	15,280,542	-
lances at Banks and financial institutions	42,327,955	-	-	-	-	1,998,111	44,326,066	2.65
posits at Banks and financial institutions	-	-	-	-	-	-	-	-
iding investments	-	-	-	3,869,440	4,779,569	13,307,715	21,956,724	7.88
edit facilities, net	54,692,590	67,242,076	15,395,894	23,171,042	19,245,601	-	179,747,203	9.47
ailable for sale investments	-	2,527,500	6,632,909	11,954,507	2,530,776	102,220	23,747,912	5.96
ld to maturity investments, net	11,232,572	8,991,753	-	-	-	-	20,224,325	2.93
ed assets, net	-	-	-	-	-	1,063,367	1,063,367	5.94
er assets	-	-	-	-	-	2,675,500	2,675,500	-
tal Assets	108,253,117	78,761,329	22,028,803	38,994,989	26,555,946	34,427,455	309,021,639	-

## LIABILITIES AND SHAREHOLDERS' EQUITY

liabilities  
 nks and financial institutions' deposits  
 stomers' deposits  
 rgin accounts  
 ans and advances  
 ndry Provisions  
 er liabilities  
 ome tax provision  
 tal Liabilities  
 areholders' Equity  
 tal Liabilities and Shareholders' Equity

liabilities	7,697,757	-	-	-	-	1,634,048	9,331,805	2.75
nks and financial institutions' deposits	138,581,259	6,005,701	1,485,258	1,009,000	7,635,000	18,361,521	173,077,739	3.48
stomers' deposits	21,328,544	15,054,136	-	-	-	10,950,949	47,333,629	3.60
rgin accounts	3,020,655	6,730,629	7,668,923	8,073,994	662,930	-	26,157,131	4.33
ans and advances	-	-	-	-	-	-	-	-
ndry Provisions	-	-	-	-	-	5,414,917	5,414,917	-
er liabilities	-	-	-	-	-	1,926,942	1,926,942	-
ome tax provision	-	-	-	-	-	-	-	-
tal Liabilities	170,628,215	27,790,466	9,154,181	9,082,994	8,297,930	38,288,377	263,242,163	-
areholders' Equity	-	-	-	-	-	45,779,476	45,779,476	-
tal Liabilities and Shareholders' Equity	170,628,215	27,790,466	9,154,181	9,082,994	8,297,930	84,067,853	309,021,639	-

Interest rate sensitivity

Balance sheet items sensitivity

Cumulative interest rate sensitivity gap

Interest rate sensitivity	(62,375,098)	50,970,863	12,874,622	29,911,995	18,258,016	(49,640,398)	-	-
Balance sheet items sensitivity	-	-	-	-	-	135,158,371	135,158,371	-
Cumulative interest rate sensitivity gap	-	(11,404,235)	1,470,387	31,382,382	49,640,398	-	-	-

## Sensitivity of interest rates as of December 31, 2002

SETS

sh on hand and balances at the Central Bank of Jordan  
 lances at Banks and financial institutions  
 posits at Banks and financial institutions  
 iding investments  
 edit facilities, net  
 ailable for sale investments  
 ld to maturity investments, net  
 ed assets, net  
 er assets  
 tal Assets

sh on hand and balances at the Central Bank of Jordan	3,779,093	-	-	-	-	11,398,982	15,178,075	3.85
lances at Banks and financial institutions	54,417,630	-	-	-	-	1,496,785	55,914,415	2.00
posits at Banks and financial institutions	-	-	500,000	-	-	-	500,000	6.38
iding investments	4,000,555	-	-	-	-	29,262,975	33,263,530	7.48
edit facilities, net	36,304,763	37,395,883	12,846,414	26,193,944	3,385,348	-	116,126,352	8.49
ailable for sale investments	2,552,000	-	8,957,576	6,141,009	6,144,300	1,102,119	24,897,004	6.69
ld to maturity investments, net	11,957,515	11,357,891	-	-	-	-	23,315,406	3.92
ed assets, net	-	-	-	-	-	1,068,460	1,068,460	-
er assets	-	-	-	-	-	3,154,899	3,154,899	-
tal Assets	113,011,556	48,753,774	22,303,990	32,334,953	9,529,648	47,484,220	273,418,141	-

## LIABILITIES AND SHAREHOLDERS' EQUITY

liabilities  
 nks and financial institutions' deposits  
 stomers' deposits  
 rgin accounts  
 ans and advances  
 ndry Provisions  
 er liabilities  
 ome tax provision  
 tal Liabilities  
 areholders' Equity  
 tal Liabilities and Shareholders' Equity

liabilities	22,402,769	8,091,265	-	-	-	533,841	31,027,875	2.00
nks and financial institutions' deposits	108,406,515	9,302,362	4,836,150	-	-	10,315,848	132,860,875	5.48
stomers' deposits	27,665,277	-	-	-	-	10,600,550	38,265,827	3.15
rgin accounts	11,406,129	2,413,772	2,804,759	6,964,061	2,811,572	-	26,400,293	3.82
ans and advances	-	-	-	-	-	473,654	473,654	-
ndry Provisions	-	-	-	-	-	4,929,244	4,929,244	-
er liabilities	-	-	-	-	-	1,870,000	1,870,000	-
ome tax provision	-	-	-	-	-	-	-	-
tal Liabilities	169,880,690	19,807,399	7,640,909	6,964,061	2,811,572	28,723,137	235,827,768	-
areholders' Equity	-	-	-	-	-	37,590,373	37,590,373	-
tal Liabilities and Shareholders' Equity	169,880,690	19,807,399	7,640,909	6,964,061	2,811,572	66,313,510	273,418,141	-

Interest rate sensitivity

Balance sheet items sensitivity

Cumulative interest rate sensitivity gap

Interest rate sensitivity	(56,869,134)	28,946,375	14,663,081	25,370,892	6,718,076	(18,829,290)	-	-
Balance sheet items sensitivity	-	-	-	-	-	105,263,985	105,263,985	-
Cumulative interest rate sensitivity gap	-	(27,922,759)	(13,259,678)	12,111,214	18,829,290	-	-	-

December 31, 2002

Cash on hand and balances at the Central Bank of Jordan	10,513,676	-	-	-	-	-	4,766,866	15,280,842
balances at Banks and financial institutions	30,181,041	-	-	-	-	-	14,145,025	44,326,066
Deposits at banks and financial institutions	-	-	-	-	-	-	-	-
Trading investments	-	-	-	-	3,869,440	4,779,569	133,077,015	21,956,724
Credit facilities, net	36,487,825	18,204,765	67,242,076	15,395,894	23,109,956	19,306,687	-	179,747,203
available for sale investments	-	-	2,527,500	6,632,909	11,954,507	2,530,776	102,220	23,747,912
held to maturity investments, net	-	11,232,572	8,991,753	-	-	-	-	20,224,325
fixed assets, net	-	-	-	-	-	-	1,063,367	1,063,367
Other assets	-	-	-	-	-	-	2,675,500	2,675,500
<b>Total Assets</b>	<b>77,182,542</b>	<b>29,437,337</b>	<b>78,761,329</b>	<b>22,028,803</b>	<b>38,933,903</b>	<b>26,617,032</b>	<b>36,060,693</b>	<b>309,021,639</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Liabilities								
Banks and financial institutions' deposits	2,654,170	4,967,711	-	-	-	-	1,709,924	9,331,805
Customers' Deposits	115,318,538	10,715,233	6,005,701	1,485,259	1,009,000	7,635,000	30,909,008	173,077,739
Margin accounts	10,950,949	21,328,544	15,054,136	-	-	-	-	47,333,629
Loans and advances	1,321,095	1,699,560	6,730,629	7,668,923	8,073,994	662,930	-	26,157,131
Provision	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	5,414,917	5,414,917
Income tax provision	1,926,942	-	-	-	-	-	-	1,926,942
<b>Total Liabilities</b>	<b>132,171,694</b>	<b>38,711,048</b>	<b>27,790,466</b>	<b>9,154,182</b>	<b>9,082,994</b>	<b>8,297,930</b>	<b>38,033,849</b>	<b>263,242,163</b>
Shareholders' Equity	-	-	-	-	-	-	45,779,476	45,779,476
<b>Total Liabilities and Shareholders' Equity</b>	<b>132,171,694</b>	<b>38,711,048</b>	<b>27,790,466</b>	<b>9,154,182</b>	<b>9,082,994</b>	<b>8,297,930</b>	<b>83,813,325</b>	<b>309,021,639</b>
Liquidity risk	(54,989,152)	(9,273,711)	50,970,863	12,874,621	29,850,909	18,319,102	(47,752,632)	-
Cumulative liquidity risk sensitivity gap	-	(64,262,863)	(13,292,000)	(417,379)	29,433,530	47,752,632	-	-

December 31, 2001

Cash on hand and balances at the Central Bank of Jordan	10,274,653	1,000,000	-	-	-	-	3,903,422	15,178,075
balances at Banks and financial institutions	47,499,889	-	-	-	-	-	8,414,526	55,914,415
Deposits at banks and financial institutions	-	-	-	500,000	-	-	-	500,000
Trading investments	4,000,555	-	23,682,714	-	-	-	5,580,261	33,263,530
Credit facilities, net	22,810,158	13,494,605	37,395,883	12,846,414	26,193,944	3,385,348	-	116,126,352
available for sale investments	-	2,552,000	-	8,957,576	6,141,009	6,144,300	1,102,119	24,897,004
held to maturity investments, net	-	11,957,515	11,357,891	-	-	-	-	23,315,406
fixed assets, net	-	-	-	-	-	-	1,068,460	1,068,460
Other assets	-	-	-	-	-	-	3,154,899	3,154,899
<b>Total Assets</b>	<b>84,585,255</b>	<b>29,004,120</b>	<b>72,436,488</b>	<b>22,303,990</b>	<b>32,334,953</b>	<b>9,529,648</b>	<b>23,223,687</b>	<b>273,418,141</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Liabilities								
Banks and financial institutions' deposits	6,228,626	-	8,091,265	-	-	-	16,707,984	31,027,875
Customers' deposits	82,519,819	20,707,063	9,302,362	4,836,150	-	-	15,495,481	132,860,875
Margin accounts	10,600,550	27,665,277	-	-	-	-	-	38,265,827
Loans and advances	8,920,647	2,485,482	2,413,772	2,804,759	6,964,061	2,811,572	-	26,400,293
Provision	-	-	-	-	-	-	473,654	473,654
Other liabilities	-	-	-	-	-	-	4,929,244	4,929,244
Income tax provision	1,870,000	-	-	-	-	-	-	1,870,000
<b>Total Liabilities</b>	<b>110,139,642</b>	<b>50,857,822</b>	<b>19,807,399</b>	<b>7,640,909</b>	<b>6,964,061</b>	<b>2,811,572</b>	<b>37,606,363</b>	<b>235,827,768</b>
Shareholders' Equity	-	-	-	-	-	-	37,590,373	37,590,373
<b>Total Liabilities and Shareholders' Equity</b>	<b>110,139,642</b>	<b>50,857,822</b>	<b>19,807,399</b>	<b>7,640,909</b>	<b>6,964,061</b>	<b>2,811,572</b>	<b>75,196,736</b>	<b>273,418,141</b>
Liquidity risk	(25,554,387)	(21,853,702)	52,629,089	14,663,081	25,370,892	6,718,076	(51,973,049)	-
Cumulative liquidity risk sensitivity gap	-	(47,408,089)	5,221,000	19,884,081	45,254,973	51,973,049	-	-

(37) FOREIGN CURRENCIES RISKS

Net Currency Position	2003		2002	
	Foreign Currency	Equivalent in JD	Foreign Currency	Equivalent in JD
US Dollar	1,012,673	717,985	(215,747)	(152,965)
Sterling Pound	(13,487)	(17,049)	26,862	30,521
Euro	(964,598)	(862,466)	101,851	75,607
Swiss Franc	25,633	14,706	14,183	7,236
Japanese Yen	(606,337)	(4,021)	2,122,457	12,690
Others	-	150,845	-	42,700

According to segment:

	2003			2002		
	Assets	Liabilities	Off Balance Sheet Items	Assets	Liabilities	Off Balance Sheet Items
Individuals accounts	19,989,336	66,162,535	35,194,120	25,955,622	59,234,209	17,129,020
Corporate accounts	159,757,867	83,869,035	64,205,414	90,170,730	111,892,493	68,484,131
Others	129,274,436	158,990,069	35,758,837	157,291,789	102,291,439	19,650,834
Total	309,021,639	309,021,639	135,158,371	273,418,141	273,418,141	105,263,985

(38) GEOGRAPHICAL AND SEGMENTAL DISTRIBUTION OF ASSETS AND LIABILITIES AND OFF BALANCE SHEET ITEMS

Assets and liabilities and off balance sheet items were distributed in current period and in prior period as follows:

According to Geographical area:

	2003			2002		
	Assets	Liabilities	Off Balance Sheet Items	Assets	Liabilities	Off Balance Sheet Items
Inside Jordan	268,372,014	297,022,315	63,882,869	216,945,325	258,510,107	51,296,880
Other Arab countries	11,362,900	5,793,587	7,745,778	8,402,583	8,118,933	7,002,029
Asia *	1,664,374	-	12,835,434	-	90,840	17,580,902
Europe	21,475,500	2,186,862	40,841,256	41,370,117	328,891	28,639,848
America	61,146,851	4,018,875	9,853,034	6,700,116	6,369,370	480,212
Others	-	-	-	-	-	264,114
Total	309,021,639	309,021,639	135,158,371	273,418,141	273,418,141	105,263,985

\* Excluding Arab Countries

(39) RELATED PARTY TRANSACTIONS

	2003	2002
Balance sheet items		
Direct credit facilities	2,094,604	2,548,653
Deposits at banks	31,521,953	32,643,659
Margin accounts	77,063	91,496
Off balance sheet items		
Indirect credit facilities	4,713,786	60,874
Income statement items		
Interest and commission income	150,959	155,130
Interest and commission expense	1,352,273	1,293,395

(40) OFF BALANCE SHEET ITEMS

The bank has the following off balance sheet items as of the financial statements date:

	2003	2002
Letters of credit	34,881,393	27,340,706
Acceptances	20,438,001	11,242,688
Letters of guarantee -		
Payments	4,873,933	10,004,020
Performance	7,590,254	8,522,544
Other	23,108,297	18,492,025
Forward deals in foreign currencies	35,299,756	18,918,844
Non utilized ceilings	8,966,737	10,743,158
	<u>135,158,371</u>	<u>105,263,985</u>

(41) LITIGATION

The Bank is a defendant in a lawsuit filed against it in the normal course of business amounting to JD 1,428,676 and the lawsuit is the Court of Appeal as of December 31, 2003.

The Bank's legal advisor believes that the outcome of the lawsuit will be favourable.

(42) RECLASSIFICATIONS

Some of 2002 balances were reclassified to correspond with 2003 classifications with no effect on net income or shareholders' equity.