بنك الاتحاد
Bank al Etihad

Annual Report 2019

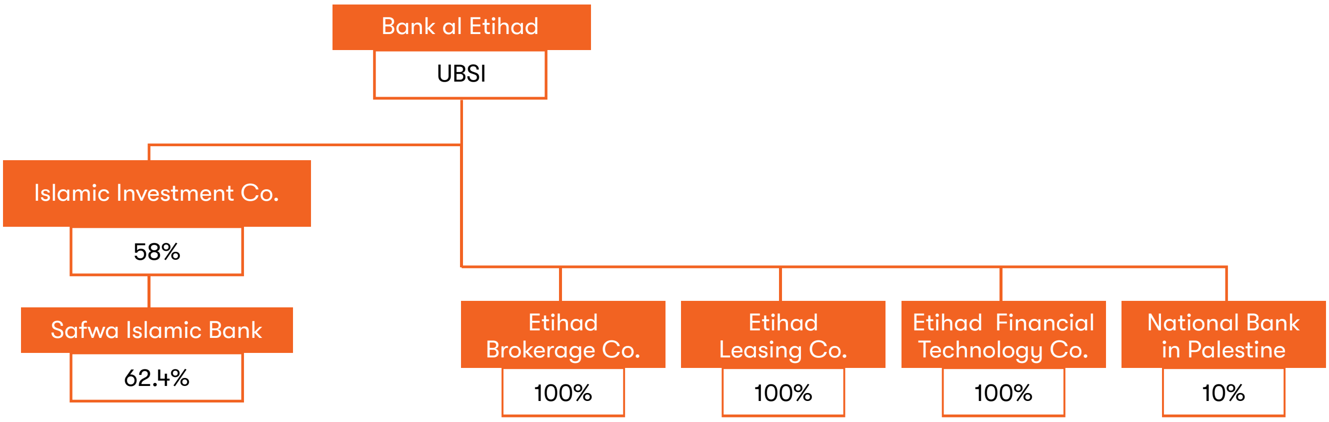
Shape your future

An overview of 2019

Who we are

We're Bank al Etihad, a financial institution that's proud to be Jordanian. Built on family values, we see every customer as one of our own, and make it our business to help wherever we can.

For us, empowerment is everything. That's why we work with individuals, entrepreneurs, local and global businesses, and the next generation of female leaders, so they can succeed the way they want to. It will always be our goal to help people shape their future.



Board of Directors until 31/12/2019

Isam Halim Salfiti	"Mohammad Nabil" Abdel-Hadi Hammoudeh	Libyan Foreign Investment Company (LAFICO)	Social Security Corporation	Ithmar Supply Co. LTD.
Chairman	Vice Chairman	Represented by Dr. Idris Mohammed Al-Warfali	Represented by Jalal Anwar Al-Ajlouni	Represented by Mr. Imad Mohammad Abdel-Khaleq
Mrs. Rana Jamil Abbadi	Mr. Riad Abdul-Mohsen Al-Dajani	Mr. Bassem Isam Salfiti	Mr. Mughith Ghiath Sukhtian	Mr. Jabra "Raja Yaqoub" Ghandour
		Mr. Sami Mohammad Al-Mabrouk		

Digital Transformation

Our aim is to become Jordan's leading digital bank. We always strive to keep up with the world of technology by embracing innovative business models and investing in the right digital transformation tools to grow and achieve our goals. We redesigned our technology infrastructure and automated all our operations to meet our goals. Our mission is to become our customers' everyday bank; providing them with all their financial needs anytime and anywhere. Our success commenced with the launch of our world class mobile banking app in 2018, and with constant updates and improvements, we were able to offer unique features such as digital onboarding which allows people to open a bank account from their phone in a few minutes, without having to physically visit the bank. By using the app, all our customers can better control and manage their money, stay up to date on all their transactions and understand their daily and monthly spending habits. They can transfer and receive money locally and globally through the app and through the Western Union feature, see all their bills in one place, make payments with a single tap, and benefit from other valuable features through simple banking and advanced security.

Over **63%** of our customers have joined the app to date

12 times increase in online bill payments compared to 2018

Increase in bank transfers through the app

9 times increase in bank transfers compared to 2018

5 times increase in Western Union remittances

11 times increase in the number of transactions made via the mobile app compared to 2018

Higher efficiency

1.2 million working hours saved as a result of automated salary transfers, money transfers, remittances and others

130,000 working hours saved by carrying out 2.4 million different transactions via the app

15 times increase in number of registered app usersvcompared to 2018

22 times increase in daily active app users

73% of internal processes and daily transactions automated

45% decrease in customer visits to branches thanks to the app

All figures are compared to those in 2017, i.e. the beginning of digital transformation

Social Responsibility

Our customers and community are our family. We want to help the people and places around us prosper whether it's championing the next generation of leaders and entrepreneurs, supporting the arts and culture that make Jordan so unique, or investing in skills and education to help people be who they want to be.

Social responsibility is at the heart of our corporate culture. Our customers, employees, shareholders, and our community as a whole are all part of our family. Stemming from our commitment to be lifelong learners, we redefined our priorities and partnerships to leave a long lasting positive impact on our community. We explored local and international sustainable development practices, and we identified our opportunities, challenges, and our most valuable achievements. We also listened to our employees and customers' needs and were able to design our new social responsibility program and revamp our CSR pillars in line with the bank's overall strategy:

- Access to knowledge
- Financial inclusion and economic empowerment
- Entrepreneurship and innovation
- Community wellbeing
- Environmental sustainability

We also adopted 6 of the UN Sustainable Development Goals (SDGs):

Key financial results of 2019:

We have witnessed a successful year of technological breakthroughs and investments. Our positive financial results were achieved through the joint efforts of our team, shareholders, and customers.

Total assets

JOD 4.58 billion

Paid up capital

JOD 160 million

Shareholders' equity

JOD 387 million

Capital adequacy

13.45%

Our market share of Gross direct facilities reached 10.2% in 2019, compared to 9.1% in 2018, with a growth rate of 15.4% in Gross direct facilities, compared to the market growth of 3.7% in 2019.

As for our market share of customer deposits, it reached 10.1% in 2019, compared to 8.8% in 2018, with a growth rate of 19.6% in customer deposits, compared to the market growth of 4.3% in 2019.

Key financial metrics

Assets **4,579,676** thousand JOD	Customer's deposits **3,575,967** thousand JOD	Return on Equity (ROE) **%8.3**	Capital Adequacy Ratio **%13.45**	Return on Assets (ROE) **%0.90**
Gross direct facilities **2,749,551** thousand JOD	Coverage Ratio **%83.3**	Legal Liquidity **%117.69**	Dividend Yield **%6.21**	Price to Book ratio (P/B) **0.67**

Share price (2019) 1.61 on 31-12-2019

Bank performance from 2013-2019

Statement of financial position / 000' JOD	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Total Assets	1,927,906	2,256,420	2,389,130	2,559,740	3,572,275	3,868,069	4,579,676
Customer deposits	1,205,588	1,653,818	1,774,049	1,856,774	2,691,336	2,988,950	3,575,967
Gross direct facilities	1,068,023	1,310,815	1,356,259	1,459,325	2,172,693	2,381,765	2,749,551
Nonperforming Loan ratio (NPL %)	7.91%	6.74%	7.17%	6.81%	4.95%	4.93%	4.24%
Loans/Deposits	88.6%	79.3%	76.4%	78.6%	80.7%	79.7%	76.8%

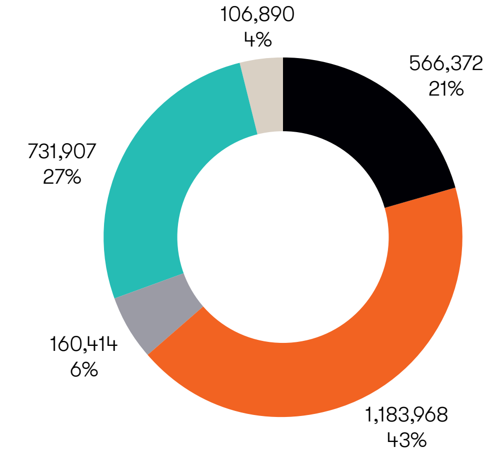
Statement of profit and loss / 000' JOD	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Gross profit	68,320	79,911	90,320	100,767	147,113	157,560	172,213
Net income before tax	32,140	35,102	44,251	41,728	52,144	62,530	61,346
Net income	22,522	26,473	28,833	29,236	34,799	41,086	38,016
Dividends	6,600	8,800	12,500	12,500	16,000	22,400	16,000*

* Based on the Central Bank of Jordan's decision no. 1/1/4693, profit distribution to shareholders for the year 2019 have been postponed until end of year 2020.

Distribution of bank portfolios

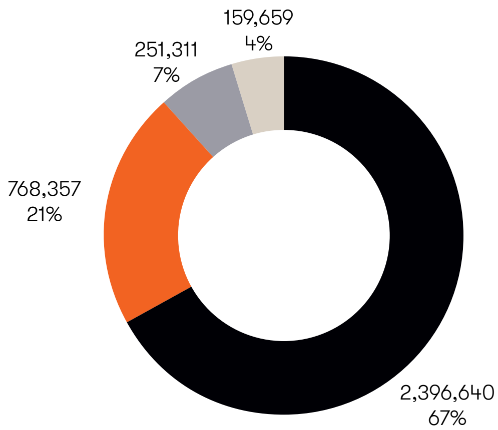
Gross direct facilities / 000' JOD

- Retail sector
- Corporate sector
- Small and Medium Enterprises sector
- Housing sector
- Government sector



Customer's deposit

- Retail sector
- Corporate sector
- Small and Medium Enterprises sector
- Government sector



Consolidated Financial Statements as of December 31, 2019

Audit Report on the Consolidated Financial Statements

AM/ 010932

To the Board of Directors Chairman and Members

Bank Al Etihad

(A Public Shareholding Limited Company)

Amman – The Hashemite Kingdom of Jordan

Opinion

We have audited the financial statements of Bank Al Etihad (A Public Shareholding Limited Company) "The Bank or the Group", which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in owners' equity, consolidated statement of cash flows for the year, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2019, and its consolidated financial performance and its cash flows for the year in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Jordan.

Basis for Opinion

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

Other Matter

The accompanying consolidated financial statement are a translation of the original consolidated financial statements, which are in the Arabic language, to which reference should be made.

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

For each matter below, our description of how our audit addressed the matter is provided in that context.

Key Audit Matters	Scope of Audit to Address the Risks
1. Impairment of carrying value of the credit facilities and financing as per IFRS 9 The Bank's financial assets are stated in the statement of financial position at JD 2,636 million as at December 31, 2019. The expected credit loss (ECL) allowance was JD 97 million as at this date, which comprised an allowance of JD 23 million against Stage 1 and 2 exposures and an allowance of JD 74 million against exposures classified under Stage 3. The audit of the impairment of credit facilities and financing is a key area of focus because of their size (representing 57% of total assets) and due to the significance of the estimates and judgments used in classifying credit facilities and financing into various stages, and determining related allowance requirements and the complexity of the judgements, assumptions, and estimates used in the Expected Credit Loss models. Refer to Note (2) to the consolidated financial statements for the accounting policy, Note (4) for critical judgements and estimates used by management, and Note (44) for disclosures about credit risk.	We obtained a detailed understanding of the Bank's credit facilities and financing, investing assets business processes, and the accounting policies on the adoption of IFRS 9, including the critical accounting estimates and judgments used. We have involved our subject matter experts to assist us in auditing the IFRS 9 ECL models as at December 31, 2019. We tested the design, implementation, and operating effectiveness of the relevant controls which included testing: • System-based and manual controls over the timely recognition of impaired credit facilities and financing and investing assets and advances; • Controls over the ECL calculation models; • Controls over collateral valuation estimates; • Controls over governance and approval process related to impairment provisions and ECL Models, including continuous reassessment by the management.
The Bank recognizes allowances for expected credit losses (ECLs) at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is compared to the ECL amount calculated according to the instructions of the Central Bank of Jordan, and the higher of the two amounts is recorded after excluding credit exposures with/guaranteed by the Jordanian government, or any other special arrangements with the Central Bank of Jordan. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Bank employs statistical models for ECL calculations, and the key variables used in these calculations are probability of default (PD), loss given default (LGD), and exposure at default (EAD), which are defined in Note (44) to the consolidated financial statements.	We understood and evaluated the theoretical soundness of the ECL model by involving our subject matter experts to ensure its compliance with the minimum requirements of the standard. We also tested the mathematical integrity of the ECL model by performing recalculations. It is compared to the ECL amount calculated according to the instructions of the Central Bank of Jordan, and the higher of the two amounts is recorded after excluding credit exposures with/guaranteed by the Jordanian government, or any other special arrangements with the Central Bank of Jordan. We assessed the consistency of various inputs and assumptions used by the Group's management to determine impairment. For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Bank's methodology to determine the allowance, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we checked the appropriateness of the Bank's staging.

Key Audit Matters	Scope of Audit to Address the Risks
The Corporate portfolio of credit facilities and financing and Investing assets is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management's judgement may also be involved in manual staging override as per the Bank's policies. The measurement of ECL amounts for retail exposures classified as Stage 1 and Stage 2 are calculated using models with limited manual intervention. Retail exposures are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Impaired credit facilities are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the credit facilities carrying value compared to the net present value of future cash flows using the original effective profit rate after comparing it with the ECL amount calculated according to the instructions of the Central Bank of Jordan and recording the higher of the two amounts, excluding credit exposures with/guaranteed by the Jordanian government, and any other special arrangements with the Central Bank of Jordan. The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating, value of the collateral, probability of successful repossession, and the costs involved to recover the debts.	For forward-looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. We selected samples of credit facilities and financing and investing assets and assessed the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by management in their ECL calculations. For exposures determined to be individually impaired, we tested samples of credit facilities and financing and investing assets, and examined management's estimate of future cash flows, assessed their reasonableness and assessed the resultant allowance calculations. Further, we challenged the estimates and assumptions used by management around the LGD calculation for individually impaired exposures by testing the enforceability and adequacy of valuation of underlying collaterals and estimated recovery on default. We also, assessed the accuracy of disclosures in the consolidated financial statements to determine if they were in compliance with the requirements of IFRSs.
2. IT systems and controls over financial reporting We identified IT systems and controls over the Bank's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	Our audit approach relies on automated controls, and therefore, the following procedures were designed to test access and control over IT systems: We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data center and network operations. We examined computer-generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.

Other Information

Management is responsible for other information. The other information consists of information provided in the annual report other than the consolidated financial statements and the related auditor's report. We expect that the annual report will be provided to us after the date of our report. Our opinion on the consolidated financial statements does not include the other information, and we do not express any form of assurance or conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Jordan, and for such internal control as management determines necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

The Bank maintains proper books of accounts, which are in agreement with the consolidated financial statements. We recommend that the General Assembly of Shareholders approve these consolidated financial statements.

Amman - The Hashemite Kingdom of Jordan

February 16, 2020

Deloitte & Touche (M.E.) – Jordan

Deloitte & Touche (M.E.)
ديلويت آند توش (الشرق الأوسط)
010105

List (A)

	December 31,	
	2019	2018
	JD	JD
Assets:		
Cash and balances at the Central Bank of Jordan	563,867,223	333,205,500
Balances at banks and financial institutions	330,805,729	248,264,111
Deposits at banks and financial institutions	3,000,000	4,258,890
Financial assets at fair value through statement of profit or loss	16,535,618	13,478,492
Direct credit facilities and financing - net	2,635,851,371	2,277,918,456
Financial assets at fair value through other comprehensive income	32,313,468	28,530,920
Financial assets at amortized cost	765,573,933	765,692,190
Investments in associates	354,022	376,618
Property and equipment - net	72,138,592	74,486,185
Deferred tax assets	12,891,744	11,957,746
Right of use assets	26,517,873	-
Intangible assets - net	24,409,882	22,186,281
Other assets	95,416,530	87,713,743
TOTAL ASSETS	4,579,675,985	3,868,069,132
LIABILITIES AND OWNERS' EQUITY:		
LIABILITIES:		
Banks' and financial institutions' deposits	149,997,070	96,687,828
Customers' deposits	3,575,967,461	2,988,949,545
Cash margins	185,698,024	141,814,536
Borrowed funds	65,169,905	85,236,262
Sundry provisions	930,224	1,232,609
Leasing liabilities	25,451,501	-
Income tax provision	20,634,229	18,199,119
Other liabilities	76,583,458	68,702,089
TOTAL LIABILITIES	4,100,431,872	3,400,821,988
OWNERS' EQUITY:		
BANK'S SHAREHOLDERS' EQUITY:		
Paid-up capital	160,000,000	160,000,000
Share premium	80,213,173	80,213,173
Statutory reserve	56,257,522	49,410,187
Voluntary reserve	38,833,125	34,279,172
Fair value reserve	372,413	(727,049)
Retained earnings	51,596,833	53,566,049
TOTAL BANK'S SHAREHOLDERS' EQUITY	387,273,066	376,741,532
Non-controlling interests	91,971,047	90,505,612
TOTAL OWNERS' EQUITY	479,244,113	467,247,144
TOTAL LIABILITIES AND OWNERS' EQUITY	4,579,675,985	3,868,069,132

List (B)

	For the Year Ended December 31,	
	2019	2018
	JD	JD
Interest income and returns	252,884,755	216,761,089
Interest and debit expenses	116,446,250	88,809,011
Net Interest Income and Returns	136,438,505	127,952,078
Net commission income	25,990,001	23,849,404
Net interest, returns and commission income	162,428,506	151,801,482
Gain from foreign currencies	6,964,464	5,854,006
Gain (Loss) from financial assets at fair value through statement of profit or loss	239,567	(2,455,797)
Net gain (losses) from sale of financial assets at amortized costs	71,875	(3,037)
Dividends from financial assets at fair value through other comprehensive income	1,039,085	1,026,133
Other income	1,469,127	1,337,196
Total Income	172,212,624	157,559,983
Employees' expenses	46,521,562	43,123,071
Depreciation and amortization	12,620,578	11,025,351
Other expenses	28,911,804	24,810,494
Right-of-use assets depreciation	3,316,267	-
Rent expense	574,032	3,894,694
Financing costs	918,592	-
Allowance for expected credit loss	17,306,333	10,935,812
Provision for impairment of foreclosed assets	(476,769)	200,000
Sundry provisions	1,161,541	1,048,709
Total Expenses	110,853,940	95,038,131
Profit from operations	61,358,684	62,521,852
Bank's share from associates (losses) profits	(12,596)	8,356
Profit for the year before tax	61,346,088	62,530,208
Income tax expense	(23,329,865)	(21,444,297)
Profit for the Year	38,016,223	41,085,911
Attributable to:		
Bank's Shareholders	31,613,674	35,736,582
Non-Controlling Interests	6,402,549	5,349,329
	38,016,223	41,085,911
	JD/ FILS	**JD/ FILS**
Basic and diluted earnings per share for the period attributable to the Bank's Shareholders	-/198	-/223

List (C)

	For the Year Ended December 31,	
	2019	2018
	JD	JD
Profit for the Year	38,016,223	41,085,911
Comprehensive income items		
Items not reclassifiable to profit or loss in the subsequent period		
Net change in fair value reserve after tax	1,320,628	(2,104,192)
Total Comprehensive Income for the Year	39,336,851	38,981,719
Attributable to:		
Bank's Shareholders	32,845,461	33,650,791
Non-Controlling Interests	6,491,390	5,330,928
	39,336,851	38,981,719

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