Jordan International Bank Plc

Report and Financial Statements 2016

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## Directors

Ihab Saadi (Chairman)
Ian Schmiegelow (Deputy Chairman)
Abdulkader Abdullah Al-Qadi
Hani Abdulkader Al-Qadi
Adel Assad
Riyad Taweel
Seyed Morteza Mirghavameddin
Gerald Hawkins

## Secretary

Justine Goldberg

## Shareholders

| | PERCENTAGE |
|---|---|
| The Housing Bank for Trade and Finance | 75.00% |
| Arab Jordan Investment Bank | 25.00% |
| | 100.00% |

## Registered Office

Moreau House
116 Brompton Road
London SW3 1JJ

## Bankers

Lloyds Bank Plc
London

## Solicitors

Gordon Dadds
London

## Auditor

Deloitte LLP
Chartered Accountants
London

## Internet

The Bank's website is at
www.jordanbank.co.uk

Jordan International Bank offers services to a range of individual and corporate clients as well as to a spread of other financial institutions. The Bank's clients and counterparties are predominantly based either in the UK or the Levant region. The Bank's principal activities are described in more detail in the Strategic Report section of these Financial Statements on page 5.

For the year to 31 December 2016, the Bank generated pre-tax profits of £5.82m (2015: £5.97m), total assets grew to £411m (2015: £388m) and the return on equity was 6.96% (2015: 5.9%). The significant highlights for the year include:

The Bank's total operating income for the year (excluding fair value adjustments) was £13.4m (2015: £13.8m), representing a 3% decrease year on year.

Non-interest income (commissions and fees) was £2.8m (2015: £2.6m), representing a 7% increase from the previous year.

The past year has proved an extraordinarily eventful time for the world with considerable political upheaval and discord as well as pervasive economic uncertainty. While the Bank could not obviously avoid all the challenges to the financial sector presented by this environment, I am pleased to report that it continued to deliver financial results for the year which came close to matching those for 2015. The pre-tax profit for the year to 31st December 2016 amounted to £5.82m compared to £5.97m in 2015 and post-tax profits were £4.42m and £4.65m respectively. These levels of profit in 2016 were realised despite considerable additional investment by the Bank in the areas of risk control, human resources and operational systems, all of which, while providing a much firmer platform for the Bank's future business growth, regulatory compliance and professional competence, also involved a sizeable level of additional expenditure.

The Bank is maintaining its strategy, initiated in 2011, of providing loans for real estate development and investment, trade finance, treasury services and personal banking facilities. Real estate lending has continued to be a particularly remunerative line of business, but attention is also being shown to expanding the level of retail deposits from the Middle East region, to fostering an increased volume of trade finance transactions and to strengthening the Bank's treasury activities.

The meeting of all regulatory requirements for banks in a climate of greater stringent control is a major priority for the Bank and considerable resources, both in terms of personnel and cost, are directed to this end. The Bank's governance structure, with its related controls and processes, has already undergone considerable change and refinement.

Finally, I would like to express, on behalf of the Board of Directors, our appreciation to the Bank's customers and counterparties for their continuing support and business, and our gratitude to the staff of the Bank for their contribution, through their diligence and competence, to the overall success of Jordan International Bank.

Ihab Saadi
Chairman
3 March 2017

The Board of Directors is pleased to present its Strategic Report as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

## Strategy and Objectives

The Bank's primary business objective is to provide a range of banking services to both its UK and international customers. Its strategy for doing so is as follows:

- to provide lending for the purpose of property development and property investment in select prime areas in the UK;
- to provide trade finance services to clients involved in trade predominantly to or from the Middle East and North African geographical regions;
- to provide fixed term deposit products and personal banking services to customers from Jordan and the wider Middle East region;
- to provide treasury services (foreign exchange, money market and securities) to customers and counterparties of the Bank.

The Bank operates from a single office in Knightsbridge, London from where services are provided by a properly supported team of professionals. The Bank benefits from the additional resources of its two shareholder banks where appropriate.

## Business Model

The Bank operates a number of different business lines and services as described below.

Its major business line currently is structured property finance, by which prudent funding is offered to experienced property developers and investors. The Bank's professional team of lenders are supported by a selective panel of external lawyers, surveyors and valuers.

The Bank's trade finance team offers services to customers who, in the main, are based in, or who have links with, the Middle East. The trade finance business issues and confirms letters of credit and letters of guarantee, whilst also providing discounted financing for receivables. In controlling the risk exposure in this area, the Bank typically takes exposure to other financial institutions with acceptable credit ratings.

The personal banking team provides fixed term and notice deposit accounts and foreign exchange to customers from Jordan and the wider Middle East region.

Finally, the Bank offers corporate and institutional banking facilities, including correspondent banking services, on behalf of many other banks based in the Middle East region.

The Bank's treasury team manages the Bank's day-to-day cash position through taking deposits from, and placing money market loans with, other financial institutions. Foreign exchange services are offered to correspondent banks and other counterparties. The Treasury team is also responsible for managing the Bank's fixed income portfolio.

## Governance and Management Process

Governance is handled in the first instance through three forums, the Board of Directors, its Audit Committee and its Risk Committee. These three forums hold regular, usually quarterly, meetings and their members are in frequent dialogue with the Bank's Executive Management. The Board of Directors consists of five shareholder representatives, two independent non-executive directors and the Bank's Chief Executive Officer. The Audit Committee comprises representatives of the two shareholder banks and the independent non-executive directors and is chaired by the senior UK based independent non-executive director. The Risk Committee is similarly structured and chaired, although with the addition of the Chief Executive Officer.

The Bank's performance is measured against a number of Key Performance Indicators (KPIs) (profit and loss, cost income ratio and return on equity), the principal one being a budgeted pre-tax profit, which is set annually. Within this budget, individual business lines account for their performance on a monthly basis with the Bank's senior management, whilst the Bank's Board of Directors receive commentary on the Bank's results each month. The Bank also reports internally on a range of measures, including KPI's such as return on average equity and net interest margin, along with regulatory measures such as capital adequacy ratio (CAR) and liquidity coverage ratio (LCR)..

The Executive Committee has primary responsibility for the day-to-day management of the Bank and has authority delegated to it by the Board of Directors to approve loans or investments within certain parameters. Its members, who are all London based, meet on a regular basis and as necessary.

All exposures are managed within a risk appetite and policies agreed by the Board of Directors. Day-to day exposures are monitored by the in-house credit risk team (for credit exposure) and by the finance and treasury teams (for regulatory capital and liquidity management).

## Business Review

The Bank, despite a necessary rise in costs, has reported pre-tax profit for the year of £5.82m (2015: £5.97m), a return on average equity of 7% (2015: 5.9%) and a cost income ratio of 62% (2015: 54%).

The Bank has achieved pre-tax profits in recent years as shown in the table below. Income has risen year on year and each year has exceeded or been in line with the Bank's internal forecasts. At the same time the cost base has also risen, reflecting the increasing headcount in particular and the additional costs associated with greater office space and improved risk management systems and processes.

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Pre-tax profit £m | 8.88 | 6.25 | 5.97 | **5.82** |
| Cost / Income ratio % | 55 | 48 | 54 | **62** |
| Return on equity % | 15.5 | 7.6 | 5.9 | **7.0** |

As for the year ended 31st December 2016 the asset backed lending book closed the year at a similar overall level to the prior year. Lending rates were maintained throughout the year, despite some indications of falling rates at competitor banks, resulting in a continuing stream of attractive risk adjusted returns.

Treasury revenues remained broadly flat year on year. Yields and values of securities have been volatile during the year, driven by sharp changes in commodity prices and political uncertainties. The Bank's total portfolio of securities rose in value during the year. The foreign exchange markets remain very competitive whilst inter-bank lending rates have shown increases in the latter part of the year following the increase in base rates in the US.

While clearly impacted by the continuing unsettled conditions in the Levant, trade finance income has also remained relatively flat year on year, both in terms of revenue generated and volume of transactions. However, it continues to be an important part of the Bank's offering to both domestic and international customers.

With room for expansion and improvement within its current business strategy, it is not anticipated that there will be any significant change in the Bank's product offering or operating model in the immediate future. The plan for 2017 envisages further expansion of the balance sheet with increases in the size of all asset classes.

## Principal Risks for the Business

The Bank is subject to risks and uncertainties from a range of sources. The principal risks are: market risk; credit risk; development risk (in the case of structured property finance loans); mismatch risk; the current and ongoing economic climate; regulatory change risk and geo-political risk. The issue of the Bank as a going concern is mentioned on page 8.

As with any bank, the revenue stream and asset valuations of the Bank are influenced by prevailing interest rates. The Bank's deposit base is largely made up of relatively short-term deposits, whereas the asset side of the balance sheet is formed of longer-term loan facilities or investments. The maturity mismatch between assets and liabilities has the potential to impact net interest margins and asset valuations as interest rates move over time. The Bank mitigates this risk by ensuring that, where possible, interest rates on loans to customers are variable, or the terms of the loan permit the Bank to require earlier repayment.

In terms of the fixed income portfolio, a portion of the portfolio is held in floating rate notes and the average maturity of the portfolio is kept relatively short; currently around three years. This short maturity profile reduces the risk to the Bank from interest rate movements. Another portion of the portfolio is held in assets with longer maturity dates and these assets are subject to greater risk of (adverse) price movements. To counter this risk, both the Bank's treasury and credit teams are kept aware of market developments and general news and are able to act quickly in the event that there is any negative news about a particular security.

The Bank is also exposed to credit risk, being the risk that a counterparty will fail to fulfil its obligations. With the exception of the fixed income portfolio, the Bank has a minimal value of unsecured lending to corporate or individual borrowers. By ensuring that adequate collateral is held, the Bank is able to significantly reduce the risk of losses in the event of a default by a customer.

The structured property loan portfolio is formed of circa 70% development loans for the purpose of building new houses or small apartment buildings, while the remaining 30% of the portfolio consists of investment loans. The Bank aims to ensure its position is protected at all times. This is achieved by following a thorough due diligence process with every lending proposal. The Bank's lending criteria ensure that it only lends to developers with sufficient experience of the type of proposed development and to projects which the Bank fully understands and in areas where demand for the completed product should be high; it is also required that the Bank has sufficient collateral against the loan by way of a first mortgage and, as appropriate, an additional guarantee. Loans are typically drawn in stages as each project progresses and the construction process is monitored by one of the Bank's panel of quantity surveyors.

The Bank adopted its current lending strategy in late 2011 since when it has only incurred one impairment charge. The Bank firmly believes that its strict lending criteria will keep future losses to a minimum.

As a bank, JIB operates in a highly regulated environment and is therefore subject to regulatory risk. Regulation in the banking sector is continually evolving and the Bank's finance, regulatory reporting and compliance professionals in particular are required to keep up to date with changes and to ensure that the Bank complies with all its regulatory obligations.

Geopolitical risk can of course seriously impact the Bank's business in a range of ways including interest levels, securities valuations, operational disruption and the like, but the Bank makes every effort to be cognisant of such risks in a timely way and to mitigate them to the greatest extent possible.

## Going Concern

The Bank has now produced profits for six consecutive years. The Bank continues to focus upon the areas of structured property lending, trade finance, personal banking and treasury. In the period 2013-2015 the Bank's shareholders demonstrated their continued confidence in the Bank by increasing its issued share capital. The Bank has not sought further additional capital in 2016 reflecting the stronger capital position resulting from shareholder support and retained income in prior years.

The two shareholders continue to recognise their responsibility to ensure that Jordan International Bank Plc will continue at all times to meet its obligations. As a consequence, the directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain global economic and political outlook.

After making suitable enquiries the directors have a reasonable expectation that the Bank will continue to operate at existing levels for the foreseeable future, and have therefore used the going concern basis in preparing the financial statements.

Approved by the Board of Directors and signed on behalf of the Board.

Justine Goldberg
Secretary
3 March 2017

## Directors and Their Interests

The directors of the Bank are shown on page 2 and all served as directors throughout the year except the following who were appointed on the dates shown:

| | |
|---|---|
| Mr Adel Assad | 18 April 2016 |
| Mr Riyad Taweel | 03 August 2016 |

The following director retired on the date shown;

| | |
|---|---|
| H.E. Dr Michel Marto | 21 April 2016 |

## Payment Policy

It is the Bank's policy to pay suppliers as they fall due. At 31 December 2016, the Bank's trade creditors had been outstanding for an average of 6 days (2015: 32 days).

## Directors' and Officers' Liability Insurance

During the year, the Bank has maintained cover for directors and officers under directors' and officers' liability insurance policies as permitted by section 533 of the Companies Act 2006.

## Substantial Shareholders

Details of shareholders of the Bank are shown on page 2.

## Disclosure of Information to the Auditor

Each of the persons who is a director at the date of the approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the director has taken all the steps that should be taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

## Results and Dividends

The total profit for the year after taxation amounted to £4,418,000 (2015: Profit £4,634,000). The directors recommend that no dividend be paid (2015: £nil).

Approved by the Board of Directors and signed on behalf of the Board.

Justine Goldberg
Secretary
3 March 2017

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report to the Members of Jordan International Bank Plc

We have audited the financial statements of Jordan International Bank Plc for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the year ended 31 December 2016 are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Syed Bokhari FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

3 March 2017

# Profit & Loss Account

## Year Ended 31 December 2016

| | Notes | 2016 £'000's | 2015 £'000's |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Interest receivable and similar income arising from debt securities | | **3,647** | 3,441 |
| Other interest receivable and similar income | | **11,308** | 10,277 |
| | | **14,955** | 13,718 |
| Interest payable | | **(4,514)** | (3,277) |
| **NET INTEREST INCOME** | | **10,441** | 10,441 |
| **NON-INTEREST INCOME** | | | |
| Fees and commissions | | **2,792** | 3,219 |
| Dealing profits | 5 | **112** | 15 |
| Other operating income | | **25** | 22 |
| Profit on disposal of securities | | **14** | 159 |
| Fair value changes in assets held at FVTPL | 5 | **(33)** | (50) |
| Fair value changes in derivatives held at FVTPL | 5 | **~** | (37) |
| **TOTAL OPERATING INCOME** | | **13,351** | 13,769 |
| Administrative expenses | 3 | **(5,819)** | (5,389) |
| Depreciation | 5, 14 | **(409)** | (315) |
| Other operating charges | | **(2,102)** | (1,831) |
| Impairment of loans and advances | 10 | **(106)** | (311) |
| Other gains | 11 | **906** | 45 |
| **OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | 6 | **5,821** | 5,968 |
| Tax (charge) on profit on ordinary activities | 6 | **(1,403)** | (1,321) |
| **PROFIT FOR THE FINANCIAL YEAR** | 23 | **4,418** | 4,647 |

| | Notes | 2016 £'000's | 2015 £'000's |
|---|---|---|---|
| **STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR** | | | |
| Profit for the financial year | | **4,418** | 4,647 |
| Revaluation profit/(losses) on AFS investments | 23 | **986** | (911) |
| Tax (charge)/credit on revaluation losses | 23 | **(190)** | 184 |
| **TOTAL COMPREHENSIVE INCOME** | | **5,214** | 3,920 |

The accompanying notes are an integral part of these financial statements.

All operations of the Bank continued throughout both periods and no operations were acquired or discontinued.

# Balance Sheet

## As at 31 December 2016

| | Notes | 2016 £'000's | 2015 £'000's |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | **116** | 86 |
| Nostros | | **9,416** | 6,196 |
| Loans and advances to shareholder banks | 7 | **29,264** | 38,748 |
| Loans and advances to other banks | 8 | **41,094** | 37,897 |
| Loans and advances to customers | 9 | **162,860** | 168,618 |
| Investments in debt securities | 13 | **160,356** | 128,431 |
| Tangible fixed assets | 14 | **856** | 873 |
| Other assets | 15 | **922** | 1,031 |
| Deferred tax | 6 | **2,513** | 3,170 |
| Prepayments and accrued income | | **3,375** | 3,362 |
| **TOTAL ASSETS** | | **410,772** | 388,412 |
| | | | |
| **LIABILITIES** | | | |
| Deposits by shareholder banks | 16 | **106,831** | 97,241 |
| Deposits by other banks | 17 | **132,770** | 111,826 |
| Customer accounts | 18 | **86,186** | 99,926 |
| Other liabilities | 19 | **2,535** | 2,125 |
| Accruals and deferred income | | **2,335** | 2,393 |
| **TOTAL LIABILITIES** | | **330,657** | 313,511 |

# Balance Sheet (continued)

## As at 31 December 2016

| | Notes | 2016 £'000's | 2015 £'000's |
|---|---|---|---|
| Called-up share capital | 21 | **65,000** | 65,000 |
| Share premium | 22 | **316** | 316 |
| Revaluation reserve | 23 | **(957)** | (1,753) |
| Profit and loss account | 23 | **15,756** | 11,338 |
| SHAREHOLDERS' FUNDS – EQUITY INTERESTS | | **80,115** | 74,901 |
| TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS | | **410,772** | 388,412 |
| OFF BALANCE SHEET ITEMS | | | |
| CONTINGENT LIABILITIES | 33 | | |
| Acceptances | | ~ | 1,218 |
| Guarantees and irrevocable letters of credit | | **2,778** | 4,711 |
| Undrawn commitments | | **30,880** | 57,018 |
| | | **33,658** | 62,947 |

These financial statements of Jordan International Bank Plc, Registered No. 1814093, were approved by the Board of Directors and authorised for issue on 3 March 2017.

Signed on behalf of the Board of Directors

Seyed Morteza Mirghavameddin

The accompanying notes are an integral part of these financial statements.

# Statement of Changes in Equity

## Year ended 31 December 2016

| 2016 | Share Capital £'000's | Share Premium £'000's | Securities Revaluation Reserve £'000's | Retained Profit £'000's | Total £'000's |
|---|---|---|---|---|---|
| OPENING BALANCE AT 1 JANUARY 2016 | **65,000** | **316** | **(1,753)** | **11,338** | **74,901** |
| Shares issued and paid | ~ | ~ | ~ | ~ | ~ |
| Movement on securities revaluation reserve | ~ | ~ | **796** | ~ | **796** |
| Profit retained for the year | ~ | ~ | ~ | **4,418** | **4,418** |
| CLOSING BALANCE ON 31 DEC 2016 | **65,000** | **316** | **(957)** | **15,756** | **80,115** |

| Attributable to Shareholders | Housing Bank For Trade & Finance £'000's | Arab Jordan Investment Bank £'000's | Total £'000's |
|---|---|---|---|
| OPENING BALANCE AT 1 JANUARY 2016 | **56,176** | **18,725** | **74,901** |
| Shares issued and paid | ~ | ~ | ~ |
| Movement on securities revaluation reserve | **597** | **199** | **796** |
| Profit retained for the year | **3,314** | **1,104** | **4,418** |
| CLOSING BALANCE ON 31 DECEMBER 2016 | **60,087** | **20,028** | **80,115** |

| 2015 | Share Capital £'000's | Share Premium £'000's | Securities Revaluation Reserve £'000's | Retained Profit £'000's | Total £'000's |
|---|---|---|---|---|---|
| OPENING BALANCE AT 1 JANUARY 2015 | 55,000 | 316 | (1,026) | 6,691 | 60,981 |
| Shares issued and paid | 10,000 | ~ | ~ | ~ | 10,000 |
| Movement on securities revaluation reserve | ~ | ~ | (727) | ~ | (727) |
| Profit retained for the year | ~ | ~ | ~ | 4,647 | 4,647 |
| CLOSING BALANCE ON 31 DECEMBER 2015 | 65,000 | 316 | (1,753) | 11,338 | 74,901 |

| Attributable to Shareholders | Housing Bank For Trade & Finance £'000's | Arab Jordan Investment Bank £'000's | Total £'000's |
|---|---|---|---|
| OPENING BALANCE AT 1 JANUARY 2015 | 45,736 | 15,245 | 60,981 |
| Shares issued and paid | 7,500 | 2,500 | 10,000 |
| Movement on securities revaluation reserve | (545) | (182) | (727) |
| Profit retained for the year | 3,485 | 1,162 | 4,647 |
| CLOSING BALANCE ON 31 DECEMBER 2015 | 56,176 | 18,725 | 74,901 |

# Cash Flow Statement

## Year ended 31 December 2016

| | Notes | 2016 £'000's | 2015 £'000's |
|---|---|---|---|
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | 24 | **17,609** | 37,008 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of securities | | **(80,297)** | (129,979) |
| Securities sold and matured | | **102,898** | 110,000 |
| Interest received | | **3,039** | 2,843 |
| Other assets sold | 11 | **789** | ~ |
| Purchase of tangible fixed assets | 14 | **(392)** | (336) |
| NET CASH INFLOWS/OUTFLOWS FROM INVESTING ACTIVITIES | | **26,037** | (17,472) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issue of ordinary share capital | | **~** | 10,000 |
| INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR | 25 | **43,646** | 29,536 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | **32,013** | 2,477 |
| Movement in cash and cash equivalents | | **58,379** | 28,467 |
| Effect of foreign exchange rate changes | | **(14,733)** | 1,069 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **75,659** | 32,013 |
| RECONCILIATION TO CASH AT BANK AND IN HAND | | | |
| Cash at bank and in hand at end of year | | **43,508** | 32,013 |
| Cash equivalents | | **32,151** | ~ |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **75,659** | 32,013 |

The accompanying notes are an integral part of these financial statements.

# Notes to the Accounts

## Year ended 31 December 2016

## 1. ACCOUNTING POLICIES

### a) Accounting convention and going concern basis

The accounts have been prepared in accordance with applicable law and Accounting Standards in the United Kingdom, under the historical cost convention basis except for the revaluation of derivatives and financial assets designated at fair value through profit or loss and available for sale. Although Jordan International Bank is a PLC, it is unlisted, and consequently the financial statements are prepared under UK GAAP.

The financial statements of the Bank have been prepared on the going concern basis.

The Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The strategic report also describes the financial position of the Bank; its cash flows, liquidity position and borrowing facilities; the Bank's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

In making the going concern assessment, the directors have prepared detailed financial forecasts for the Bank, including its funding and capital position, for the 12 months from the date of approval of these financial statements.

The directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence and comply with all relevant regulatory requirements for a period of at least the next 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### b) Income recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities, other than those at fair value through profit and loss, are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition and early redemption fees. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets designated at fair value through profit and loss are recorded at fair value. Changes in fair value are recognised in profit and loss together with dividends and interest receivable and payable.

### c) Commissions and fees

Commissions and fees receivable which represent a return for services provided are credited to income when the related service is performed or where considered appropriate, taken to the profit and loss over the life of the facility.

## 1. ACCOUNTING POLICIES (CONTINUED)

### d) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at market rates of exchange ruling at the balance sheet date. Premiums and discounts arising on foreign exchange swap contracts entered into are apportioned over the periods of the transactions and included in interest in the profit and loss account. All transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign exchange gains or losses are included in the profit and loss account for the year. The Bank's functional currency is sterling.

### e) Financial assets

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned. They are initially measured at cost, plus transaction costs, except for those financial assets classified at fair value through the profit and loss account, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit and loss" (FVTPL), "held to maturity" investments, "available for sale" (AFS) financial assets, and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Loans and receivables* – non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment losses.

*Held-to-maturity investments* – financial instruments with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

*Fair value through profit and loss (FVTPL)* – any financial asset that is designated on initial recognition as one to be measured at fair value with any gains or losses arising on re-measurement is recognised in the profit and loss account.

*Available for sale* – those non-derivative financial assets that are not classified as loans and receivables, held to maturity, or not held for trading and are not designated at fair value through profit and loss on initial recognition. Available for sale financial assets are measured at fair value with gains and losses arising from changes in fair value recognised through the Statement of Comprehensive Income in the revaluation reserve with the exception of impairment losses. Interest is calculated using the effective interest method and is recognised in profit and loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is reclassified to the profit and loss account for the period.

The Bank will derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

# 1. ACCOUNTING POLICIES (CONTINUED)

## f) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed periodically for indications of impairment. A financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

*Financial assets carried at amortised cost* – if there is objective evidence that an impairment loss on a financial asset classified as loans and receivables or as held-to-maturity investments has been incurred, the Bank measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Impairment losses are recognised in profit and loss and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

For AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in the Statement of Comprehensive Income are reclassified to the profit and loss account in the period.

With the exception of AFS equity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit and loss account to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through the profit and loss account are not reversed through the profit and loss account. Any increase in fair value subsequent to an impairment loss is recognised through the Statement of Comprehensive Income.

In the circumstances where a customer is unable to make repayments due on financial assets, for example due to a deterioration in the changing economic environment, the Bank will show ‘forbearance’ and work with its customers to ensure an equitable renegotiation of the terms attached to the financial asset.

In addition to impairment assessment of assets showing signs of distress, the Bank has for the first time elected to estimate a ‘collective’ provision allowance know as ‘Incurred But Not Reported’, or IBNR. The IBNR provision is calculated as an estimate of future credit losses against assets currently held, but which have yet to fall into default and which therefore, do not attract an impairment charge at the current time. The IBNR provision is based upon the Banks internal credit grading model and assumptions about future default rates and losses in the areas of : i) structured property development, ii) securities portfolio, and iii) treasury/commercial lending activities, which are based upon historic market data. Expected default rates from external credit rating agencies are then applied against the Bank’s internal grading model.

## 1. ACCOUNTING POLICIES (CONTINUED)

### g) Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities are measured at amortised cost using the effective interest method (see income recognition note).

The Bank will derecognise a financial liability when, and only when, the Bank's obligations are discharged, cancelled or they expire.

### h) Derivatives and hedging

The Bank uses derivative financial instruments to hedge their exposures to foreign exchange risk. The Bank does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are measured at fair value with gains or losses arising from changes in their fair value being recognised in profit and loss. Derivative fair values are determined using market data. Where there is no quoted price in an active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing and valuation models.

An embedded derivative in a host contract is accounted for as a stand-alone derivative if its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract and the embedded derivative meets the definition of a derivative in terms of IAS 39, unless the entire contract is carried at fair value through profit and loss. FRS102 permits the adoption of this treatment.

The Bank does not use hedge accounting in accounting for its derivative financial instruments.

### i) Equity

Equity is represented by ordinary paid up share capital, share premium and retained reserves which reflect the revaluation of those assets and liabilities which are recorded at their fair values.

### j) Depreciation

All items purchased by the Bank, which under FRS102 are considered as tangible fixed assets, are to be considered for inclusion in the fixed asset register. Single items costing less than £500 will generally be treated as an expense item, unless the Bank already owns a number of similar items which collectively cost over £500 in which case the item should be classified as a fixed asset.

Tangible fixed assets (except Leasehold property and leasehold improvements) are depreciated over a five year period, from the date that the asset is brought into use. Leasehold property and improvements are depreciated over the life of the lease. Depreciation is charged monthly on a straight line basis per FRS102. Any residual value or discount on the purchase price or 'rent-free' period in the case of a leasehold property is taken into account when determining the depreciation charge Fixed assets are held in the Bank's ledger system at 'cost'. The ledger also records the accumulated depreciation on the asset as a separate item. The item is removed from the ledger if sold or is no longer in use and any profit / loss is taken to P&L at that time.

## 1. ACCOUNTING POLICIES (CONTINUED)

Fixed assets are considered for impairment on an annual basis.

Typical tangible fixed assets relevant to the Bank are:

- Office furniture (desks, chairs, cupboards);
- Computer equipment (PC's, screens), software and licences (other than for a single year); and
- Office fit-out costs (carpets, walls, decorating, cabling).

### k) Taxation

Current UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### l) Pension costs

The Bank operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Any differences between contributions payable in the year and contributions actually paid would be shown as either accruals or prepayments in the balance sheet (note 30).

### m) Operating leases

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

### n) Cash

Cash comprises cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

### o) Accounting pronouncements

For 2016 the Bank has applied FRS 102 including IBNR (Incurred But Not Reported) impairment provisions.

## 2. SEGMENTAL INFORMATION

The Bank has one main activity, commercial banking, which is carried out in the United Kingdom. It provides a range of commercial and personal banking services including; Investment & Treasury related services: Corporate & Institutional Banking, Trade Finance, Personal Banking and Structured Property Finance.

## 3. ADMINISTRATIVE EXPENSES

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Staff costs including directors: | | |
| Salaries | **4,461** | 3,955 |
| Social security costs | **562** | 508 |
| Other pension costs (note 30) | **442** | 371 |
| | **5,465** | 4,834 |
| Other administrative expenses | **354** | 555 |
| | **5,819** | 5,389 |

The average number of persons employed by the Bank in 2016 was 43 (2015: 39), made up as follows:

| | 2016 No, | 2015 No. |
|---|---|---|
| Retail banking | **4** | 4 |
| Corporate banking | **9** | 9 |
| Treasury and dealing activities | **6** | 6 |
| Other support staff | **24** | 20 |
| | **43** | 39 |

## 4. DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments paid to directors consisted of:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Fees | **735** | 540 |
| Salaries | **418** | 405 |
| Other | **35** | 32 |
| | **1,188** | 977 |

Fees paid to directors increased during the year due to an increase in the number of directors and an increase in the average fee paid to each director. Emoluments paid and contributions paid into the money purchase pension scheme on behalf of the highest paid director (Chief Executive Officer) during 2016 were £481k (2015: £476k) and £33k (2015: £30k) respectively.

## 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after (crediting) and charging:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| (i) Income: | | |
| Dealing profits from treasury activities | **(112)** | (15) |
| Profits on disposal of debt securities | **(14)** | (159) |
| Net loss on financial assets and liabilities; | | |
| – designated at fair value through profit and loss | **33** | 50 |
| Net loss on derivatives designated at fair value through profit and loss | **~** | 37 |
| (ii) Charges: | | |
| Impairment (net of recoveries) | **106** | 311 |
| Depreciation on owned assets | **409** | 315 |
| Auditors' remuneration; | | |
| – Statutory audit of Financial Statements | **77** | 77 |
| – Taxation services | **17** | 12 |
| – Audit related assurance services | **13** | 18 |
| – Other services | **~** | 5 |
| Total non-audit services | **30** | 35 |
| Rental on land and buildings | **558** | 448 |

## 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

| Based on profit for the year: | 2016 £'000's | 2015 £'000's |
|---|---|---|
| United Kingdom corporation tax | **932** | 555 |
| Adjustments in respect of prior periods | **4** | ~ |
| | **936** | 555 |
| Deferred tax – current year | **243** | 663 |
| Deferred tax – prior year adjustment | **(98)** | (5) |
| Deferred tax – rate change (from 20% to 17.7%) | **322** | 108 |
| Total tax charge for the year | **1,403** | 1,321 |

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Profit on ordinary activities before tax | **5,821** | 5,968 |
| Tax charge on profit on ordinary activities at 20% (2015 – 20.25%) | **1,164** | 1,209 |
| Effects of: | | |
| – Expenses not deductible for tax purposes | **4** | 9 |
| – AFS reserve | **7** | ~ |
| – Difference in tax rates | **322** | 108 |
| – Adjustments to prior years | **(94)** | (5) |
| Current tax charge for the year | **1,403** | 1,321 |

The aggregate current and deferred tax relating to items that are recognized as items of other comprehensive income is a charge of £190,000 (2015 credit: £184,000).

The standard rate of tax applied to reported profit on ordinary activities is 20% (2015: 20.25%). The applicable tax rate changed following the enactment of the Finance Acts 2014 and 2015.

## 6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

| The movement on deferred taxation balance in the period is: | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Opening balance | **3,170** | 3,936 |
| (Charge)/Credit to profit and loss account | **(467)** | (766) |
| (Charge) to Comprehensive Income | **(190)** | ~ |
| Closing balance | **2,513** | 3,170 |
| Analysis of deferred tax balance: | | |
| Accelerated capital allowances | **(92)** | (51) |
| Tax losses | **2,579** | 3,221 |
| Short-term timing differences | **26** | ~ |
| Deferred tax assets recognised | **2,513** | 3,170 |

## 7. LOANS AND ADVANCES TO SHAREHOLDER BANKS

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Repayable | | |
| – on demand | **29,264** | 22,124 |
| – within three months | **~** | 16,624 |
| – between three months and one year | **~** | ~ |
| | **29,264** | 38,748 |

## 8. LOANS AND ADVANCES TO OTHER BANKS

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Repayable | | |
| – on demand | **29,481** | 22,889 |
| – within three months | **2,715** | 5,924 |
| – between three months and one year | **8,326** | 9,084 |
| – between one and five years | **572** | ~ |
| | **41,094** | 37,897 |
| Impairment (note 10) | **~** | ~ |
| | **41,094** | 37,897 |

## 9. LOANS AND ADVANCES TO CUSTOMERS

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Repayable | | |
| – on demand | **163,178** | 167,393 |
| – within three months | **~** | 527 |
| – between three months and one year | **~** | 12 |
| – between one and five years | **~** | 1,110 |
| – over five years | **~** | ~ |
| Impairment (note 10) | **(318)** | (424) |
| | **162,860** | 168,618 |

## 10. IMPAIRMENT LOSSES

| Specific assets | 2016 £'000's | 2015 £'000's |
|---|---|---|
| At 1 January | **424** | 111 |
| (Credit)/Charge to profit and loss | **(111)** | 311 |
| Other adjustments | **5** | 2 |
| At 31 December | **318** | 424 |

See accounting policy note 1(f) "Impairment of financial assets". The year end impairment balance held against specific assets of £318,500 relate to impairments held against a customer account and against a structured property development loan, the latter of which was reduced in part during the year upon the maturity of the loan. Management are optimistic of recovering the remaining outstanding loan balance.

| Collective provision | 2016 £'000's | 2015 £'000's |
|---|---|---|
| At 1 January | **~** | ~ |
| Expected credit losses (ECL) | **(217)** | ~ |
| Lifetime ECL | **~** | ~ |
| Credit impairment | **~** | ~ |
| At 31 December | **(217)** | ~ |

The Bank has elected to apply the IBNR requirements under FRS 102 (See accounting policy note 1(f) on page 21).

## 11. OTHER GAINS AND LOSSES

During 2016 the Bank recovered a net £905,563 relating to assets which had previously been written off (2015: £45,021).

## 12. CONCENTRATIONS OF CREDIT RISK

The Bank's balance sheet is widely diversified geographically and industrially. The following geographical concentrations are considered significant:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| OECD | **307,680** | 283,400 |
| Jordan | **39,480** | 45,295 |
| Arab/Middle East | **40,882** | 46,882 |
| Other | **22,730** | 12,835 |
| | **410,772** | 388,412 |

The following industry concentrations are considered significant:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Government/Quasi-Government | **120,469** | 84,789 |
| Banks | **98,474** | 102,808 |
| Investment and Finance | **~** | ~ |
| Property lending | **161,569** | 168,618 |
| Other | **30,260** | 32,197 |
| | **410,772** | 388,412 |

## 13. DEBT SECURITIES

| 2016 | Govt securities £'000's | Other debt securities £'000's | Total £'000's |
|---|---|---|---|
| Designated at fair value through profit and loss | **580** | **~** | **580** |
| Held to maturity | **3,250** | **~** | **3,250** |
| Available for sale | **120,469** | **36,057** | **156,526** |
| At 31 December 2016 | **124,299** | **36,057** | **160,356** |
| **2015** | | | |
| Designated at fair value through profit and loss | 817 | 151 | 968 |
| Held to maturity | 2,674 | 274 | 2,948 |
| Available for sale | 81,297 | 43,218 | 124,515 |
| At 31 December 2015 | 84,788 | 43,643 | 128,431 |

The movement on debt securities held within the Bank's investment portfolio is as follows:

| | HTM £'000's | FVTPL £'000's | AFS £'000's | Total £'000's |
|---|---|---|---|---|
| At 1 January 2016 | **2,948** | **968** | **124,515** | **128,431** |
| Additions | **~** | **~** | **112,458** | **112,458** |
| Disposals and maturities | **(305)** | **(515)** | **(102,079)** | **(102,899)** |
| Exchange adjustment | **607** | **149** | **20,646** | **21,402** |
| Fair value adjustment | **~** | **~** | **~** | **~** |
| Revaluation | **~** | **(22)** | **986** | **964** |
| Impairment | **~** | **~** | **~** | **~** |
| At 31 December 2016 | **3,250** | **580** | **156,526** | **160,356** |

As at 31 December 2016 Jordan International Bank did not have any European Sovereign Debt exposure (2015: none).

## 14. TANGIBLE FIXED ASSETS

| | Furniture, fittings and office equipment £'000's | Improvement to leasehold premises £'000's | Total £'000's |
|---|---|---|---|
| **COST** | | | |
| At 31 December 2015 | 1,601 | 407 | 2,008 |
| Additions | 360 | 32 | 392 |
| Disposals | ~ | ~ | ~ |
| At 31 December 2016 | **1,961** | **439** | **2,400** |
| **DEPRECIATION** | | | |
| At 31 December 2015 | 907 | 228 | 1,135 |
| Charge for the year | 276 | 133 | 409 |
| Disposals | ~ | ~ | ~ |
| At 31 December 2016 | **1,183** | **361** | **1,544** |
| **NET BOOK VALUE** | | | |
| At 31 December 2016 | **778** | **78** | **856** |
| At 31 December 2015 | 694 | 179 | 873 |

## 15. OTHER ASSETS

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Sundry loan receivables | **582** | 592 |
| Derivatives at fair value (note 26) | **340** | 439 |
| | **922** | 1,031 |

## 16. DEPOSITS BY SHAREHOLDER BANKS

| Repayable | 2016 £'000's | 2015 £'000's |
|---|---|---|
| – on demand | **12,119** | 11,484 |
| – within three months | **11,744** | 401 |
| – between three months and one year | **58,585** | 68,598 |
| – between 1 and 5 years | **24,383** | 16,758 |
| | **106,831** | 97,241 |

## 17. DEPOSITS BY OTHER BANKS

| Repayable | 2016 £'000's | 2015 £'000's |
|---|---|---|
| – on demand | **12,650** | 7,796 |
| – within three months | **81,458** | 84,646 |
| – between three months and one year | **28,650** | 19,384 |
| – between one and five years | **10,012** | ~ |
| | **132,770** | 111,826 |

## 18. CUSTOMER ACCOUNTS

| Repayable | 2016 £'000's | 2015 £'000's |
|---|---|---|
| – on demand | **2,764** | 3,869 |
| – within three months | **19,298** | 15,795 |
| – between three months and one year | **59,626** | 66,190 |
| – between one and five years | **4,498** | 14,072 |
| | **86,186** | 99,926 |

## 19. OTHER LIABILITIES

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Derivatives at fair value (note 26) | **177** | 188 |
| Tax and social security | **959** | 843 |
| Other liabilities | **1,399** | 1,094 |
| | **2,535** | 2,125 |

## 20. SUMMARY OF FINANCIAL ASSET AND LIABILITIES

| 2016 | FVTPL/AFS £'000's | Held to maturity £'000's | Loans and receivables at amortised cost £'000's | Financial asset/ liabilities at amortised cost £'000's | Total £'000's |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash | ~ | ~ | ~ | 116 | 116 |
| Collection on banks | ~ | ~ | ~ | 9,416 | 9,416 |
| Loans and advances to shareholder banks | ~ | ~ | 29,264 | ~ | 29,264 |
| Loans and advances to other banks | ~ | ~ | 41,094 | ~ | 41,094 |
| Loans and advances to customers | ~ | ~ | 162,860 | ~ | 162,860 |
| Debt securities | 580 | 3,250 | ~ | ~ | 3,830 |
| Debt securities – AFS | 156,526 | ~ | ~ | ~ | 156,526 |
| Other financial assets | 340 | ~ | ~ | 582 | 922 |
| Accrued income | ~ | ~ | ~ | 2,287 | 2,287 |
| | 157,446 | 3,250 | 233,218 | 12,401 | 406,315 |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits from shareholder banks | ~ | ~ | ~ | 106,831 | 106,831 |
| Deposits from other banks | ~ | ~ | ~ | 132,770 | 132,770 |
| Deposits from customers | ~ | ~ | ~ | 86,186 | 86,186 |
| Other financial liabilities | 177 | ~ | ~ | 2,358 | 2,535 |
| Accruals | ~ | ~ | ~ | 2,335 | 2,335 |
| | 177 | ~ | ~ | 330,480 | 330,657 |

## 20. SUMMARY OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

| 2015 | FVTPL/AFS £'000's | Held to maturity £'000's | Loans and receivables at amortised cost £'000's | Financial asset/ liabilities at amortised cost £'000's | Total £'000's |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash | ~ | ~ | ~ | 86 | 86 |
| Collection on banks | ~ | ~ | ~ | 6,196 | 6,196 |
| Loans and advances to shareholder banks | ~ | ~ | 38,748 | ~ | 38,748 |
| Loans and advances to other banks | ~ | ~ | 37,897 | ~ | 37,897 |
| Loans and advances to customers | ~ | ~ | 168,618 | ~ | 168,618 |
| Debt securities | 968 | 2,948 | ~ | ~ | 3,916 |
| Debt securities – AFS | 124,515 | ~ | ~ | ~ | 124,515 |
| Other financial assets | 439 | ~ | ~ | 592 | 1,031 |
| Accrued income | ~ | ~ | ~ | 2,843 | 2,843 |
| | 125,922 | 2,948 | 245,263 | 9,717 | 383,850 |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits from shareholder banks | ~ | ~ | ~ | 97,241 | 97,241 |
| Deposits from other banks | ~ | ~ | ~ | 111,826 | 111,826 |
| Deposits from customers | ~ | ~ | ~ | 99,926 | 99,926 |
| Other financial liabilities | 188 | ~ | ~ | 1,937 | 2,125 |
| Accruals | ~ | ~ | ~ | 2,393 | 2,393 |
| | 188 | ~ | ~ | 313,323 | 313,511 |

## 21. CALLED-UP SHARE CAPITAL

| CALLED-UP, ALLOTTED AND FULLY PAID: | 2016 £'000's | 2015 £'000's |
|---|---|---|
| 65,000,000 (2015: 65,000,000) ordinary shares of £1 each | **65,000** | 65,000 |

## 22. SHARE PREMIUM

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| At 31 December | **316** | 316 |

## 23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS AND RESERVES

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| **EQUITY** | | |
| Issue of ordinary shares | **~** | 10,000 |
| Opening share capital | **65,316** | 55,316 |
| Closing share capital | **65,316** | 65,316 |
| **PROFIT AND LOSS** | | |
| Profit for the financial year | **4,418** | 4,647 |
| Profit and loss at 1 January | **11,338** | 6,691 |
| Profit and loss at 31 December | **15,756** | 11,338 |
| **SECURITIES REVALUATION RESERVE** | | |
| Revaluation profits/(losses) on AFS portfolio | **986** | (911) |
| Tax effect on revaluation gains | **(190)** | 184 |
| Opening revaluation reserve | **(1,753)** | (1,026) |
| Closing revaluation reserve | **(957)** | (1,753) |

## 24. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Operating profit before tax | **5,821** | 5,968 |
| Interest received on debt securities | **(3,039)** | (2,843) |
| Increase in prepayments and accrued income | **(162)** | (486) |
| Increase/(Decrease) in accruals and deferred income | **81** | (371) |
| Profit on sale of debt securities | **(14)** | (159) |
| Amortisation of premiums/(discounts) | **~** | ~ |
| Depreciation | **409** | 315 |
| Fair value changes in financial assets | **33** | 50 |
| Fair value changes in derivatives | **~** | 37 |
| Impairment (net of recoveries) | **106** | 311 |
| Corporation tax paid | **583** | 300 |
| Exchange adjustment | **(21,911)** | (5,776) |
| Operating cash flow before movement in working capital | **(18,093)** | (2,654) |
| Net decrease/(increase) in loans and advances | **25,934** | (3,681) |
| Net increase in deposits | **10,790** | 41,529 |
| Net (decrease)/increase in other assets and liabilities | **(1,022)** | 1,814 |
| Cash generated by Operations | **17,609** | 37,008 |

## 25. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

| | 2016 £'000's | 2015 £'000's | Change in year £'000's |
|---|---|---|---|
| Cash | **116** | 86 | 30 |
| Collections on other banks | **9,416** | 6,196 | 3,220 |
| Loans and advances to shareholder banks | **29,264** | 22,123 | 7,141 |
| Loans and advances to other banks | **29,481** | 22,889 | 6,592 |
| Deposits by shareholder banks | **(12,119)** | (11,485) | (634) |
| Deposits by other banks | **(12,650)** | (7,796) | (4,854) |
| Cash equivalents | **32,151** | ~ | 32,151 |
| | **75,659** | 32,013 | 43,646 |

As at 31st December 2016 the Bank held assets totalling £32.151 million (2015: £nil) which fell within the definition of cash equivalents as laid out in FRS 102. Cash equivalents are defined as short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Such investments would have a maturity of 3 months or less.

## 26. DERIVATIVES AT FAIR VALUE

| 2016 | Notional Amounts £'000's | Fair Value Assets £'000's | Fair Value Liabilities £'000's |
|---|---|---|---|
| Exchange rate contracts: | | | |
| Contract or underlying principal amount | | | |
| – for dealing purposes | **27,503** | **340** | **177** |

| 2015 | Notional Amounts £'000's | Fair Value Assets £'000's | Fair Value Liabilities £'000's |
|---|---|---|---|
| Exchange rate contracts: | | | |
| Contract or underlying principal amount | | | |
| – for dealing purposes | 47,300 | 439 | 188 |

The Bank enters into derivative instruments for managing foreign exchange exposures.
The fair value of derivatives is included within other assets

## 27. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Assets | **196,754** | 173,537 |
| Liabilities | **218,204** | 196,196 |

The above assets and liabilities denominated in foreign currencies do not indicate the Bank's exposure to foreign exchange risk.

The effect of changes in foreign exchange rates on the Bank's net assets/liabilities in all relevant foreign currencies were as follows:

| | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Total revaluation gains on whole banking book | **21,910** | 5,775 |
| of which: | | |
| – revaluation gains on securities at fair value | **21,402** | 2,725 |
| – revaluation gains/(losses) on all other net assets | **508** | 3,050 |

# 28. RISK MANAGEMENT

## i) Governance Framework

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and, accordingly, involves its most senior staff in developing the overarching risk management framework and risk policies. Market, credit, liquidity and operational risks are inherent in the Bank's core business. The evaluation of these risks and the setting of policies are carried out as appropriate through the Board, Executive Committee, senior management or internal audit.

**The Board** sets the overall risk appetite for the Bank. Two Board sub- committees support the Board as follows:

**Audit Committee** is a non-executive committee that supports the Board in carrying out its responsibilities for financial reporting and in respect of internal and external audit. The Committee monitors the ongoing process of the identification, evaluation and management of all significant risks throughout the Bank. The Committee also receives the Bank's annual report from the external auditors. The Committee is supported by Internal Audit which provides an independent assessment of the adequacy and effectiveness of the Bank's internal controls. Internal audit has direct access to the Chairman of all committees. The Chairman is the senior independent non-executive director.

**Risk Committee** is a non-executive committee that supports the Board in carrying out its responsibilities in respect of the identification and management of issues relating to the Bank's risks. The Chairman is the senior independent non-executive director.

The day to day management of the Bank is undertaken by the Executive Committee.

The **Executive Committee** exercises both credit and operational authority and oversight for the Bank. It reviews credit applications falling within its agreed credit authority. These credit applications are received from the Bank's Credit department accompanied by business proposals from departmental heads. Those applications which fall outside of its delegated credit authority are recommended to the Board of Directors for final approval. The Committee is also responsible for IT and operational matters as well as implementing a risk management framework consistent with the Board's risk appetite.

## ii) Types of derivatives and their use

### Foreign exchange

The Bank uses foreign exchange swaps and cross currency swaps to eliminate currency risk on long or short currency requirements. In order to reflect the true economic impact to the Bank of the hedge, internal swaps are entered into in addition to the relevant swap with the counterparty. These derivatives are revalued daily and any change in their fair value is recognised immediately in profit and loss.

The Bank enters into foreign exchange forward contracts to cover customers' positions.

The total notional amount of outstanding exchange rate contracts to which the Bank is committed is disclosed in note 26.

### Interest rate swaps

Where appropriate the Bank uses interest rate swaps to hedge the potential exposure to adverse interest rate movements on the funding of a bond or other fixed rate asset, by converting fixed rate receipts to floating rate.

## 28. RISK MANAGEMENT (CONTINUED)

### iii) Risk management

The principal risks that the Bank manages are as follows:

*Credit risk (including property development risk):* the risk arising from the possibility that the Bank will incur losses from the failure of customers to meet their obligations.

*Concentration risk:* - risks that arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

*Liquidity risk:* the risk that the Bank is unable to meet its obligations as they fall due.

*Market risk:* the Bank is exposed to market risk because of its positions held in its banking and trading books, off and on-balance sheet.

*Interest rate risk:* the risk of a reduction in the value of an asset arising from a change in interest rates and also the related opportunity cost of lowered revenue where income is fixed for a period.

*Foreign Exchange risk*: the risk that the value of the Bank's investments change, due to changes in currency exchange rates.

*Other Price risk:* is the risk that the value of the Bank's investment or its investment portfolio will decline in the future due to risks outside those listed above.

*Operational risk:* the risks associated with and arising from the Bank's people, processes, systems and assets.

*Regulatory risk:* the risk arising from failing to meet the requirements and expectations of the Bank's regulators, or from a failure to address or implement any change in these requirements or expectations.

*Refinancing Risk:* the risk that a borrower cannot refinance by borrowing to repay existing debt.

### Credit risk

*Key principles of credit risk management*

- All policies relating to credit risk are reviewed and approved by the Board of Directors. The Board Risk Committee and the Board oversee credit risk on a quarterly basis.
- Approval of all credit exposures must be granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and related credit facilities must be undertaken prior to approval of the credit exposure. This must include a review of, amongst other things, the purpose of the credit and sources of repayment, affordability, repayment history, ability to repay and sensitivity to economic and market developments. In relation to loans for development purposes, the most significant risk faced is the ability of the borrower to complete the construction project on time and on budget. For this reason the Bank only extends this type of facility to experienced property developers.

## 28. RISK MANAGEMENT (CONTINUED)

- The Board approves all large credit exposures.
- All credit exposures, once approved, must be effectively monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment which may include the placement onto the Bank's credit watch list.

Activities undertaken by the Bank that give rise to credit risk include granting loans to customers, placing deposits with other entities, purchasing securities, providing financial guarantees and entering into derivative contracts.

The maximum exposure to credit risk for on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements, is represented as follows:

| ON-BALANCE SHEET | 2016 £'000's | 2015 £'000's |
|---|---|---|
| Loans and advances to shareholder banks | **29,264** | 38,748 |
| Loans and advances to other banks | **41,094** | 37,897 |
| Loans and advances to customers | **162,860** | 168,618 |
| Debt securities | **160,356** | 128,431 |
| **OFF-BALANCE SHEET** | | |
| Letters of guarantee | **74** | 82 |
| Letters of credit | **2,704** | 4,629 |
| Acceptances | **~** | 1,218 |
| Other commitments | **30,880** | 57,018 |

Other commitments relate to undrawn balances on development finance loans.

The Bank takes collateral where a loan to a customer is a property finance transaction, either for development or investment purposes. The Bank will take a 'first charge' against the asset in question and usually also a charge over any income from the asset. At the year end the Bank held collateral valued at £342m against total customer loans of £163m.

## 28. RISK MANAGEMENT (CONTINUED)

Distribution of loans and advances by credit quality.

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Loans and advances to customers £'000's | Loans and advances to banks £'000's | Loans and advances to customers £'000's | Loans and advances to banks £'000's |
| Neither past due nor impaired | **162,793** | **70,358** | 165,895 | 76,645 |
| Past due but not impaired | | | | |
| – loans and receivables at amortised cost: | | | | |
| – less than 3 months | **~** | **~** | ~ | ~ |
| – 3 to 12 months | **~** | **~** | ~ | ~ |
| – 1 to 5 years | **~** | **~** | ~ | ~ |
| Impaired | **385** | **~** | 3,147 | ~ |
| Less: provisions | **(318)** | **~** | (424) | ~ |
| | **162,860** | **70,358** | 168,618 | 76,645 |

### Impaired assets

- *Loan and Advances to Banks*
  No additional impairment charges were made during 2016. All impaired accounts have now been fully written off.
- *Loans and Advances to customers*
  Total impaired loans to customers were £0.4 million at 31 December 2016 (2015: £3.1m) representing less than 1% of gross loans to customers. Doubt was still being expressed over the recoverability of a commercial loan extended on a partly secured basis and on a structured property finance transaction on a fully secured basis. Security taken against the commercial loan was considered insufficient to retire this outstanding loan.
- *Debt securities*
  No impairment charges were made during 2016 against the Bank's security portfolio.

## 28. RISK MANAGEMENT (CONTINUED)

The credit quality of loans and advances that are neither past due nor impaired.

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Loans and advances to customers £'000's | Loans and advances to banks £'000's | Loans and advances to customers £'000's | Loans and advances to banks £'000's |
| Investment grade | ~ | **26,217** | ~ | 22,889 |
| Non-investment grade | ~ | **30,543** | ~ | 26,675 |
| Unrated | **162,860** | **13,598** | 168,618 | 27,081 |
| | **162,860** | **70,358** | 168,618 | 76,645 |

The credit quality of debt securities that are neither past due nor impaired.

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Government securities £'000's | Other debt securities £'000's | Government securities £'000's | Other debt securities £'000's |
| Debt securities by rating agency designation | | | | |
| AAA to A+ | **96,040** | **11,774** | 71,422 | 18,953 |
| A or lower | **24,429** | **28,113** | 12,548 | 24,416 |
| Unrated | ~ | ~ | 818 | 274 |
| | **120,469** | **39,887** | 84,788 | 43,643 |
| Impaired | ~ | ~ | ~ | ~ |
| | **120,469** | **39,887** | 84,788 | 43,643 |

## 28. RISK MANAGEMENT (CONTINUED)

Loans and receivables at fair value through profit or loss.

**2016**

| Maximum exposure to credit risk | Fair Value at 1 January £'000's | Change during year: Credit risk £'000's | Change during year: Other risk £'000's | Other movement £'000's | Fair Value at 31 December £'000's |
|---|---|---|---|---|---|
| Loans and advances to shareholder banks | ~ | ~ | ~ | ~ | ~ |
| Loans and advances to other banks | ~ | ~ | ~ | ~ | ~ |
| Loans and advances to customers | ~ | ~ | ~ | ~ | ~ |
| | ~ | ~ | ~ | ~ | ~ |

**2015**

| Maximum exposure to credit risk | Fair Value at 1 January £'000's | Change during year: Credit risk £'000's | Change during year: Other risk £'000's | Other movement £'000's | Fair Value at 31 December £'000's |
|---|---|---|---|---|---|
| Loans and advances to shareholder banks | ~ | ~ | ~ | ~ | ~ |
| Loans and advances to other banks | ~ | ~ | ~ | ~ | ~ |
| Loans and advances to customers | ~ | ~ | ~ | ~ | ~ |
| | ~ | ~ | ~ | ~ | ~ |

### Liquidity risk

Liquidity risk management within the Bank focuses on both the overall balance sheet structure and the day-to-day control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by the Board of Directors. During 2016 the Bank's Board of Directors approved updated liquidity policies relating to contingency funding, liquidity and funding and stress testing. Adherence to these parameters is monitored by the Executive Committee. Compliance, in respect of internal policy, is monitored and co-ordinated daily, with the regulatory requirements of the Prudential Regulation Authority (PRA) being co-ordinated by the Senior Manager, Financial Reporting.

## 28. RISK MANAGEMENT (CONTINUED)

### Funding sources

Shareholder bank deposits and other bank deposits continue to represent the core of the Bank's funding; short-termed wholesale funds increased during 2016 by 14% to £205 million (2015: £179 million). Funding from customer accounts decreased by 13% during 2016 to £86 million (2015: £99 million).

### Contingency funding

The Bank's contingency funding plan is considered as part of the Bank's Individual Liquidity Adequacy Assessment process (ILAAP) which has been designed to identify emerging liquidity problems at an early stage, so that mitigating actions can be taken to avoid the potential of a serious liquidity crisis developing.

### Stress testing

As part of its stress testing of its access to sufficient liquidity, the Bank regularly evaluates the potential impact from a variety of scenarios. Contingency funding plans have been established in the event of a "liquidity crisis" and management remain confident of the Bank's ability to manage its liquidity requirements effectively in all such circumstances. The Bank's stress testing policy is also considered as part of the Bank's Individual Liquid Adequacy Assessment Process (ILAAP).

### Daily risk management

The Bank's day-to-day risk management activity is to ensure access to sufficient liquidity to meet its cash flow obligations within key time horizons out to one month and three months ahead. The mainly short-term maturity structure of the Bank's liabilities is managed on a daily basis to ensure that all material cash flow obligations and potential cash flows arising from undrawn commitments and other contingent obligations, can be met as they arise from day-to-day, either from cash flows, from maturing assets, new borrowing or the sale of various debt securities held (after allowing for appropriate haircuts).

The Bank monitors a range of liquidity metrics including its Liquidity Coverage (LCR) and Net Stable Funding (NSFR) ratios on a daily basis.

### Liquid Assets

In addition to meeting the LCR, the Bank has both extended its funding maturity profile and established a buffer of High Quality Liquid Assets (HQLA), that can be converted easily and immediately, enabling it to survive LCR and internally set stress scenarios. The HQLA buffer is monitored on a daily basis. At 31 December 2016 this buffer totalled £115.5 million (2015: £63.3 million).

## 28. RISK MANAGEMENT (CONTINUED)

### Cash flows payable by the Bank under financial liabilities by remaining contractual maturities

The table below summarises the Bank's remaining undiscounted contractual maturities for its financial liabilities.

| AT 31 DECEMBER 2016 | On demand £'000's | Due within 3 months £'000's | Due between 3 and 12 months £'000's | Due between 1 and 5 years £'000's | Due after 5 years £'000's | Total £'000's |
|---|---|---|---|---|---|---|
| Deposits by shareholder banks | **8,201** | **15,615** | **58,471** | **24,264** | **~** | **106,551** |
| Deposits by other banks | **8,319** | **81,452** | **32,607** | **10,000** | **~** | **132,378** |
| Customer accounts | **2,767** | **19,216** | **59,385** | **4,417** | **~** | **85,785** |
| | **19,287** | **116,283** | **150,463** | **38,681** | **~** | **324,714** |

| AT 31 DECEMBER 2015 | On demand £'000's | Due within 3 months £'000's | Due between 3 and 12 months £'000's | Due between 1 and 5 years £'000's | Due after 5 years £'000's | Total £'000's |
|---|---|---|---|---|---|---|
| Deposits from shareholder banks | 8,251 | 3,634 | 78,527 | 6,751 | ~ | 97,163 |
| Deposits by other banks | 5,878 | 86,397 | 19,366 | ~ | ~ | 111,641 |
| Customer accounts | 3,983 | 15,723 | 65,972 | 13,859 | ~ | 99,537 |
| | 18,112 | 105,754 | 163,865 | 20,610 | ~ | 308,341 |

The balances in the above tables will not agree directly to the balances in the balance sheet as the table excludes cash flows associated with all future coupon payments.

## 28. RISK MANAGEMENT (CONTINUED)

Assets available to meet these liabilities, and to cover outstanding commitments include (in £'000's), cash, collections on other banks (2016: £9,146; 2015: £6,196): loans and advances to shareholder banks (2016: £29,264; 2015: £38,748) all repayable within one year (2015: all) , loans and advances to other banks (2016: £41,094, 2015: £37,897), £40,522 repayable within one year (2015: all). In addition Jordan International Bank held debt securities marketable at a value of £160.3 million (2015: £128.4 million) including £115.5 million (2015: £63.3 million) of securities classified under PRA liquidity guidelines as meeting the Criteria of High Quality Liquid Assets (HQLA). None of these assets were pledged to secure liabilities.

Undrawn loan commitments at 31 December 2016 stood at £30,880,000 (2015: £57,018,000).

Jordan International Bank would meet unexpected net cash outflows by primarily seeking additional funding from its shareholder funds, interbank market or disposing of debt securities or other liquid instruments.

### Market risk

The Bank is exposed to market risk because of its banking positions. Market risk comprises three types of risk: currency, interest and other price risk.

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios. The management of market risk is principally undertaken by the Asset and Liability Committee (ALCO) using risk limits approved by the Board of Directors.

### Foreign Exchange Risk

The Bank does not have significant positions in any foreign currencies and accordingly there is no significant impact on the income statement or equity as a result of foreign exchange rate fluctuations. Foreign exchange risks are controlled through monitoring against limits approved by the Board of Directors. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures or are covered by forward foreign exchange contracts. Compliance with position limits is independently monitored on an ongoing basis.

## 28. RISK MANAGEMENT (CONTINUED)

### Sensitivity analysis of market risk

The tables below summarise what effect a percentage change in exchange rates, against sterling, the Bank's functional currency, will have on the Bank's assets and liabilities denominated in the principal currencies (US$'s and Euros) traded by the Bank as at the reporting date.

| | | | % change in US$/£ exchange rate | | | |
|---|---|---|---|---|---|---|
| | | | -10% | -20% | +10% | +20% |
| US DOLLARS | US$'000's | £'000's | £'000's | £'000's | £'000's | £'000's |
| AT 31 DECEMBER 2016 | | | | | | |
| Total assets | 209,546 | 170,960 | 189,956 | 213,700 | 155,418 | 142,467 |
| Total liabilities | (234,367) | (191,211) | (212,457) | (239,014) | (173,828) | (159,343) |
| Forward contracts | (836) | (682) | (758) | (853) | (620) | (568) |
| Net | (25,657) | (20,933) | (23,259) | (26,167) | (19,030) | (17,444) |
| Movement | ~ | ~ | (2,326) | (5,234) | 1,903 | 3,489 |

| | | | % change in Euro/£ exchange rate | | | |
|---|---|---|---|---|---|---|
| | | | -10% | -20% | +10% | +20% |
| EUROS | Eur'000's | £'000's | £'000's | £'000's | £'000's | £'000's |
| AT 31 DECEMBER 2016 | | | | | | |
| Total assets | 6,645 | 5,687 | 6,319 | 7,109 | 5,170 | 4,739 |
| Total liabilities | (27,851) | (23,836) | (26,484) | (29,795) | (21,669) | (19,863) |
| Forward contracts | 21,206 | 18,149 | 20,165 | 22,686 | 16,499 | 15,124 |
| Net | ~ | ~ | ~ | ~ | ~ | ~ |
| Movement | ~ | ~ | ~ | ~ | ~ | ~ |

## 28. RISK MANAGEMENT (CONTINUED)

| US DOLLARS | | | % change in US$/£ exchange rate | | | |
|---|---|---|---|---|---|---|
| | | | -10% | -20% | +10% | +20% |
| | US$'000's | £'000's | £'000's | £'000's | £'000's | £'000's |
| AT 31 DECEMBER 2015 | | | | | | |
| Total assets | 232,449 | 156,933 | 174,370 | 196,166 | 142,666 | 130,778 |
| Total liabilities | (236,841) | (159,898) | (177,664) | (199,873) | (145,362) | (133,248) |
| Forward contracts | (20,390) | (13,766) | (15,296) | (17,208) | (12,515) | (11,472) |
| Net | (24,782) | (16,731) | (18,590) | (20,915) | (15,211) | (13,942) |
| Movement | ~ | ~ | (1,859) | (4,184) | 1,520 | 2,789 |

| EUROS | | | % change in Euro/£ exchange rate | | | |
|---|---|---|---|---|---|---|
| | | | -10% | -20% | +10% | +20% |
| | Eur'000's | £'000's | £'000's | £'000's | £'000's | £'000's |
| AT 31 DECEMBER 2015 | | | | | | |
| Total assets | 6,554 | 4,836 | 5,373 | 6,045 | 4,396 | 4,030 |
| Total liabilities | (49,758) | (36,714) | (40,793) | (45,893) | (33,376) | (30,595) |
| Forward contracts | 43,213 | 31,885 | 35,428 | 39,856 | 28,986 | 26,571 |
| Net | 9 | 7 | 8 | 8 | 6 | 6 |
| Movement | ~ | ~ | 1 | 1 | (1) | (1) |

### Interest rate risk

Interest rate risk arises primarily from the Bank's non-trading portfolio and in particular its treasury activities and personal, corporate and institutional banking businesses.

### Treasury

The Bank's treasury activities include its money market business and the management of internal funds flow within the Bank's businesses.

### Personal, Corporate and Institutional banking

Structural interest rate risk arises in these activities where assets and liabilities have different re-pricing dates. It is the Bank's policy to minimise the sensitivity of net interest income to changes in interest rates. A maturity gap report is produced as at month-end for all the major currencies to which the Bank is exposed.

## 28. RISK MANAGEMENT (CONTINUED)

### Sensitivity of projected net interest income

The tables below set out the impact on future net interest income and economic values of assets of a 200 basis points upwards movement in yield curves at the reporting date in sterling and US dollars. A corresponding downwards movement would incur very similar opposite results. Other currencies have been excluded from the table on the basis of non-materiality. The gaps shown represent the net of floating rate assets and liabilities up to 12 months.

Change in projected net interest income arising from a shift in yield curves of:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| POUNDS STERLING | gap £M's | £'000's | gap £M's | £'000's |
| Up to 15 days | **102.51** | **1,177** | 134.19 | 1,950 |
| 15 days to 1 month | **10.61** | **119** | (16.07) | (301) |
| 1 – 2 months | **10.31** | **90** | (2.10) | (37) |
| 2 – 3 months | **25.99** | **269** | 9.16 | 145 |
| 3 – 4 months | **(21.63)** | **(306)** | (22.96) | (325) |
| 4 – 5 months | **(10.55)** | **(132)** | (1.50) | (19) |
| 5 – 6 months | **(5.80)** | **(63)** | (4.53) | (49) |
| 6 – 9 months | **9.33** | **70** | 11.99 | 90 |
| 9 – 12 months | **(13.48)** | **(34)** | (12.46) | (31) |
| TOTAL | **107.29** | **1,190** | 95.72 | 1,423 |

Change in projected net interest income arising from a shift in yield curves of:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| US DOLLARS | gap $M's | $'000's | gap $M's | $'000's |
| Up to 15 days | **6.14** | **120** | 0.22 | 4 |
| 15 days to 1 month | **(21.11)** | **(396)** | (4.22) | (79) |
| 1 – 2 months | **(19.75)** | **(346)** | (8.88) | (155) |
| 2 – 3 months | **(3.86)** | **(61)** | (18.72) | (296) |
| 3 – 4 months | **(60.29)** | **(854)** | (41.23) | (584) |
| 4 – 5 months | **(5.37)** | **(67)** | (23.15) | (289) |
| 5 – 6 months | **(24.11)** | **(261)** | 4.13 | 45 |
| 6 – 9 months | **33.20** | **249** | 7.94 | 60 |
| 9 – 12 months | **1.37** | **3** | 11.93 | 30 |
| TOTAL | **(93.78)** | **(1,613)** | (71.98) | (1,264) |

## 28. RISK MANAGEMENT (CONTINUED)

### Operational risk

Operational risk is defined as the risk arising in an organisation from:

- **People** – risks arising from an inappropriate level of staff and inadequately skilled or managed staff.
- **Process** – risk caused by inadequate or failed processes.
- **System** – risks of inadequately designed or maintained systems.
- **Assets** – risk of damage, misappropriation or theft of the Bank's assets.

Operational risk is managed by the Risk Management department , whose objective is to ensure compliance with policies and procedures. Risk Management monitor operational risk as part of the overall risk management framework, taking mitigating action where necessary.

### Regulatory risk

Regulatory risk is the risk arising from the failure to meet the requirements of regulators. To mitigate this risk the Bank remains vigilant in keeping abreast of all regulatory developments including capital, large exposures and liquidity management as well as anti-money laundering and "Know Your Customer" (KYC).

### Capital management and allocation

The framework for capital requirements is structured around three "pillars": minimum capital requirements, supervisory review process and market discipline.

Banking book on and off-balance sheet items giving rise to credit risk are categorised into credit exposure classes with risk weighting determined by predetermined credit steps (credit rating categories). In allocating credit steps to assets in the standardised credit risk exposure classes the Bank uses Moodys as its nominated ECAI.

With respect to Pillar 1 minimum capital requirements for credit risk (inc. counterparty risk), the Bank follows the 'standardised approach'. This involves applying pre-determined risk weightings to assets in accordance to their allocated "credit step" for that particular credit exposure class. For the purpose of capital allocation the process of using credit steps involves the allocation of external credit ratings into bands ("steps").

With regards to capital requirements for operational risk, the Bank has adopted the basic indicator approach (BIA).

The Bank also allocates capital against market risk and further counterparty risk (CVA – credit valuation adjustment).

## 28. RISK MANAGEMENT (CONTINUED)

### Capital management

It is the Bank's policy to maintain a strong capital base to support the development of its business and to meet regulatory requirements at all times. The principal forms of capital are included in the following balances on the Bank's balance sheet: called up share capital; share premium; securities revaluation reserve and retained earnings.

The Executive Committee (EXCO) is key to the Bank's Internal Capital Adequacy Assessment Process (ICAAP). It assesses the capital required over and above the Pillar 1 requirement to withstand all risks (Pillar 2 adjustment).

In arriving at the Pillar 2 assessment, the Committee will consider current and expected market conditions, the control environment and the risk appetite of the Bank. It will then propose capital allocation to product lines accordingly. The total capital required to withstand risks arising from current and planned business is subjected to stress testing and scenario analysis. The Board provides considerable challenge to the ICAAP assumptions and projected outcomes, this being a fundamental part of the capital allocation process.

The PRA supervises Jordan International Bank on a solo basis and as such receives information on the capital adequacy of the Bank. In implementing the EU's Banking Consolidation Directive, the PRA requires each bank to maintain adequate capital resources to meet its various capital requirements under Pillar 1 and Pillar 2. Jordan International Bank's capital consists of Tier 1 qualifying capital only.

### Tier 1 Capital

This comprises Shareholders funds including share capital, share premium, securities revaluation reserve (non-equity) and retained earnings. The PRA's rules permit the inclusion of profits/(losses) in Tier 1 capital to the extent they have been verified in accordance with the PRA's General Prudential Sourcebook.

## 29. FAIR VALUES OF FINANCIAL INSTRUMENTS

Set out below is a year-end comparison of current fair values and book values of the Bank's financial instruments ("instruments") by category.

| | Non-trading book | |
|---|---|---|
| AS 31 DECEMBER 2016 | Book value £'000's | Fair value £'000's |
| **ASSETS** | | |
| Loans and advances designated at fair value through profit and loss | ~ | ~ |
| Other loans and receivables at amortised cost | 233,215 | 233,215 |
| Debt securities designated at fair value through profit and loss | 580 | 580 |
| Debt securities held-to-maturity | 3,250 | 3,250 |
| Debt securities at market valuation | 156,895 | 156,527 |
| **LIABILITIES** | | |
| Deposits by banks and customers at amortised cost | 325,787 | 325,787 |

## 29. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

| | Non-trading book | |
|---|---|---|
| AS 31 DECEMBER 2015 | Book value £'000's | Fair value £'000's |
| **ASSETS** | | |
| Loans and advances designated at fair value through profit and loss | ~ | ~ |
| Other loans and receivables at amortised cost | 245,263 | 245,263 |
| Debt securities designated at fair value through profit and loss | 968 | 968 |
| Debt securities held-to-maturity | 2,948 | 2,968 |
| Debt securities at market valuation | 125,815 | 124,515 |
| **LIABILITIES** | | |
| Deposits by banks and customers at amortised cost | 308,993 | 308,993 |

### Fair value measurements recognised in the balance sheet

Fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Other non-derivative financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions based on quoted prices for debt securities and dealer quotes for similar instruments.

*Foreign currency forward contracts* are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – The best evidence of fair value is a quoted price for an identical asset in an active market.
- Level 2 – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.
- Level 3 – If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

## 29. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

| | 2016 | | | |
|---|---|---|---|---|
| 31 December 2016 | Level 1 £'000's | Level 2 £'000's | Level 3 £'000's | Total £'000's |
| **FINANCIAL ASSETS AT FVTPL** | | | | |
| Debt securities | **~** | **~** | **580** | **580** |
| Exchange rate contracts | **340** | **~** | **~** | **340** |
| **AVAILABLE-FOR-SALE FINANCIAL ASSETS** | | | | |
| Debt securities | **92,794** | **63,732** | **~** | **156,526** |
| **FINANCIAL LIABILITIES AT FVTPL** | | | | |
| Exchange rate contracts | **(176)** | **~** | **~** | **(176)** |
| | **92,958** | **63,732** | **580** | **157,270** |

| | 2015 | | | |
|---|---|---|---|---|
| 31 December 2015 | Level 1 £'000's | Level 2 £'000's | Level 3 £'000's | Total £'000's |
| **FINANCIAL ASSETS AT FVTPL** | | | | |
| Debt securities | ~ | 151 | 817 | 968 |
| Exchange rate contracts | 439 | ~ | ~ | 439 |
| **AVAILABLE-FOR-SALE FINANCIAL ASSETS** | | | | |
| Debt securities | 60,626 | 63,889 | ~ | 124,515 |
| **FINANCIAL LIABILITIES AT FVTPL** | | | | |
| Exchange rate contracts | (188) | ~ | ~ | (188) |
| | 60,877 | 64,040 | 817 | 125,734 |

## 30. PENSION SCHEME

The Bank operates a defined contribution scheme. The assets of the scheme are held separately from those of the Bank in an independently administered fund. The pension cost charge of £442,453 (2015: £371,310) represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

## 31. TRANSACTIONS WITH MANAGERS

The aggregate amounts outstanding from persons of managerial grade or above at 31 December 2016 were £20,537 (2015: £30,266).

## 32. OPERATING LEASE COMMITMENTS

At 31 December the Bank was committed to making the following payments during the next year in respect of operating leases:

| | Land and buildings | |
|---|---|---|
| | 2016<br>£'000's | 2015<br>£'000's |
| Leases which expire not later than one year | **364** | ~ |
| Leases which expire between two and five years | **~** | 391 |
| Leases which expire later than five years | **~** | ~ |

## 33. CONTINGENT LIABILITIES

The Bank has contingent liabilities arising from opened and confirmed letters of credit, guarantees issued, acceptances and from undrawn commitments arising from outstanding structured property facilities.

The Bank has no exposures categorised as acceptances (2015: £1,218k) and letters of guarantee and letters of credit totalling £2,704k (2015: £4,711k). These exposures have maturity dates of less than 1 year and the Bank considers the likelihood of any outflow to be remote. Letters of guarantee total £74k (2015: £82k) and are payment guarantees issued in relation to underlying transactions in the travel and tourism industries and automotive parts supply industries.

The Bank also has undrawn loan facilities totalling £30,880k (2015: £57,018k) relating to the structured finance lending product. These facilities are drawn as the underlying development project proceeds towards completion and it is anticipated that the majority of the undrawn facility will be drawn before the facility matures. The exact timing of drawdowns cannot be determined as this is determined by the cash flow requirements of each project. The total contingent liability is composed of £16,527k (2015: £28,833k) relating to facilities expiring in less than 1 year and £14,353k (2015: £28,185k) relating to facilities maturing in 1 to 5 years.

## 34. RELATED PARTY TRANSACTIONS

Other than for the transactions with the shareholder banks included in note 7 and 16 there have been no related party transactions during 2016. All transactions with shareholder banks are undertaken on commercial terms and there have been no changes in these terms during the year. Emoluments paid to directors of the Bank during 2016 totalled £1,118,853 (2015: £977,107) (note 4).

Included within net interest income is £682,934 (2015: £695,074) in interest income from the Bank's shareholders and £1,814,138 (2015: £1,468,119) in interest expense paid to the Bank's shareholders.

## 35. CONTROLLING PARTY

The immediate parent and ultimate holding company, and the ultimate controlling party, is The Housing Bank For Trade & Finance, a company incorporated in Jordan.

## 36. POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

## 37. CORPORATE INFORMATION

Jordan International Bank plc is a Public Limited Company, incorporated in the United Kingdom and registered in England and Wales. Its Company Registration Number is 1814093.

The company's registered office is:

Moreau House
116 Brompton Road
London
SW3 1JJ

## 38. PILLAR 3 DISCLOSURES

The Bank's Pillar 3 disclosures can be found at www.jordanbank.co.uk.

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