

CITIES AND VILLAGES DEVELOPMENT BANK
(A PUBLIC INSTITUTION ESTABLISHED BY A SPECIAL DECREE)
AMMAN - JORDAN

FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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(A PUBLIC INSTITUTION ESTABLISHED BY A SPECIAL DECREE)
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cities and Villages Development Bank
(A Public Institution Established By A Special Decree)
Amman - Jordan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cities and Villages Development Bank (Public Shareholding) "the Bank", which comprise of:

- The statement of financial position as at 31 December 2018.
- The statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended.
- Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who issued an unqualified report on 11 March 2018.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the Shareholders of Cities and Villages Development Bank
(A Public Institution Established By A Special Decree)
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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 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 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 for 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the Shareholders of Cities And Villages Development Bank
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- 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 consolidated 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance regarding other matters, the planned scope, timing of the audit and significant audit findings, including any significant deficiencies in internal control that have been identified during our audit.

Report on Other Legal and Regulatory Requirements

The Bank maintains proper accounting records, and the financial statements are in agreement there with, we recommend the General Assembly to approve them.

Samman & Co.

Rami Samman
License No. (594)



3 July 2019
Amman - Jordan

Cities and villages development bank
(A public institution established by a special decree)
Amman - Jordan

Statement of financial position
As at 31 December 2018

	Note	2018 JD	2017 JD
Assets			
Cash and cash equivalents	(6)	135,354,877	97,489,656
Investment deposits certificate-AL Safwa Islamic Bank		2,000,000	2,000,000
Checks under collection	(7)	38,765,330	57,421,852
Granted credit facilities	(8)	96,049,948	132,029,224
Uncollected accrued interest	(9)	5,615,744	3,153,210
Other debit balances	(10)	3,249,317	26,250
Net joint investments with municipalities	(11)	334,040	384,040
Investment in associated company	(12)	10,000	10,000
Investment in financial assets at fair value through other comprehensive income	(13)	241,500	252,000
Investment in treasury bonds	(14)	22,000,000	-
Islamic financing loans	(15)	9,261,261	8,992,254
Property and equipment	(16)	2,036,787	1,444,302
Total Assets		314,918,804	303,202,788
Liabilities and Owners' equity			
Liabilities			
Customers' deposits and current accounts	(17)	109,340,080	120,109,819
Loans	(18)	113,447	132,790
Local authorities and public institutions	(19)	85,399,925	72,946,158
Other credit balances	(20)	394,100	497,035
Total Liabilities		195,247,552	193,685,802
Owners' Equity	(21)		
Authorized capital		110,000,000	110,000,000
Paid up capital		101,144,134	97,570,272
General reserve		9,643,708	10,643,708
Cumulative changes in fair value		(283,500)	(273,000)
Retained earnings		7,341,204	-
Dividends for distribution to local bodies		1,825,706	1,576,006
Net owners' equity		119,671,252	109,516,986
Total liabilities and owners' equity		314,918,804	303,202,788
Contra accounts			
Approved unwithdrawn loans (Debit)			
Approved unwithdrawn commitment (Credit)	(24)	28,489,236	29,063,136

The financial statements from page [1] to [22] were approved and authorized for issue by the Board of Directors on 3 July 2019

Cities and villages development bank
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Statement of profit or loss and
other comprehensive income for the year ended 31 December 2018

	Note	2018 JD	2017 JD
Revenues			
Net interest revenue	(22)	10,210,848	11,116,479
Other revenue	(25)	893,282	138,151
Islamic financing revenue		848,159	341,351
Amortization of deferred revenues	(20)	25,529	27,033
Joint revenue with municipalities	(11)	23,012	160,932
Murahba revenue - Islamic banks	(6)	148,994	379,497
Revenue from treasury stocks	(14)	650,100	-
Total revenues		12,799,924	12,163,443
Expenses			
Amortization of a joint investment project with municipalities		(50,000)	(50,000)
Impairment provision of municipalities facilities		-	(280,131)
Administrative expense	(23)	(3,583,014)	(3,551,847)
Total expenses		(3,633,014)	(3,881,978)
Profit for the year		9,166,910	8,281,465
Other comprehensive income			
Changes in fair value		(10,500)	(204,750)
Comprehensive income		9,156,410	8,076,715
General reserve		7,341,204	6,705,459
Proposed dividends for distribution to local authorities		1,825,706	1,576,006
Total		9,166,910	8,281,465

Cities and villages development bank
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Statement of changes in equity
For the year ended 31 December 2018

	Paid up capital		General reserve		Cumulative changes in fair value	Retained earnings		Dividends proposed for distribution to local authorities		Total
	JD	JD	JD	JD		JD	JD	JD	JD	
<u>2018</u>										
1 January 2018	97,570,272	10,643,708	(273,000)	-	9,166,910	-	1,576,006	109,516,986		
Total comprehensive income	-	-	(10,500)	-	9,156,410	-	-	9,156,410		
Additional paid in capital-Central bank	1,200,000	(1,000,000)	-	-	200,000	-	-	200,000		
Additional paid in capital- municipalities share	797,856	-	-	-	-	-	-	797,856		
Amounts transferred to the capital from dividend proposed to be distributed to local authorities	1,576,006	-	-	(1,576,006)	-	(1,576,006)	1,576,006	-		
Proposed dividends for distribution to local authorities	-	-	-	-	-	-	1,825,706	-		
31 December 2018	101,144,134	9,643,708	(283,500)	(1,825,706)	7,341,204	1,825,706	119,671,252			
<u>2017</u>										
1 January 2017	85,000,000	13,938,249	(68,250)	-	8,281,465	-	3,568,128	102,438,127		
Total comprehensive income	-	-	(204,750)	-	8,076,715	-	-	8,076,715		
Repayment of municipalities debt from the general reserve	-	(10,000,000)	-	-	-	-	-	(10,000,000)		
Additional paid in capital	9,002,144	-	-	-	-	-	-	9,002,144		
Amounts transferred from comprehensive income to general reserve	-	6,705,459	-	(6,705,459)	-	-	-	-		
Amounts transferred to the capital from dividend proposed to be distributed to local authorities	3,568,128	-	-	(3,568,128)	-	(3,568,128)	3,568,128	-		
Dividends proposed for distribution to local authorities	-	-	-	(1,576,006)	-	1,576,006	-	-		
31 December 2017	97,570,272	10,643,708	(273,000)	-	9,166,910	-	1,576,006	109,516,986		

Cities and villages development bank
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Statement of cash flows
For the year ended 31 December 2018

	2018	2017
	JD	JD
<u>Operating activities</u>		
Income for the year	9,166,910	8,281,465
<i>Adjustments:</i>		
Uncollected accrued interest	(2,462,534)	(138,123)
Depreciation	63,034	73,710
Amortization of a joint investment project with municipalities	50,000	50,000
Impairment provision of municipalities facilities	-	280,131
	<u>6,817,410</u>	<u>8,547,183</u>
Investment deposits certificate-AL Safwa Islamic Bank	-	(2,000,000)
Checks under collection	18,656,522	(32,479,021)
Granted credit facilities	35,979,276	(29,703,564)
Other debit balances	(3,223,052)	(295,689)
Customers' deposits and current accounts	(10,769,739)	47,294,211
Local authorities and public institutions	12,453,767	33,800,465
Other credit balances	(102,935)	(18,203)
Net cash flow from operating activities	<u>59,811,249</u>	<u>25,145,382</u>
<u>Investing activities</u>		
Investment in treasury stocks	(22,000,000)	-
Purchase of property and equipment	(655,534)	(70,372)
Joint investment with municipalities	-	500,000
Investment in associate company	-	(10,000)
Proceeds from sale of property and equipment	-	3,570
Net cash flow from investing activities	<u>(22,655,534)</u>	<u>423,198</u>
<u>Financing activities</u>		
Additional paid in capital	1,997,856	9,002,144
General Reserve	(1,000,000)	(10,000,000)
Islamic financing loans	(269,007)	(3,915,730)
Repayment of loans payable	(19,343)	(19,130)
Net cash flow from financing activities	<u>709,506</u>	<u>(4,932,716)</u>
Net changes in cash and cash equivalents during the year	37,865,221	20,635,864
Cash and cash equivalents at the beginning of the year	97,489,656	76,853,792
Cash and cash equivalents at the end of the year	<u>135,354,877</u>	<u>97,489,656</u>

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Notes forming part of the financial statements
For the year ended 31 December 2018

1) General

The Cities and Villages Development Bank was established in 1979 under a special Decree. It is an official local public institution and has a legal independent personality administratively and financially.

The main objectives of the bank are long-term financing for establishing service and productive projects carried out by local authorities in the Kingdom. The Bank also manages and guarantees loans to those entities that provide essential services to local communities and assists local authorities in prioritizing their projects' productivity of its economic feasibility, and provide expertise , technical and training services to raise the level of employees in those authorities and also manages the funds of local authorities that are collected by the government.

The Bank's main address is Amman - Shmeisani.

The following are the names of the Board of Directors Members:

<u>Name</u>	<u>Position</u>
Minister of Municipal Affairs	Chairman
General Director of the Bank	Deputy Chairman
Representative of the Ministry of Finance	Board Member
Representative of the Ministry of Public Works	Board Member
Representative of the Ministry of Municipal Affairs	Board Member
Representative of the Ministry of Planning	Board Member
Representative of the Central Bank	Board Member
Two representatives from Local Authorities	Members

The executive department of the Bank is managed by the general director, who is being appointed by the Council of Minister's decision upon a recommendation from the Board of Directors. The department shall implement the Board's decisions, the general policy of the Bank, supervise the administration body and exercise the awarded authority as per the regulations issued by the law or delegated by the board.

2) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are presented in JD, which is also the institution functional currency. Amounts are rounded to the nearest JD.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as adopted by the Jordanian laws.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Bank's accounting policies.

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Notes forming part of the financial statements
For the year ended 31 December 2018 (Continued)

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through other comprehensive income, the details of which are disclosed in the accounting policies.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2018

The following new standards or and interpretations effective for the first time for periods beginning on or after 1 January 2018:

- IFRS (15) Revenue from Contracts with Customers IFRS (15): The Bank has not adopted this standard as it is exempt from its application according to the Standard
- IFRS (9) Financial Instruments IFRS (9): The Bank has adopted this Standard. The impact of adoption and application of IFRS (9) is reflected in its accounting policy.

In addition to the above, the following are new amendments and improvements that does not apply or does not have a material effect on the financial statements:

- IFRS (2): Classification and Measurements of Share-Based Payments.
- IAS (40): Clarify Transfers of Investment in Property.
- IFRS (4): Applying IFRS 9 Financial Instruments with IFRS (4) Insurance Contracts
- Annual Improvements to IFRSs 2014 -2016 Cycle - Amendments on IFRS (1) adopting IFRS for the first time and IAS (28) Investment in associate and joint venture.
- IFRIC (22) Foreign Currency Transactions and Advance Consideration.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. These are:

- IFRS (16) Leases (mandatorily effective for periods beginning on or after 1 January 2019).
- IFRS (17) Insurance Contracts (effective 1 January 2021)
- IFRIC (23) uncertainty over income tax positions (effective 1 January 2019).
- Amendments to IFRS (9) Prepayment Features with Negative Compensation.
- Amendments to IAS (28): Long-term Interests in Associates and Joint Ventures (effective 1 January 2019).
- Annual improvements to IFRSs 2015-2017 Cycle (IFRS 3 Business Combinations and IFRS (11) Joint Arrangements, IAS (12) Income Taxes, and IAS (23) Borrowing Costs (effective 1 January 2019).

In addition, standards and improvements in the above are not expected to have impact on The Bank's financial statements in the future and some of them do not apply to the bank.

3) Use of estimates and judgments

The Bank makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The significant accounting estimates adopted in the preparation of the financial statements are fair value measurements.

The inputs used to determine fair value measurements are classified at different levels based on the inputs and their observability (fair value levels):

Level 1: Quoted prices in active markets (unadjusted) for identical items of assets or liabilities that the Bank can access at the measurement date.

Level 2: Observable direct or indirect inputs other than Level 1 inputs. These inputs are significant to the asset or liability either directly or indirectly.

Level 3: Unobservable inputs (i.e. not derived from market data).

The level of inputs used to determine the fair value measurement of financial assets at fair value through other comprehensive income is the first level.

4) Summary of significant accounting policies

Foreign currency transactions

Transactions entered into by the Bank in a currency other than the currency of the primary economic environment in which they operate (functional currency- Jordanian Dinar) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in the statement of profit or loss. Non-monetary assets and liabilities recognized at cost are translated at rates ruling at the date of transaction, where non-monetary items recognized at fair value translated at rates of valuation date, valuation of profit or loss are recognized as part of the intended fair value.

Financial instruments

The bank adopted IFRS (9) "Financial instruments" it defines requirements for the recognition and measurement of both financial assets and liabilities and certain contracts for the purchase or sale of non-financial items. This standard is considered as substitute of IAS No. (39) (Recognition and Measurement). IFRS (9) mainly retains the existing requirements in International Accounting standards (IAS) No. (39). for the classification and measurement of financial liabilities, however IFRS (9) eliminates the classification of held-to-maturity financial assets, loans and receivables and available-for-sale assets that fall under the classifications of IAS. (39).

Financial assets at amortized cost

The Bank classifies financial assets as at amortized cost based on the business model in which a financial asset is managed and its contractual cash flow characteristics if it meets both of the following conditions:

1. It's held within a business model whose objective is to hold assets for collection of future cash flows.
2. It's contractual terms cause, on specified dates, cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Impairment of financial assets

The Bank has not adopted IFRS (9) regarding the recognition of impairment of financial assets "most of which are financial assets of the Government" based on the instructions to apply this standard issued by the Central Bank of Jordan. The second section of these instructions (classification and measurement) states that the debt instruments issued or guaranteed by the Jordanian government are excluded as provided in the measurement of the probability of default. The possibility of defaulting on the treatment of credit exposures is limited to the Jordanian government and is guaranteed without credit loss.

Financial assets through other comprehensive income

The Bank has elected to classify investments in listed companies that have not been recognized as subsidiaries, associates or joint ventures at fair value through other comprehensive income (this classification is irrevocable) and not through profit or loss. Which this classification is considered the most representative of the business model assets.

These investments are measured through other comprehensive income if it meets both of the following conditions:

1. It's held within a business model whose objective is to hold assets for collection of future cash flows and resale, and
2. It's contractual terms cause, on specified dates, cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially measured at fair value and any transaction costs directly attributable to their acquisition or issue. Dividend income is recognized as an income through profit or loss unless the dividend represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Investment property

Investment property are stated at cost and any impairment is recognized in the profit or loss and other comprehensive income statement, the fair values of these investments are disclosed in the financial statements.

Granted credit facilities

Credit facilities for municipalities and local authorities are recognized when the value of loans granted under signed agreements between these municipalities, local authorities and the Bank are disbursed.

At least 1% of the short-term facilities are taken as a provision for impairment. The management re-evaluates this provision annually as of 2009.

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For the year ended 31 December 2018 (Continued)

Grants for property and equipment

Grants for revenue expenditure are netted against the cost incurred by the Bank at the date of purchase. Income-related grants are recognized against own costs when they occur, while deferred grants are recognised as income when retention criteria are met. The portion is recognized in the statement of profit and losses or in the net of purchased assets

Property and equipment

Items of property and equipment are initially recognized at cost. In addition to the purchase price, cost includes directly attributable costs that sets the asset in a condition that enables it to achieve the purpose which it was purchased for.

Depreciation is not applicable on lands as well as projects under construction until they are completed and available for use. All other items of property and equipment to be depreciated so as to write off their carrying value over their expected useful economic lives. The depreciation percentage as the following rates:

<u>Asset</u>	<u>Depreciation Percentage %</u>
Buildings and decorations	2-15
Vehicles	15
Furniture, fixtures and office equipment	10-15
Computers	25
Capitalized software's	15

When the recoverable amount for assets is less than its book value, they will be written down to their recoverable amount. The impairment loss is recorded in the statement of profit or loss.

Any gain or loss arising on derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the assets is included in the statement of profit or loss in the period in which the asset is derecognized.

Capital

Financial instruments issued by the Bank are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset, The Bank's ordinary shares are classified as equity instruments.

Provisions

Provisions are recognized when the Bank has a present obligations (legal or constructive) as result of past events, the settlement of the obligations is probable and the amount of those obligations can be estimated reliably. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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Notes forming part of the financial statements
For the year ended 31 December 2018 (Continued)

5) Financial instruments - Risk management

The Bank is exposed through its operations to the following risks:

- Interest rate risk
- Credit risk
- Market risk
- Liquidity risk

The Bank is exposed to risks that arise from its use of financial instruments. This note describes the Bank objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Bank exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them unless otherwise stated in this note.

(i) Principal financial instruments

The principal financial instruments used by the Bank, from which financial instrument risk arises, are as follows:

- Cash and cash equivalents
- Checks under collection
- Granted credit facilities
- Uncollected accrued interest
- Other debit balances
- Net joint investments with municipalities
- Investments in financial assets at fair value through other comprehensive income
- Investment in treasury bonds
- Islamic financing loans
- Customers' deposits and current accounts
- Loans
- Local authorities and public institutions deposits
- Other credit balances

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Notes forming part of the financial statements
For the year ended 31 December 2018 (Continued)

(ii) Financial instruments by category:

	Amortized Costs		Fair value through other comprehensive income	
	2018	2017	2018	2017
	JD	JD	JD	JD
Financial assets				
Cash and cash equivalents	135,354,877	97,489,656	-	-
Investment deposits certificate-AL Safwa Islamic				
Bank	2,000,000	2,000,000		
Checks under collection	38,765,330	57,421,852	-	-
Granted credit facilities	96,049,948	132,029,224	-	-
Uncollected accrued interest	5,615,744	3,153,210	-	-
Other debit balances	3,249,317	26,250	-	-
Net joint investments with municipalities	334,040	384,040	-	-
Financial assets at fair value through other comprehensive income	-	-	241,500	252,000
Investment in treasury stocks	-	-	-	-
Islamic financing loans	9,261,261	8,992,254	-	-
	<u>290,630,517</u>	<u>301,496,486</u>	<u>241,500</u>	<u>252,000</u>
Financial liabilities				
Customers' deposits and current account	109,340,080	120,109,819	-	-
Loans	113,447	132,790	-	-
Local bodies and public institutions withholding	85,399,925	72,946,158	-	-
Other credit balances	394,100	497,035	-	-
	<u>195,247,552</u>	<u>193,685,802</u>	<u>-</u>	<u>-</u>

(iii) Financial instruments not measured at fair value

A financial instrument not measured at fair value includes cash and cash equivalents, investments in associates, trade and other receivables, trade and other payables, and financial assets at fair value through other comprehensive income.

Due to their nature, the carrying value of the financial instruments above approximates their fair value.

General objectives, policies and procedures

The Board has overall responsibility for the determination of the Bank risk management objectives and policies, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Bank finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Bank competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank believes that it not exposed to credit risk as most customers are governmental.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, The Bank deals with banks with an acceptable credit rating.

Market risk

Market risk arises from the Bank use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (another price risk).

Interest rate or fair value risk

Financial instruments will expose the Bank to cash flow interest rate risk from financial instruments at variable rate. The Bank is not exposed to this type of risk due to holding financial instruments at fixed rates.

Currency risk

Currency risk arises when the Bank has financial transactions in a currency other than their functional currency. The Bank is not exposed to this type of risk because it does not deal in foreign currencies in its activities

Other market risk

The Bank is exposed to other market price risk due to its investments in financial assets at fair value through other comprehensive income. The maximum amount exposed to fair value fluctuations for those investments is JD 12,075 for year 2018 against JD 12,600 for the year 2017.

Liquidity risk

Liquidity risk arises from the Bank's management of working capital. It is the risk that the Bank will encounter difficulty in meeting its financial obligations as they fall due. The Bank's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due by ensuring that the bank facilities and funding are provided by the Government.

Currency Risk

Currency risk arises when the Bank has financial transactions in a currency other than their functional currency. The Bank is not exposed to this type of risk because it does not deal in foreign currencies in its activities. The majority of foreign transactions are carried out in US Dollar, the exchange rate for Jordanian Dinar is fixed against the US Dollar (1.41 Dollar / JOD).

Capital Management

The Bank monitors "adjusted capital" which comprises all components of equity (subscribed capital, statutory reserve, cumulative change in fair value of investments through comprehensive income and retained earnings).

The Bank objectives when maintaining capital are:

- To safeguard the Banks ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

6) Cash and Cash Equivalents

	2018	2017
	JD	JD
Cash on hand	180,603	216,830
Central Bank of Jordan- Current accounts	109,692,363	79,014,849
Cash at banks- Current accounts	23,375,437	6,702,916
Cash at banks- Deposits	2,106,474	4,040,233
Cash at Islamic bank- Deposits	-	7,514,828
	<u>135,354,877</u>	<u>97,489,656</u>

Interest rates on current accounts ranged from 0.5% to 2%. The maturity of deposits extends from one to three months and the interest rate ranges from 3% to 4%.

7) Checks under collection

This item represents the value of the checks receivable from the parties to which these amounts are due. Most of them are governmental, represented by government support and their maturity date as of 1 January 2019.

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8) Granted credit facilities

	<u>2018</u>	<u>2017</u>
	JD	JD
Loans services and public facilities for local authorities	61,388,819	94,588,751
Municipalities' facilities	37,441,260	40,220,604
Impairment provision of municipalities facilities	(2,780,131)	(2,780,131)
	<u>96,049,948</u>	<u>132,029,224</u>

The loans are entitled to the interest granted to the local authorities for the implementation of the infrastructure projects as well as the productive loans within a maximum period of twelve years, Of which two years permissive period and payment of 10 installments with interest (6%) for infrastructure projects, (7%) for productive projects, And (7.5%) for municipal facilities.

The following is an illustration of maturity credit facilities. The reason for the decrease in indebtedness for 2018 is due to decree to pay the indebtedness of some municipalities by about JD 50 million:

	<u>2018</u>	<u>2017</u>
	JD	JD
One year or less	61,388,819	94,588,751
More than one year	34,661,129	37,440,473
Balance as 31 December	<u>96,049,948</u>	<u>132,029,224</u>

9) Uncollected accrued interests

	<u>2018</u>	<u>2017</u>
	JD	JD
Accrued interest on municipalities' loans	2,231,888	2,807,665
Accrued interest on deferred deposits - Consolidated treasury account	3,263,341	-
Accrued interest on current accounts and long term deposits	120,515	345,545
	<u>5,615,744</u>	<u>3,153,210</u>

10) Other debit balances

	<u>2018</u>	<u>2017</u>
	JD	JD
Infrastructure program receivables	3,236,307	-
Prepaid expenses	12,215	25,455
Refundable deposits	795	795
	<u>3,249,317</u>	<u>26,250</u>

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11) Net joint investments with municipalities

This item represents the amounts paid to the agreement signed between the municipality of Rusaifa and the Cities and villages development bank to establish two commercial complexes on two plots of land within the municipality of Rusaifa where warehouses were established and rented, and according to the agreement will be provided to the Cities and Villages Development Bank of 85% of the annual revenue. The annual revenue from the project is JD 27,072 as of December 31, 2018. Accordingly, the bank's share of revenues is JD 23,012.

12) Investment in associated company

	Legal entity	Country of establishments	Capital	Ownership	Company purpose
Energy-saving technology	Limited Liability	Jordan	50,000	20%	Manufacture and/or supply of energy-saving lamps, lighting units, construction and operation of energy-saving lamps and lighting units

13) Investment in financial assets at fair value through other comprehensive income

This item represents the investment in Jordan Loan Guarantee Company (Public Shareholding Company) listed on Securities and Exchange Commission. The Bank has assessed these financial assets at the first level mentioned in Note 3.

14) Investment in treasury bonds

This item represents treasury bonds with a value of JD 22 million and interest rate of 5.505%. The Bank purchased these bonds based on the announcement issued by the Central Bank on behalf of the Government of Jordan to reopen Issue No. (9) of the Jordanian treasury bonds for the year 2018 issued on 20 May 2018, Which is due on 20 May 2023 based on the meeting of the Investment Committee of the bank funds Executed by the General Director.

15) Islamic financing loans

This item represents agreements signed with the Ministry of Education and Municipalities and the Jordan Hejaz RailWay Corporation with a "murabaha" rate of 4.5%.

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16) Property and equipment

	Lands	Building and decorations	Vehicles	Furniture, fixtures and office equipment	Computers	Capitalized softwares	Projects under constructions	Total
	JD	JD	JD	JD	JD	JD	JD	JD
<u>Cost</u>								
Balance as 1 January 2017	643,913	1,008,851	408,384	250,967	455,373	288,075	134,153	3,229,716
Additions	-	390	25,450	14,406	29,126	-	295,689	366,061
Disposal	-	(3,739)	(54,760)	(825)	(116,040)	-	-	(75,367)
Balance as 31 December 2017	643,913	1,025,502	400,074	264,548	468,456	288,075	429,842	3,520,410
Additions	-	2,489	-	16,598	34,497	1,900	592,050	655,534
Disposal	-	-	-	-	(10,875)	-	-	(10,875)
Balance as 31 December 2018	643,913	1,027,991	400,074	281,146	492,078	297,975	1,021,892	4,165,069
<u>Accumulated depreciation</u>								
Balance as 1 January 2017	-	829,531	323,789	214,503	426,405	279,967	-	2,074,195
Depreciation	-	5,983	27,214	8,953	24,150	7,410	-	73,710
Disposal	-	(279)	(54,673)	(823)	(16,022)	-	-	(71,797)
Balance as 31 December 2017	-	835,235	296,330	222,633	434,533	287,377	-	2,076,108
Depreciation	-	6,037	22,072	10,812	22,195	1,918	-	63,034
Disposal	-	-	-	-	(10,860)	-	-	(10,860)
Balance as 31 December 2018	-	841,272	318,402	233,445	445,868	289,295	-	2,128,282
<u>Net book value</u>								
Balance as 1 January 2017	643,913	199,320	104,595	36,464	28,968	8,108	134,153	1,155,521
Balance as 31 December 2017	643,913	190,267	103,744	41,915	33,923	698	429,842	1,444,302
Balance as 31 December 2018	643,913	186,719	81,672	47,701	46,210	8,680	1,021,892	2,036,787

Projects under construction include the construction of a new building for the Cities and Villages Development Bank that the estimated cost of completing the project is 2.5 million Jordanian Dinars.

Within the Land of the Bank there are (6) lands registered in the name of the Treasury of the Jordan.

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17) Customers' deposits and current accounts

	2018	2017
	JD	JD
Demand deposits for municipalities and local public institutions	45,116,929	35,286,219
Ministry of municipalities affairs account	39,073,368	71,744,154
Current accounts of municipalities and local public institutions	23,445,027	11,612,440
Automated control cameras of municipalities	1,060,000	1,060,000
Municipalities deposits- current accounts (credit balances)	619,436	343,096
Trainees' deposits in municipalities	25,320	47,334
Term deposits (Insurance companies)	-	16,576
	<u>109,340,080</u>	<u>120,109,819</u>

The demand deposits account represents monthly transfers to the bank from the amounts collected by the government on behalf of local authorities such as fees, taxes, burning materials fees, road transport, allocations of local authorities in the state budget, penalty for violations, building and land taxes. These amounts are restricted as deposits in the bank on behalf of the local authorities to which it belongs and is considered a guarantee for any loan received by that body. The loan installments to which it is directly due are accrued and a 1% interest is calculated on the balances of these deposits

18) Loans

This item represents the EEC loan. This loan obtained at a rate of 1% per annum and is payable in semi-annual installments due on 15TH of June and December each year.

The Bank's commitment to these loans is the direction of the Ministry of Planning and International Cooperation, as the Ministry has re-borrowed these loans from the external entities above to the Bank.

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19) Local authorities and public institutions

	2018	2017
	JD	JD
Municipalities	34,002,937	19,894,269
Project deposits	22,776,460	5,184,902
Vehicle license revenue	10,584,900	33,587,206
Temporary deposits and others (1-19)	6,377,502	2,727,207
Real estate tax- municipalities	5,119,046	4,571,654
Bank deposits to pay municipalities	3,797,993	2,500,000
Municipalities deposits to pay dues	2,194,277	1,075,429
Proceeds of invoices	301,923	48,823
Regional and local development project- Grant- French Agency	88,942	110,022
Proceeds of traffic violations	74,908	-
Regional and local development project- Loan- French Agency	58,871	163,993
Poverty fighting program- (18) municipalities- European Union	22,166	65,693
Refugees' societies project	-	2,921,451
Regional development project management fees-World Bank- French Agency	-	69,334
City development Strategy project	-	26,175
	<u>85,399,925</u>	<u>72,946,158</u>

19-1) Temporary deposits and other

	2018	2017
	JD	JD
Temporary deposits- Revenues of municipal Courts	3,683,123	111,056
Temporary deposits- surplus of tax and fees' amounts	1,959,464	1,959,464
Temporary deposits- communication Ministry of Municipalities' Affairs	441,444	441,444
Temporary deposits- municipal salaries	39,692	11,770
Deposits of checks not submitted for disbursement	32,679	40,871
Courts' provisional attachment deposit	31,968	31,968
Municipalities deposits foreign funded projects	30,000	30,000
Temporary deposits- dollar exchange currency	8,042	-
Fawterkom commision deposits	918	-
Temporary deposits- others	150,172	100,634
	<u>6,377,502</u>	<u>2,727,207</u>

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20) Other Credit Balances

	2018	2017
	JD	JD
Net balance of West Bank Facilities (note- 1-20)	196,971	196,971
Accrued expense	96,828	157,163
Deferred revenue (note 2-22)	88,738	93,396
Deferred grant income	10,000	10,000
Accrued interest	1,563	1,583
Other deposits	-	37,922
	<u>394,100</u>	<u>497,035</u>

20-1) The net balances of West Bank facilities consist the following:

	2018	2017
	JD	JD
West bank deposits (Frozen)	606,339	606,339
Suspended interest on overdrawn and facilities balances	348,997	348,997
	<u>955,336</u>	<u>955,336</u>
<u>Deduct:</u>		
Overdrawn accounts balances (West Bank)	(137,790)	(137,790)
Due installments on loans (Ein Samiah and Nablus water)	(328,608)	(328,608)
Accrued interest income on loans (Ein Samiah and Nablus water)	(291,967)	(291,967)
	<u>196,971</u>	<u>196,971</u>

In according to the Board of Directors' decree of December 10, 1998, interest on loans granted to West Bank municipalities and overdraft deposits balances as of 1 June 1998 were discontinued.

20-2) Deferred revenues consists the following

	2018	2017
	JD	JD
Balance as 1 January	93,396	80,863
Increase during the year	20,871	39,566
Amortization	(25,529)	(27,033)
	<u>88,738</u>	<u>93,396</u>

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21) Equity

Capital

The authorized capital is JD (110) million and the paid up capital is JD (101,144,134) divided as following:

	2018	2017
	JD	JD
Government of Jordan contribution	78,800,000	78,002,144
Central Bank of Jordan contribution	2,200,000	1,000,000
Local authorities contribution	20,144,134	18,568,128
	<u>101,144,134</u>	<u>97,570,272</u>

According to the Prime Minister's Decree No. 17/2017 on 6 December 2017, the increment capital of the Bank was approved, which represents the value of the grant from the Kuwait Fund for Arab Economic Development.

Referring to the letter of HE the Governor of the Central Bank No. 15/2/8907 dated July 1, 2018, which includes doubling the contribution of the Central Bank to the capital of the Bank, provided that this increase is financed through the reserves of the Bank like the government contribution and reverse the recent increase in the bank's capital amounting to JD 10 million on the contribution of the Central Bank, And in order to maintain the rate of contribution of the Central Bank before these increases, amounting to 2% of the capital and in line with the decree of the Prime Minister in this regard

The percentage of proposed profits to be distributed to local authorities was 19.91%, representing JD 1,825,706 of the net distributable profits for the year 2018. They were distributed according to the contribution of each municipality to the capital of the Bank under Management decree No. 13/2019 of 30 June 2019.

The percentage of proposed profits to be distributed to local authorities was 19.035% and represents JD 1,576,006 of the net distributable profits for the year 2017. They were distributed according to the contribution of each municipality to the capital of the Bank under Management decree No. 11/2018 of 4 July 2018.

Under the Bank's Law No. 63 of 1985, each entity deducts its share of the Bank's profits by its share capital and transfers the balance of the remaining profits to the general reserve of the Bank.

General Reserve

Under Article (13) of the Bank Law and its amendments No. (38) of 1979, which stipulates that each municipality shall pay its share of the profits of the Bank in proportion to its share in the Bank's capital and transfer the balance of profits to the general reserve of the Bank.

According to the decree of the Prime Minister No. 18/2017 dated 6 December 2017, it was agreed to transfer the amount of 10 million Jordanian dinars from the reserves of the bank to contribute to the payment of municipal indebtedness.

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22) Net interest revenue

	<u>2018</u>	<u>2017</u>
	JD	JD
Credit facilities interest	6,604,439	8,387,061
Bank accounts interest	3,867,790	2,951,540
<u>Deduct:</u>		
Municipalities deposits' interest	(250,472)	(213,027)
Deferred interest municipalities and commissions	(9,642)	(7,632)
Interest on foreign loans accounts	(1,267)	(1,463)
	<u>10,210,848</u>	<u>11,116,479</u>

Interest rates on current accounts from 0.5% to 2%.

The deposit interest rate ranges from 3% to 4%.

23) Administrative expenses

	<u>2018</u>	<u>2017</u>
	JD	JD
Salaries, wages and allowances	2,319,777	2,384,342
Social security	347,463	319,328
Bonuses and Incentives	300,000	246,976
Travel and transportation	135,619	135,625
Electricity and water	92,536	91,677
Depreciation	63,034	73,710
Maintenance and cleaning	60,884	61,897
Rents	48,968	51,000
Board of Directors' remunerations	43,740	25,273
Books, supplies and programs	28,753	34,520
Training and studies	20,917	25,000
Postage, telephone and fax	19,571	24,005
Branches' subscriptions	17,341	13,249
Maintenance and computer expense	12,742	7,159
Fuel and heating	12,420	16,500
Supplies and consumables	12,000	1,789
Insurance	11,780	8,218
Professional fees	10,000	6,250
Printing and stationery	6,733	7,084
Hospitality	5,303	4,815
Miscellaneous	4,991	3,980
Vehicles expense	4,961	7,057
Advertisements	2,500	1,160
Others	981	1,233
	<u>3,583,014</u>	<u>3,551,847</u>

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24) Contra accounts

	2018	2017
	JD	JD
Unwithdrawn signed Islamic loans/ governmental institutions	11,748,516	12,503,133
Unwithdrawn local authorities loans- with interest	7,890,959	3,415,734
Un-signed approved loans with interest	7,259,000	1,445,000
Social productivity program, World Bank projects and French agency provided by suppliers	1,037,826	1,052,689
Un-signed approved Islamic loans governmental institutions	449,108	449,108
Pledge on behalf of municipalities against other commitments	75,889	87,188
Bills under collection (loans from Petra committee)	17,938	18,658
Loans to support municipalities' unpaid salaries and current balance expenses	10,000	9,804,443
Non interest bearing loans to local authorities	-	257,183
Undisbursed local authorities loans with no interest	-	30,000
	<u>28,489,236</u>	<u>29,063,136</u>

25) Other revenue

	2018	2017
	JD	JD
Syrian Refugee project administrative income	674,649	-
Local development income and city development strategy project	89,338	-
Other revenue	129,295	138,151
	<u>893,282</u>	<u>138,151</u>