Jordan International Bank Plc

Pillar 3 Report 2016

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1. BACKGROUND

1.1 Regulation

This document sets out the Pillar 3 disclosures for Jordan International Bank (the Bank or JIB) as at 31 December 2016.

The European Union Capital Requirements Regulation (CRR) and Directive (CRD) came into effect on 1 January 2007. In particular articles 431 to 455 of the CRR specify the Pillar 3 framework requirements. The CRD IV legislative package came into force on 1st January 2014.

The disclosure requirements of Pillar 3 are designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes.

Pillar 3 aims to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

The EU's Capital Requirements Regulation (CRR) introduced further enhancements for the Pillar 3 disclosures from 2015 and from 2017. All the enhancements from 2015 have been included within this document and in addition some from 2017 have also been included although they are not required from a regulatory perspective until the 2017 Pillar 3 document.

1.2 Basis and Frequency of Disclosures

The Pillar 3 disclosures are published annually, concurrently with the Annual Report and Accounts. In accordance with regulatory guidelines, the frequency of disclosure will be reviewed should there be any material change in any approach used for the calculation of capital, business structure (e.g. scale of operations, range of activities or involvement in different financial sectors) or regulatory requirements.

The description of the Bank's governance, methods and processes reflects the situation at 31 December 2016.

The data contained in the Bank's Pillar 3 disclosures are calculated in accordance with CRD IV regulatory capital requirements.

Scope of disclosures

The Pillar 3 disclosures in this document relate to Jordan International Bank Plc which has no subsidiaries.

Changes since the prior Pillar 3 disclosure

Significant enhancements have been made to the Pillar 3 disclosures compared to the prior year in line with regulatory requirements.

Governance

The Bank's Executive Committee attests to the accuracy of the data and at the same time consistency checks and reconciliations were performed with the Bank's 2016 Annual Report and Accounts and regulatory returns where applicable.

These disclosures have been subject to internal verification and have been reviewed by the Bank's Internal Auditor and the Board Audit Committee (BAC) on behalf of the Board.

These disclosures have not been externally audited and do not constitute any part of the Bank's Financial Statements; however, some of the information within the disclosures also appears in the Annual Report and Accounts.

JIB's Pillar 3 disclosures are published on the Bank's website: www.jordanbank.co.uk.

Regulatory position

CRR introduced disclosure requirements relating to risk management, corporate governance, capital resources, unencumbered assets and leverage.

JIB has allocated specific resource to identify future regulatory change and to develop the Banks's regulatory compliance framework to meet this change.

The Basel Committee Banking Supervision (BCBS) published revised Pillar 3 disclosure standards in January 2015. These new disclosures apply to the Bank's 31 December 2016 Pillar 3 disclosures.

The regulatory landscape continues to evolve and forthcoming changes such as the ongoing Basel consultation on risk weightings and implementation of International Financial Reporting Standard (IFRS) 9 have the potential to increase further capital requirements across the industry.

2. OVERVIEW OF RISK MANAGEMENT

2.1 Business Model

JIB is engaged predominantly in lending to property developers and property investors in the UK, coupled with trade finance and correspondent banking arising from its inter-bank relationships within the Middle East & North Africa (MENA) region.

The Bank also offers deposit products to retail and small business clients, primarily from the Middle East franchise of its shareholder banks.

The principal activities of the Bank are considered in more detail below.

Property finance

The property financing is primarily focused in London and South East England.

The underlying loan book comprises two different types of loan. The larger portion relates to 'development loans' and a smaller portion relates to income producing real estate ('investment loans').

Treasury operations

Treasury operations consist of foreign exchange, cash management and a portfolio of securities, both HQLA and non HQLA. Both with and fixed and floating rate coupons.

Foreign exchange transactions are executed on behalf of/or with a range of Middle Eastern counterparties and fully hedged.

The Treasury department's key functions are to manage the Bank's liquidity position and to generate a revenue stream from the securities portfolio. The securities portfolio which also provides liquidity via holdings of HQLA.

The treasury function raises deposits from a range of wholesale financial institutions, including shareholder banks, former shareholder banks, other Middle Eastern banks and the Central Bank of Jordan. The Bank also accepts deposits from UK and Middle Eastern retail depositors.

Trade finance

Trade finance products are provided to/with Financial Institutions predominantly in the Middle East and Turkey.

The products offered by the Bank include confirming and discounting Letters of Credit and Guarantees coupled with trade loans and promissory notes.

Other revenue streams

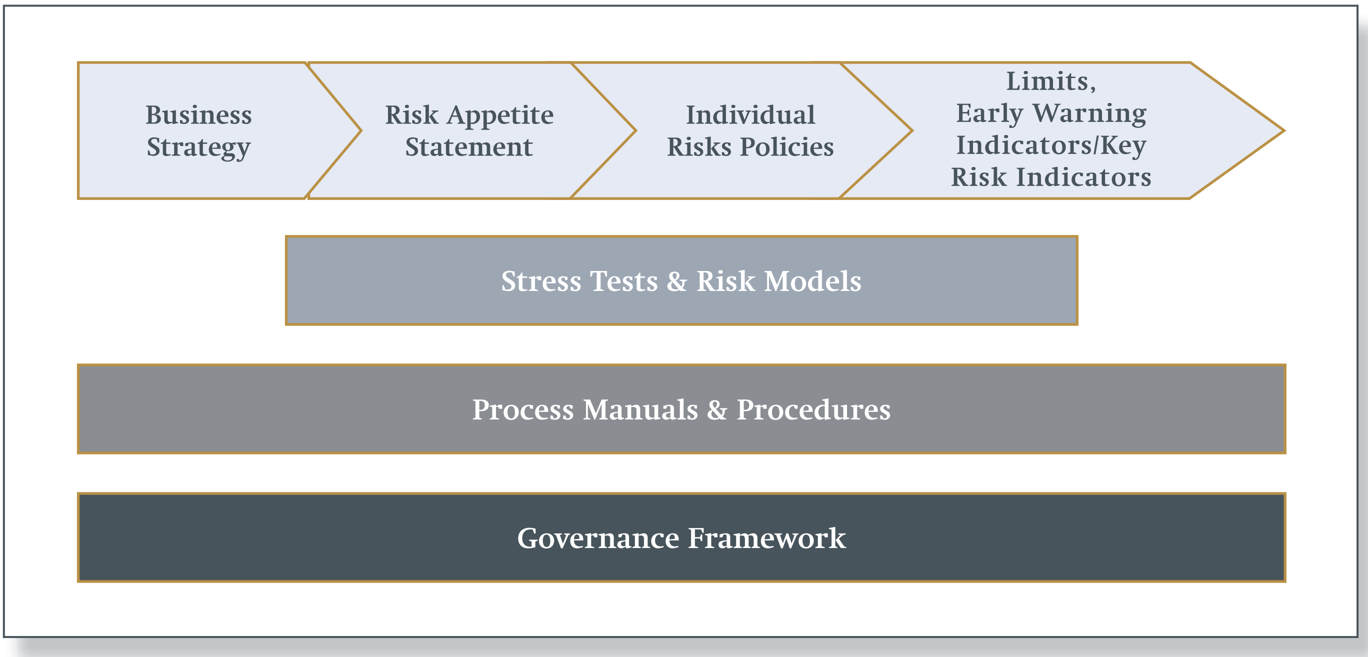
The Bank's remaining revenues are derived from legacy products which are not core or material to the Bank's future strategy.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

The overarching framework

The risk management framework sets the structure for managing risk in JIB. The overarching framework is illustrated below.



The Bank has put in place a risk management framework which provides oversight and management of all of the daily operations and risks faced by the Bank in the pursuit of its business activities and strategic objectives.

The risk management framework aims to provide JIB with a common structure and similar measures across the Bank to assist the Board and Senior Management to understand, evaluate and communicate the categories and level of risk they are prepared to accept.

It also ensures that material emerging risks and risk taking activities beyond the Risk Appetite Statement are acknowledged, escalated and addressed in a timely fashion.

The risk management framework details how JIB approaches its risk capacity, how it identifies risks, how it is interlinked with the risk appetite and how this is cascaded down to JIB business units.

The roles and responsibilities for risk management are defined under a 'three lines of defence' model, where for each line of defence (risk owners, risk control owners and audit and governance bodies) a specific set of responsibilities for risk management and control are described.

Risk management methodology

JIB risks taxonomy is established based on the business strategy and associated business processes. High level risks are identified and cascaded into lower level risks just up to the level they can be managed and controlled.

JIB has defined its risk capacity in relation to capital and liquidity, being determined as the maximum tolerable level of financial loss acceptable, given the Bank's risk appetite and constraints determined by regulatory requirements. Risk capacity is part of JIB Risk Appetite Statement and is to be reviewed annually.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Risk management methodology

All risks are described and documented in the Risk Appetite Statement together with the established tolerances. The Risk Appetite Statement will include the following:

- **Risk identification** – describes the risk and how it applies to the Bank
- **Stated risk appetite** – defines how the Bank wants to respond to the identified risk
- **Core risk metrics** – defines how the Bank quantifies and measures the risk
- **Target** – establishes the tolerance limits accepted
- **Risk owner** – identifies who is responsible for managing and measuring that risk and the role played by the first, second and third line of defence.

All risks are adequately monitored at regular intervals appropriate for the risk type. For that purpose management information will be established with Early Warning Indicators and an action plan to activate once those triggers have been reached. The management information will include metrics that clearly identify the levels of risk to which the Bank is exposed.

Governance Framework – in order to implement a strong risk culture, robust governance will be established and documented with clear definition of roles and responsibilities.

Business Strategy – is the first element of the risk and governance framework and establishes the Bank's goals and business model. This document should present a 5 year view and be updated on an annual basis by the Executive Committee and approved by the Board.

Risk Appetite Statement – will be defined based on the business strategy, and identifies the high level tolerances the Board is willing to accept in order to achieve the business strategy. The Board is responsible for identifying the Bank's risk capacity and the aggregate risk appetite, with the Chief Risk Officer having the responsibility of producing the relevant documentation. The Risk Appetite Statement will be reviewed annually together with the Business Plan.

Individual Policies – based on the Risk Appetite Statement, lower level risks will be identified together with the relevant risk tolerances. The granularity of the individual risks and tolerances will depend on their relevance to the business strategy and their level of potential impact. The individual risk policies and level of granularity should be reviewed and updated annually.

Policies should be established for all identified risks and should include the following items:

- **Policy purpose and scope** – identify the reason for the policy as well as the boundaries to which the policy applies
- **Policy content** – describe the policy statement which should include all applicable rules
- **Governance** – with well-defined reporting lines, identify all related staff, supporting committee structures and assigned roles and responsibilities and escalation procedures
- **Risk control and management information** – identify management information, establish controls and the monitoring process
- **Associated documents** – identify all other related policy documents that are part of the same process.

Limits, EWI/KRI and Mitigation Plans – Limits, EWI (Early Warning Indicators) and/or KRI (Key Risk Indicators) should be determined for each of the individual risks identified. A strong set of management information should be established to monitor the limits, EWI/KRI and eventual impacts on the business strategy. A clear action plan should be defined for breach of triggers and/or limits. EWI/KRI and related actions plans should be reviewed annually together with individual risk statements.

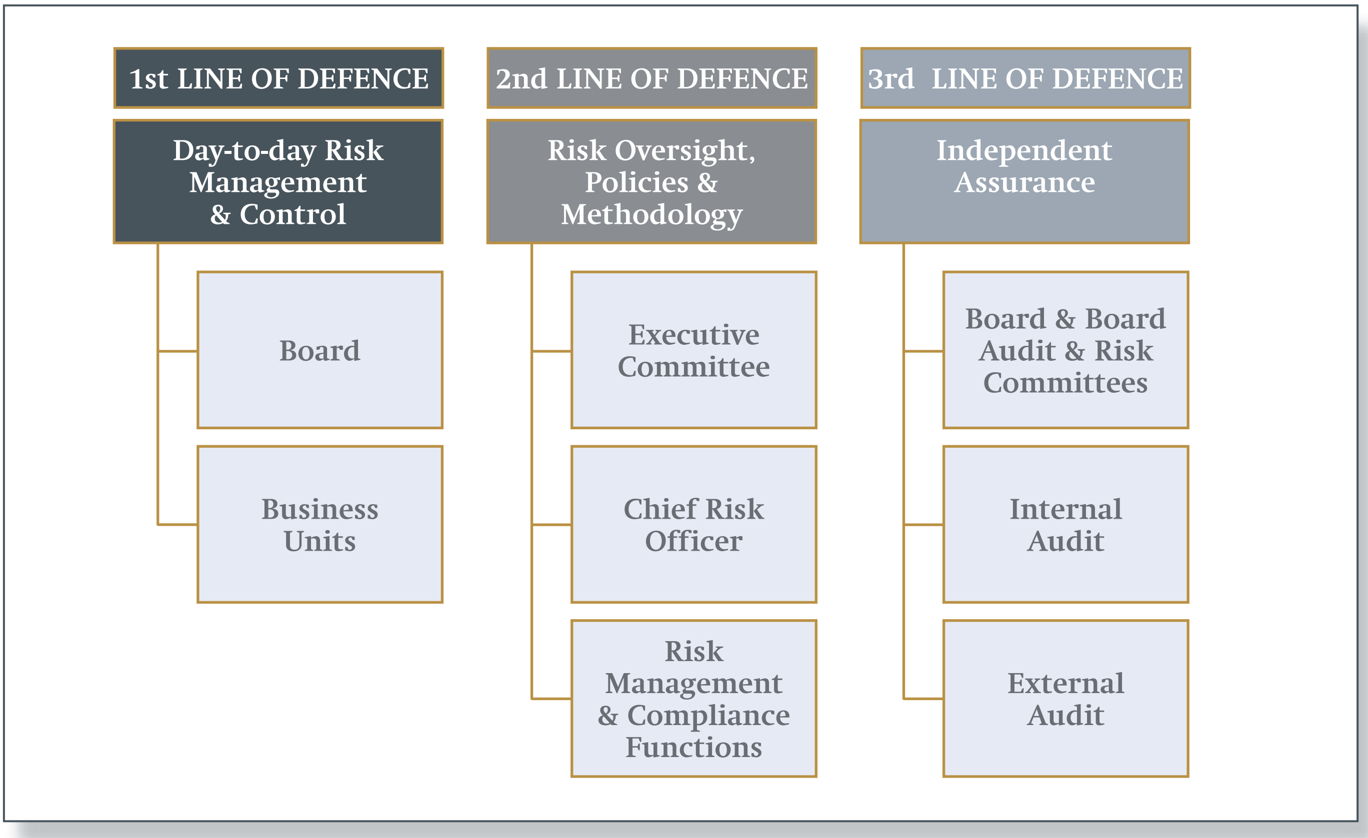
Stress Test/Risk Models – some risks require regulatory stress tests and/or risk models. For each of the individual risks that require stress tests and/or risk models a stress test and/or risk model policy should be established and monitored.

Procedures – all processes should have adequate manuals and procedures documented. The manuals and procedures should describe the actions taken to comply with JIB business strategy and the associated risk policies.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Three lines of defence



First line of defence

The Board of Directors has a key role in the first line of defence as it establishes and communicates a clear set of policy boundaries and limits in keeping with the Bank's risk appetite, business strategy and financial targets.

The first line of defence is the front line business units. They are the risk owners. Business and operational managers are responsible for managing the risks related to their businesses/functions and for implementing corrective actions to address process and control deficiencies. Every employee should ensure the effective management of risks within the scope of their direct organisational responsibilities.

The business heads are responsible and accountable for ensuring compliance with these policies within their respective businesses and functions.

All employees are required to ensure the effective management of risks within the Bank's articulated risk appetite, according to the limits structure in place and the scope of their direct organisational responsibilities.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Second line of defence

The second line of defence comprises the respective control functions. They are the risk control owners.

The risk control owners are responsible for ensuring that the risks remain within the defined risk appetite, for establishing adequate policies, procedures and structures for managing risks as well as for overseeing the management and monitoring of risks.

The control owners are the control and risk functions, the Chief Risk Officer (CRO) and the Executive Committee (ExCo).

(The members of ExCo are also the same as the members of the Asset & Liability Committee (ALCO) and the Funding Committee; thus no distinction has been made between ExCo, ALCO and the Funding Committee.)

JIB's Chief Executive Officer (CEO) has a central role in the second line for defence as chairperson of ExCo.

Third line of defence

The third line of defence is the independent assurance provided by the Bank's Internal Audit (IA) function and the Bank's external auditors. Their roles are defined, approved and overseen by the Audit Committee.

Internal and external audit assess whether appropriate controls are applied, assurance processes are in place and encourage process and control improvement over time.

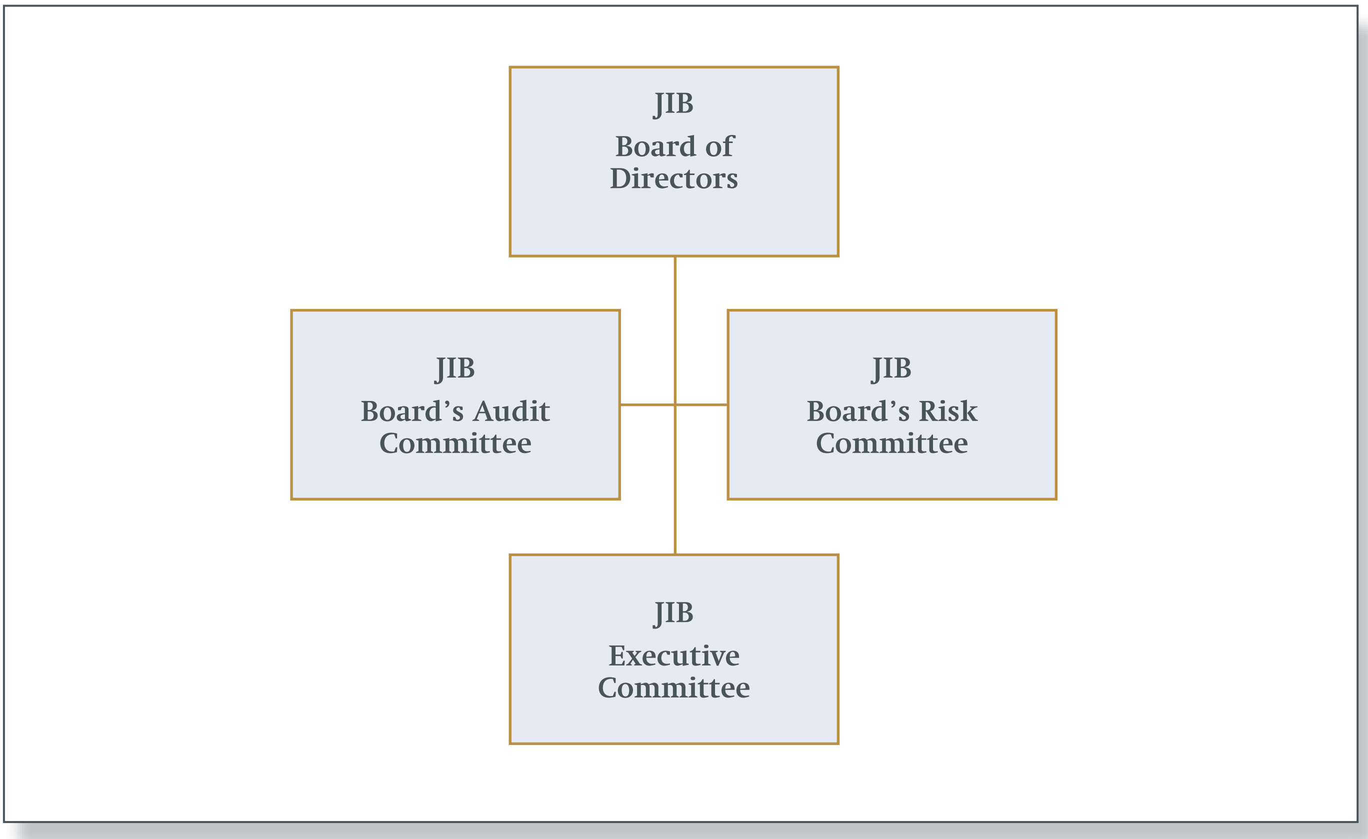
All audit findings and follow-up are reported to the Board Audit Committee, ExCo and senior management, the latter monitoring the findings and ensuring weaknesses are remediated within a given period.

The governance structure

The Bank's business strategy is underpinned by a strong governance structure, headed by the Board of Directors.

The Board delegates day-to-day responsibility for risk management to JIB's Executive Committee (ExCo).

The following chart outlines the Bank's Board and governance process through committees.



2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

The Board of Directors

The Board is ultimately responsible for setting the Bank's Risk Appetite Statement and must ensure that this is accurately reflected in the Bank's business plan and strategy, the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery & Resolution Plan (RRP).

The Board is responsible for defining risk policy (via the Risk Appetite Statement), and must approve any amendments to policies.

Where the Board have changed their business strategy and/or their risk appetite, they must ensure that the associated policies have been updated and that all changes are communicated to each 'line of defence'.

The Board of Directors receive quarterly management reports on all major risk areas from the Board's Risk and Audit Committees for review and approval.

The Board's terms of reference are defined in the Bank's Memorandum and Articles of Association. These documents are supported by a Board Statement that defines matters reserved for the Board.

The Board has ultimate responsibility for all decisions. It meets at least four times per year.

As of 31 December 2016 the Board of Directors was comprised of the following members:

Chairman – Ihab Saadi - CEO of The Housing Bank for Trade and Finance (HBTF)

Mr Ian Schmiegelow – Independent Non-Executive Director

Mr Abdulkadir Al-Qadi – Founding Chairman of Arab Jordan Investment Bank (AJIB)

Mr Hani Al-Qadi – CEO of AJIB

Mr Mort Mirghavameddin – CEO of JIB

Mr Adel Assad – Group CRO HBTF

Mr Riyad Taweel – Head of Treasury HBTF

Mr Gerald Hawkins – Independent Non-Executive Director

The Board therefore comprises 5 representatives of the shareholders, two independent Non-Executive Directors and the Bank's Chief Executive Officer (CEO).

The Board members receive a comprehensive 'Board pack' for each meeting, along with other documents relating to specific issues to be addressed at the Board meeting.

The Board pack includes a comprehensive report from the CEO of developments, initiatives and issues across all areas of the Bank, detailed financial commentary and analysis, credit watch-list reports and a report from the Chairs of the Audit Committee and the Risk Committee. The Board also review minutes of the previous Board meeting and matters arising, together with minutes of previous Audit, Risk and Exco Committees.

The Board is responsible for seeing that clear escalation procedures are in place to ensure it receives immediate notification of all 'high risk' incidents, including risks that are outside its risk appetite, operational incidents, hard limit breaches and triggered red Early Warning Indicators (EWI). Any incident must be accompanied by an appropriate risk mitigation plan. The Board must agree on a final Risk Mitigation Plan and its implementation must be overseen by the Chief Risk Officer and ExCo.

Various responsibilities are delegated to the Board's committees as listed below. The committees meet as determined by their individual terms of reference (TOR), which have been approved by the Board and are regularly reviewed and updated, or when required.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Board Audit Committee

This 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 risk assessment. It also monitors Compliance, Conduct and Financial Crime Risk. The Committee must meet at least four times per year. The Audit Committee comprises:

Chairman – Independent Non-Executive Director

Shareholder representative – from both HBTF and AJIB

Independent Non – Executive Director

Board Risk Committee

This is a non-executive committee that supports the Board in carrying out its responsibilities for the risk functions. The Committee must meet at least four times per year. The Risk Committee comprises:

Chairman – Group CRO HBTF

Shareholder representative – from both HBTF and AJIB

Independent Non – Executive Director

The Executive Committee

The Executive Committee (ExCo) is responsible for implementation of relevant risk policy statements.

ExCo is also responsible for ensuring that risk policies are reviewed and updated regularly in line with changes to the operating and risk environment. It must review and recommend to the Board (or Board sub-committees) all amendments to policies.

ExCo is responsible for seeing that clear escalation procedures are in place, to ensure it receives immediate notification of all 'medium risk' incidents, operational incidents, soft limit breaches and triggered amber EWIs. The incident notifications must be accompanied by an appropriate risk mitigation plan. ExCo must agree on a final risk mitigation plan and its implementation must be overseen by the Chief Risk Officer (CRO).

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for executing Board policy and strategy.
Departments within the Bank ultimately report to the CEO. The departments are:

- Structured Property Finance
- Treasury
- Trade Finance
- Personal Banking
- Operations
- Finance & Regulatory Reporting
- Risk (includes Credit Risk, Compliance and Financial Crime)
- Internal Audit
- IT

The reporting lines and responsibilities are clearly identified in the Bank's organisation chart, Committee Terms of Reference and individual role descriptions.

Chief Risk Officer

The Chief Risk Officer (CRO) function is separate from the business line functions of JIB; this is to ensure the required independence when assessing the risk/return balance of the Bank's business decisions.

It is the responsibility of the CRO to define and prepare the risk management framework in accordance with the business strategy and appetite for risk outlined by the Board; to ensure that this is effectively communicated and implemented across the Bank; to sustain the adequacy of the Bank's risk/return decisions and to guarantee that the risks are properly measured and controlled in accordance with the defined risk appetite.

Internal and external audit

An independent view on the adequacy of the risk management framework, the effectiveness of its implementation across the Bank and the risk management systems and controls is provided by the internal and the external auditor and the Audit Committee.

1 High risks are defined in the section on Risk Management Methodology

2. OVERVIEW OF RISK MANAGEMENT

2.3 Risk Appetite

Introduction

The Bank's Risk Appetite Statement describes the amount of risk the Bank wishes or to which it is able from a regulatory perspective to expose itself. The key metrics within the statement are expressed in either qualitative or quantitative form in relation to assets, liabilities, or capital. The limits are applied to various metrics including product type, customer, currency, geographic split and industry. This section of the Pillar 3 disclosures describes the most significant elements of the Risk Appetite Statement.

Principles

The Risk Appetite Statement derives from the Bank's business model and business strategy. It identifies risks and sets the levels of tolerances to implement the business strategy and meet regulatory obligations.

The risk appetite balances targeted profitability against a level of potential loss. It is therefore at the centre of the Bank's activities, and provides the reference point for decisions about the development of the Bank, its products and exposures, and the methods used to manage the relevant risks.

The Board has set specific limits for credit and market risk exposures. When these limits are breached the Board is notified immediately so that remedial action can be taken. The Bank has also set specific notification limits for operational losses.

There are similar notification limits set which identify when liquidity and capital tolerances are being reached.

The Bank recognises that being overly aggressive in its business strategies creates far higher risks of losses. It therefore takes a conservative approach to risk, ensuring a low risk profile by restraining its targets and limits within its ability to finance and manage its exposure.

The Risk Appetite Statement is a living document and is used by the Board and the Bank through its governance structures to actively manage the Bank's risks by:

- providing a clear view of the risks the Bank is exposed to as well as risk definitions;
- providing an objective measure to serve as the link between risk, strategic planning and business decision making;
- giving business units a clear mandate of the type and amount of risk to accept and manage;
- limiting the possibility of significant negative surprises; and
- providing a consistent measure of risk/return for decision making.

The Risk Appetite Statement is prepared annually by the CRO, reviewed by the CFO and ExCo and is then approved by the Bank's Board.

The following risks were identified by the Bank's management as the overarching risks which can affect the current business strategy and model. These risks were identified using management experience, market best practices, regulation guidance and internal discussion.

2. OVERVIEW OF RISK MANAGEMENT

2.3 Risk Appetite

RISK	DEFINITION	APPETITE
Capital Risk	Inadequate capital to support the business and meet regulatory requirements	Conservative capital adequacy limits to cover both regulatory capital requirements and stressed scenarios
Liquidity- Deposit Concentration Risk	Insufficient funds to meet obligations and liabilities	Conservative liquidity management to meet regulatory requirements and cover stress scenarios
Conduct Risk	The risk that detriment is caused to the Bank, its clients or counterparties because of the inappropriate execution of JIB's business activities	To maintain a culture in which it is clear that there is no room for misconduct
Business/Strategic Risk	Poor business and strategic planning that increase the risks across the whole business	A modest target return on equity and assets
Credit Risk	Loss due to the failure of a counterparty to meet its obligations in accordance with agreed terms	Proportional risk limits for credit risk
Concentration Risk	Loss due to the failure of a group of connected counterparties to meet their obligations	Proportional risk limits for concentration risk
Market Risk	Loss arising from market risk (including FX and interest rate movements)	To minimise the sensitivity of net interest income and economic value of its equity base from changes in interest rates and FX rates
Operational Risk	Loss arising from the failure of people, processes or technology or the impact of external events (This includes cyber crime and losses incurred when the Disaster Recovery Plan is activated)	Minimal operational risk, maintained by a strong governance and risk management processes
Financial Crime Risk	Failure to identify and prevent fraud or dishonesty, misconduct in, or misuse of information relating to the handling of the proceeds of crime	Minimal financial crime risk, maintained by strong governance and risk management processes
Risks in Stress Scenarios	Risk arising from stressed market and macro-economic conditions	Sufficient capital and liquidity to support the core Banking operations in a time of stress

2. OVERVIEW OF RISK MANAGEMENT

2.4 Capital Adequacy

Capital management

JIB's policy is to be well capitalised, and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates. JIB maintains a strong capital base to support the development of the business and to ensure the Bank meets its Pillar 1 Capital Requirements and Individual Capital Guidance at all times, and regulatory buffers which include meeting plausible and severe stresses. As a result, the Bank maintains capital adequacy ratios above minimum regulatory requirements.

2.4.1 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 Moody's as its nominated External Credit Assessment Institution (ECAI).

With respect to Pillar 1 minimum capital requirements for credit risk (including 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).

2.4.2 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.

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 capital to meet both expected and stressed circumstances).

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 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. JIB's capital consists of Tier 1 qualifying capital only.

2. OVERVIEW OF RISK MANAGEMENT

2.4 Capital Adequacy

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.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank undertakes an ICAAP annually which is an integral part of the Bank's risk management process. The main output from the process is an assessment of all material risks faced by the Bank, determination of the level of capital required to be held against each major source of risk and an analysis of a number of severe but plausible stress tests over a five-year time horizon; this is the Bank's standard business planning timescale.

Management at all levels within the Bank is involved in carrying out risk assessments for their business units,having input into stress testing and scenario analysis, and where necessary, approving inputs into the process. The ICAAP is subject to detailed review and challenge by both ExCo and by the Board's Risk Committee, before approval by the Board.

Minimum capital requirement: Pillar 1

The Pillar 1 capital requirement, determined in accordance within the rules contained within CRR as applied to the Bank, consists of the following components:

Credit risk – the Bank uses the standardised approach. This involves the application of standard risk weightings to each exposure class.

Operational risk – the Bank uses the Basic Indicator Approach. This calculation is based on the Bank's operating income for the past three years.

Market risk – the Bank uses the standardised approach for its foreign exchange risk.

3. SUMMARY OF KEY CAPITAL RATIOS

Common Equity Tier 1 Capital	£80.1m
Total Capital Requirement (Pillar 1)	£31.3m
Common Equity Tier 1	£80.1m
Total Capital Ratio	20.44%
Total Risk Weighted Assets	£391.8m
Leverage Ratio	19.32%
Liquidity Coverage Ratio	660%
Net Stable Funding Ratio	123%

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

		CARRYING VALUE OF ITEMS:			
2016	**Carrying values for financial and regulatory reporting purposes £m**	**Subject to credit risk framework £m**	**Subject to counterparty credit risk framework £m**	**Subject to the market risk framework £m**	**Not subject to capital requirements or subject to deduction from capital £m**
ASSETS					
Cash and balances at central banks	0.1	0.1	~	~	~
Nostros	9.4	9.4	~	~	~
Loans and advances to shareholder banks	29.3	29.3	~	~	~
Loans and advances to other banks	41.1	41.1	~	~	~
Loans and advances to customers	162.9	162.9	~	~	~
Investments in debt securities	160.4	160.4	~	~	~
Tangible fixed assets	0.9	0.9	~	~	~
Other assets	0.9	0.9	0.3	0.3	~
– of which sundry receivables	0.6	0.6	~	~	~
– of which derivatives at fair value	0.3	0.3	0.3	0.3	~
Deferred tax asset	2.5	2.5	~	0.3	~
Prepayments and accrued income investments	3.4	3.4	~	~	~
As at 31 December	410.9	410.9	0.3	0.3	~

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

2015 ASSETS	Carrying values for financial and regulatory reporting purposes £m	CARRYING VALUE OF ITEMS: Subject to credit risk framework £m	Subject to counterparty credit risk framework £m	Subject to the market risk framework £m	Not subject to capital requirements or subject to deduction from capital £m
Cash and balances at central banks	0.1	0.1	~	~	~
Nostros	6.2	6.2	~	~	~
Loans and advances to shareholder banks	38.8	38.8	~	~	~
Loans and advances to other banks	37.9	37.9	~	~	~
Loans and advances to customers	168.6	168.6	~	~	~
Investments in debt securities	128.4	128.4	~	~	~
Tangible fixed assets	0.9	0.9	~	~	~
Other assets	1.0	1.0	0.4	0.4	~
– of which sundry receivables	0.6	0.6	~	~	~
– of which derivatives at fair value	0.4	0.4	0.4	0.4	~
Deferred tax asset	3.2	3.2	~	~	~
Prepayments and accrued income investments	3.4	3.4	~	~	~
As at 31 December	388.5	388.5	0.4	0.4	~

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

The tables below illustrate the differences between JIB's regulatory exposure amounts and the carrying value in the Financial Statements both as at 31 December 2016 and 31 December 2015.

		ITEMS SUBJECT TO:		
2016	**Total £m**	**Credit risk framework £m**	**Counterparty credit risk framework £m**	**Market risk framework £m**
Asset carrying value amount under scope of regulatory consolidation	**410.9**	**410.9**	**0.3**	**~**
Liabilities carrying value amount under regulatory scope of consolidation	**~**	**~**	**~**	**~**
Total net amount under regulatory scope of consolidation	**410.9**	**410.9**	**0.3**	**~**
Off-balance sheet amounts	**16.0**	**16.0**	**~**	**~**
Differences due to treatment of credit risk mitigation (CRM) rules	**(1.8)**	**(1.8)**	**~**	**~**
Other differences	**0.8**	**0.8**	**~**	**~**
Net exposure amounts (post CRM and application of CCF) considered for regulatory purposes at 31 December	**425.9**	**425.9**	**0.3**	**~**

		ITEMS SUBJECT TO:		
2015	**Total £m**	**Credit risk framework £m**	**Counterparty credit risk framework £m**	**Market risk framework £m**
Asset carrying value amount under scope of regulatory consolidation	388.4	388.4	0.4	~
Liabilities carrying value amount under regulatory scope of consolidation	~	~	~	~
Total net amount under regulatory scope of consolidation	388.4	388.4	0.4	~
Off-balance sheet amounts	29.7	29.7	~	~
Differences due to treatment of credit risk mitigation (CRM) rules	(8.8)	(8.8)	~	~
Other differences	1.6	1.6	~	~
Net exposure amounts (post CRM and application of CCF) considered for regulatory purposes at 31 December	410.9	410.9	0.4	~

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

RISK WEIGHTED ASSETS

The table below provides an analysis of the Bank's risk weighted assets by risk type.

	RWA £m's		Minimum capital requirements £m's
	2016	**2015**	**2016**
Credit risk (excluding counterparty credit risk) (CCR)	**350.0**	376.4	**28.0**
– of which standardised approach (SA)	**350.0**	376.4	**28.0**
Counterparty credit risk	**0.1**	0.1	**0**
– of which standardised approach for counterparty credit risk (SA-CCR)	**0.1**	0.1	**0**
Credit valuation adjustment (CVA)	**0.1**	0.2	**0**
– of which standardised method	**0.1**	0.2	**0**
Market risk	**20.7**	18.9	**1.6**
– of which foreign exchange risk	**20.7**	18.9	**1.6**
Operational risk	**20.9**	16.9	**1.7**
– of which Basic Indicator Approach	**20.9**	16.9	**1.7**
Total	**391.8**	412.5	**31.3**

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

OWN FUNDS DISCLOSURE

TOTAL CAPITAL	2016 £m	2015 £m
At 1 January	**74.7**	61.0
Profit for period	**4.4**	4.6
Share capital	**~**	10.0
Comprehensive income for period	**0.8**	(0.7)
Fully loaded CET1/total capital	**79.9**	74.9
Prudential Valuation Adjustment (PVA)	**(0.2)**	~
Regulatory adjustments relating to unrealised gains	**~**	(0.2)
PRA transitional CET1/total capital	**79.7**	74.7

COMMON EQUITY TIER 1	2016 £m	2015 £m
Share capital	**65.0**	65.0
Retained earnings	**15.8**	11.3
Share premium	**0.3**	0.3
Aggregated comprehensive income	**(1.0)**	(1.7)
Fully loaded CET1/total capital	**80.1**	74.9
Prudential Valuation Adjustment (PVA)	**(0.2)**	~
Regulatory adjustments relating to unrealised gains	**(0.2)**	(0.2)
PRA transitional CET1/total capital	**79.7**	74.7
Total risk weighted assets	**391.8**	412.5

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

OWN FUNDS DISCLOSURE

CAPITAL RATIOS (FULLY LOADED)	2016 £m	2015 £m
CET 1	**20.44%**	18.16%
Tier 1	**20.44%**	18.16%
Total	**20.44%**	18.16%

CAPITAL RATIOS (PRA TRANSITIONAL)	2016 £m	2015 £m
CET 1	**20.36%**	18.11%
Tier 1	**20.36%**	18.11%
Total	**20.36%**	18.11%

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

LEVERAGE RATIO COMMON DISCLOSURE

	2016		2015	
	Fully loaded £m	Transitional £m	Fully loaded £m	Transitional £m
Total Assets as per published accounts (excluding derivatives)	**410.4**	**410.4**	388.0	388.0
Replacement cost associated with all derivative transactions	**0.3**	**0.3**	0.4	0.4
Add-on amounts for PFE associated with all derivative transactions	**0.3**	**0.3**	0.3	0.3
Total derivative exposures	**0.6**	**0.6**	0.7	0.7
Other off-balance sheet exposures				
Off-balance sheet exposures at gross notional amount	**33.7**	**33.7**	62.9	62.9
Adjustments for conversion to credit equivalent amounts	**(30.0)**	**(30.0)**	(56.0)	(56.0)
Total other off-balance sheet exposures	**3.7**	**3.7**	6.9	6.9
Total leverage ratio exposure	**414.7**	**414.7**	395.6	395.6
Tier 1 capital	**80.1**	**79.8**	74.9	74.9
Leverage ratio total exposure measure	**414.7**	**414.7**	395.6	395.6
Leverage ratio	**19.32%**	**19.24%**	18.94%	18.88%

TOTAL OTHER OFF-BALANCE SHEET EXPOSURE				
Undrawn lending facilities	**30.9**	**30.9**	57.0	57.0
Adjustments for conversion to credit equivalent amounts	**(27.8)**	**(27.8)**	(51.3)	(51.3)
Trade Finance contingents	**2.8**	**2.8**	5.9	5.9
Adjustments for conversion to credit equivalent amounts	**(2.2)**	**(2.2)**	(4.7)	(4.7)
Net amount	**3.7**	**3.7**	6.9	6.9

5. SOURCES OF RISK

5.1 Credit Risk

Background

Credit risk arises in the normal course of lending business and is defined as the likelihood of a customer or counterparty being unable to meet their contracted financial obligations resulting in a default situation and/or financial loss. Included within credit risk is counterparty risk, relating to JIB's dealings with other banks and financial institutions, mainly through counterparty placements for the purpose of liquidity risk management.

The Bank's principal sources of credit risk are:

- Loans to corporates, partnerships and private individuals arising from the Bank's real estate finance lending activities - such loans include:
  - Development and investment finance for residential, commercial and mixed use properties
- Exposures to banks, in respect of foreign exchange and money market activities
- Exposures to banks, multilateral institutions and sovereigns in respect of investment activities including the management of the Bank's liquid asset buffer
- Trade Finance transactions including off-balance sheet exposures to bank counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds
- Groups of related counterparties (concentration and country risk).

Credit risk management principles

The principles that determine the structures of the Bank's credit risk management framework are defined below.

Board approved risk appetite and strategy

As stated previously, the Board has responsibility for approving and periodically (at least annually) reviewing the credit risk strategy, credit risk appetite and significant credit risk policies of the Bank. The strategy must reflect the Bank's tolerance for risk and the level of profitability the Bank expects to achieve for incurring credit risk.

Implementation of strategy

ExCo have responsibility for implementing the credit risk strategy approved by the Board and for developing policies for identifying, measuring, monitoring and controlling credit risk. Such policies address credit risk in all of the Bank's activities and at both the individual credit and portfolio levels.

Credit approval process

The Bank operates within sound, well-defined credit-granting criteria with risk mitigants. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

The Bank has a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits.

Credit limits

The Bank has established overall credit limits at the level of individual borrowers and counterparties and groups of connected counterparties. The Bank's Risk Management Function ensures credit exposures are within levels consistent with prudential standards and internal limits.

5. SOURCES OF RISK

5.1 Credit Risk

Ongoing credit management and monitoring

The Bank has a system for the ongoing administration of its various credit risk-bearing portfolios.

The Risk Management Function enforces internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Debt management and provisions

The Bank has a system for monitoring the condition of individual credits, including determining the adequacy of provisions.

Credit gradings

The Bank has an internal risk rating system in managing credit risk. The rating system is consistent with the nature, size and complexity of the Bank's activities. For standardised exposures that are rated the nominated external credit assessment institution (ECAI) for the Bank is Moody's. The Bank complies with the credit quality assessments scale in allocating external credit ratings to the credit quality steps as defined by the PRA. The Bank utilises, where available, credit ratings from Moody's to assign internal credit ratings on a scale of 1 to 10. A mapping table of internal credit grades to equivalent Moody's credit ratings is maintained and used. Moody's credit ratings are used for all the Bank's assets where ratings are available, namely securities and loans with the exception of property loans.

Credit risk management information systems

The Bank has a system for monitoring the overall composition and quality of the credit portfolio and reporting on credit risk to ExCo and the Board.

The Bank's systems enable management to measure the credit risk inherent in all on and off-balance sheet activities on an ongoing basis. The management information system provides adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Credit risk stress testing

The Bank takes into consideration potential future changes in economic conditions when assessing individual credits and credit portfolios, and periodically assesses the credit risk exposures under stressed conditions.

Independent review of credit risk management framework

On a periodic basis the Bank's Internal Audit Function independently assesses the Bank's credit risk management processes and the results of such reviews are communicated directly to the Board's Audit Committee.

Management of deteriorating credit

The Bank has a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations. Enhanced monitoring is also performed on deteriorating credits.

5. SOURCES OF RISK

5.1 Credit Risk

Business Model and Strategic Credit Plan

The Bank's Business Model (as defined in section 2) forms the basis of the Strategic Credit Plan.

The Strategic Credit Plan articulates the Board's strategy for the management and development of its property lending, securities investment, cash management, personal banking and trade financing businesses that generate credit risk.

The Strategic Credit Plan is updated by the Board on an annual basis and reflected within the five year business plan.

The Board's Credit Risk Appetite Statement is derived from the Strategic Credit Plan and the five year business plan. All three documents are monitored on an ongoing basis and are updated for changes in the business model and economic environment.

Credit risk appetite

The purpose of the Credit Risk Appetite Statement is to:

- Identify the risks generated by transactions with individual counterparties (credit risk) and groups of related counterparties (concentration and country risk).
- Define the Board's tolerance levels for credit, concentration and country risks.

The Bank seeks to manage its credit risk appetite through adherence to both quantitative and qualitative statements made in relation to the credit portfolio as a whole and its key lending sectors, in particular:

- Risk is commensurate with reward and the Bank uses measures, in particular credit gradings, to ensure this is the case in respect of individual credits and portfolios of credit.
- Limits are applied to reflect the Bank's credit appetite for concentration risk.
- Risk tolerances are applied at a total portfolio and sector portfolio level using the Bank's credit grading system and its preparedness to absorb future losses.
- Key Risk Indicators and Early Warning Indicators are established to facilitate early remedial action.
- The Bank grades both the inherent and residual risk in respect of key lending sectors.

5. SOURCES OF RISK

5.1 Credit Risk

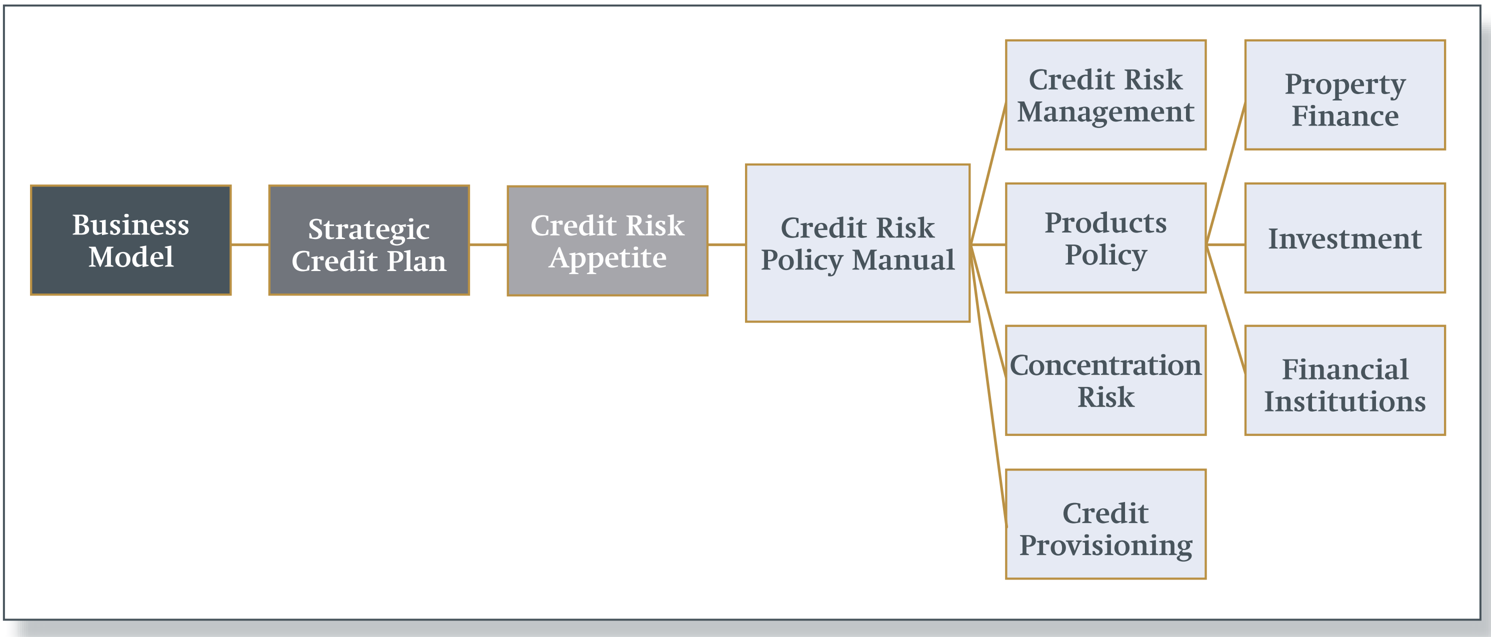
Credit policies

The Risk Management Function ensures that both the qualitative and quantitative risk tolerance levels of the Credit Risk Appetite Statement are clearly articulated within the Credit Risk Policy Manual. The Credit Risk Policy Manual provides more granular detail on how the tolerances will be applied on a day-to-day basis.

The Credit Risk Policy Manual identifies the Key Risk Indicators and Early Warning Indicators used to monitor adherence to the Credit Risk Appetite Statement. It further includes escalation procedures to be followed for actual or potential breaches of the Credit Risk Appetite Statement or the Credit Policy Manual.

The Credit Policy Manual is made up of a number of credit polices. All credit policies are reviewed by the Board's Risk Committee on an annual basis.

The linkage between the business model and the credit policies is illustrated below.



Credit risk management control functions

The first line of defence for credit risk lies with the business units generating those risks. Business units are responsible for assessing the credit quality of all proposed business and for monitoring the quality of existing credit exposures.

The Risk Management Function is responsible for independent reviewing and grading of all credit applications and for the ongoing independent monitoring of existing exposures.

ExCo is responsible for reviewing all credit applications and risk assessments before granting credit facilities or (for significant exposures) recommending them to the Board for approval.

ExCo and the Board's Risk Committee receive regular reports on the performance of the credit portfolios and agree management actions for deteriorating credits.

Internal Audit will periodically review the adequacy of the credit risk management framework and report directly to the Board's Audit Committee.

5. SOURCES OF RISK

5.1 Credit Risk

Credit risk monitoring and reporting

The Risk Management Function reports on compliance with the quantitative factors within the Credit Risk Appetite Statement and associated Credit Risk Policy Manual.

It is the responsibility of the Risk Management Function to ensure that credit risk exposures are monitored on an on-going basis. Breaches of limits and Early Warning Indicators must be reported and acted upon on a timely basis.

At a minimum the Bank's Credit Risk Exposures, in relation to this Credit Risk Appetite Statement, will be reported in detail to ExCo on a monthly basis.

A summary of the key/significant credit risks will be presented to the Risk Committee of the Board on a quarterly basis.

Impairment of financial assets

All financial assets 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.

Available For Sale (AFS) financial assets - 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 the impairment assessment of assets showing signs of distress, the Bank estimates a 'collective' loss allowance known as 'Incurred but not reported' (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 Bank's 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. These assumptions are based upon historic market data. Expected default rates from external credit rating agencies are then applied against the Bank's internal grading model.

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT QUALITY OF ASSETS

The tables below show the credit quality of the Bank's assets.

2016	GROSS CARRYING VALUES OF			
	Defaulted exposures £m	Non-defaulted exposures £m	Allowances/ impairments £m	Net values £m
Loans	**0.4**	**233.1**	**0.3**	**233.2**
Securities	**~**	**160.4**	**~**	**160.4**
Off-balance sheet exposures	**~**	**33.7**	**~**	**33.7**
Total	**0.4**	**427.2**	**0.3**	**427.3**

2015	GROSS CARRYING VALUES OF			
	Defaulted exposures £m	Non-defaulted exposures £m	Allowances/ impairments £m	Net values £m
Loans	3.1	242.5	0.4	245.2
Securities	~	128.4	~	128.4
Off-balance sheet exposures	~	62.9	~	62.9
Total	3.1	433.8	0.4	436.5

5. SOURCES OF RISK

5.1 Credit Risk

CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

The tables below detail the movement in impairment losses of the Bank.

IMPAIRMENT LOSSES - SPECIFIC ASSETS	2016 £m	2015 £m
At 1 January	**0.4**	0.1
(Charge)/Credit to profit and loss	**(0.1)**	0.3
Other adjustments	**~**	~
As at 31 December	**0.3**	0.4

The year end impairment balance held against specific assets of £0.3 million relate to a loss allowance 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.

In 2016 the Bank elected to apply the IBNR requirements under FRS 102 and introduced a collective provision of £ 0.2 million.

IMPAIRMENT LOSSES - COLLECTIVE PROVISION	2016 £m	2015 £m
At 1 January	**~**	~
- Expected credit losses (ECL)	**(0.2)**	~
- Lifetime ECL	**~**	~
- Credit impairment	**~**	~
As at 31 December	**(0.2)**	~

MOVEMENT IN DEFAULTED ASSETS	2016 £m	2015 £m
Defaulted loans and debt securities at end of the previous reporting period	**3.1**	0.1
Loans and debt securities that have defaulted since the last reporting period	**~**	3.0
Returned to non-defaulted status	**~**	~
Amounts repaid	**(2.7)**	~
Other changes	**~**	~
As at 31 December	**0.4**	3.1

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK MITIGATION TECHNIQUES

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.

2016	Exposures unsecured: carrying amount £m	Exposures secured by collateral £m	Exposures secured by collateral, of which: secured amount £m	Exposures secured by financial guarantees £m	Exposures secured by financial guarantees, of which: secured amount £m	Exposures secured by credit derivatives £m	Exposures secured by credit derivatives, of which: secured amount £m
Loans	**58.4**	**173.4**	**173.4**	~	~	~	~
Debt securities	**160.4**	~	~	~	~	~	~
As at 31 December	**218.8**	**173.4**	**173.4**	~	~	~	~
of which defaulted	**0.2**	**0.2**	**0.2**	~	~	~	~

2015	Exposures unsecured: carrying amount £m	Exposures secured by collateral £m	Exposures secured by collateral, of which: secured amount £m	Exposures secured by financial guarantees £m	Exposures secured by financial guarantees, of which: secured amount £m	Exposures secured by credit derivatives £m	Exposures secured by credit derivatives, of which: secured amount £m
Loans	59.8	184.8	184.8	~	~	~	~
Debt securities	128.4	~	~	~	~	~	~
As at 31 December	188.2	184.8	184.8	~	~	~	~
of which defaulted	0.1	3.0	3.0	~	~	~	~

During 2016 unsecured exposures rose from £188m to £219m primarily as a result of the increase in the Bank's securities portfolio. This increase was mainly highly liquid government bonds. These bonds classified for regulatory purposes as HQLA helped to improve the Bank's liquidity ratios, notably the Liquidity Coverage (LC) and Stable Funding (SF) ratios, and yielded marginally higher yields than those available in the interbank market. Loans classified as defaulted fell from £3m to £0.3m as loans were repaid.

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE SUMMARY

The table below detail the Bank's credit risk exposure under the standardised approach to credit risk.

2016	Exposure value £m	Average exposure value £m	RWA's £m	Capital requirement £m
Central Government or Central Bank	126.8	106.1	29.2	2.4
Regional Government or Local Authorities	~	1.9	~	~
Multilateral Development Banks	3.2	7.0	~	~
Institutions	8.6	16.5	4.3	0.3
Corporates	37.2	25.6	28.5	2.3
Retail	~	~	~	~
Secured by mortgages on immoveable property	52.3	41.7	35.6	2.8
Items associated with high risk	124.8	147.1	187.2	15.0
Claims on institutions and corporates with short term credit assessment	67.4	72.6	60.0	4.8
Other items	5.3	74.4	5.2	0.4
As at 31 December	425.6	425.6	350.0	28.0

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE SUMMARY

2015	Exposure value £m	Average exposure value £m	RWA's £m	Capital requirement £m
Central Government or Central Bank	85.9	72.0	16.4	1.3
Regional Government or Local Authorities	4.2	4.8	1.6	0.1
Multilateral Development Banks	2.7	5.6	-	-
Institutions	31.2	34.7	25.3	2.0
Corporates	17.2	17.9	12.7	1.0
Retail	~	~	~	~
Secured by mortgages on immoveable property	31.8	15.6	11.1	0.9
Items associated with high risk	164.7	155.6	247.1	19.8
Claims on institutions and corporates with short term credit assessment	65.6	58.3	50.0	4.0
Other items	7.6	7.5	12.3	1.0
As at 31 December	410.9	372.0	376.5	30.1

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY GEOGRAPHICAL REGION

The tables below detail the Bank's credit risk exposure (post CRM/CCF) by geographical region.

2016	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	42.7	~	59.6	11.6	6.9	4.3	1.7	126.8
Regional Government or Local Authorities	~	~	~	~	~	~	~	-
Multilateral Development Banks	~	3.2	~	~	~	~	~	3.2
Institutions	~	~	4.9	~	~	1.6	2.1	8.6
Corporates	~	~	5.9	11.1	13.5	4.0	2.6	37.1
Retail	~	~	~	~	~	~	~	-
Secured by mortgages on immoveable property	49.3	~	~	0.5	~	~	2.5	52.3
Items associated with high risk	123.6	1.3	~	~	~	~	~	124.9
Claims on institutions and corporates with short term credit assessment	14.9	19.8	0.5	12.8	19.0	0.4	~	67.4
Other items	5.3	~	~	~	~	~	~	5.3
As at 31 December	235.8	24.3	70.9	36.0	39.4	10.3	8.9	425.6

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY GEOGRAPHICAL REGION

2015	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	30.3	~	34.2	10.5	5.9	3.6	1.4	85.9
Regional Government or Local Authorities	~	~	2.4	1.8	~	~	~	4.2
Multilateral Development Banks	~	2.7	~	~	~	~	~	2.7
Institutions	~	0.1	~	10.8	17.9	1.4	1.0	31.2
Corporates	~	1.4	5.0	4.7	~	3.3	2.8	17.2
Retail	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	28.3	1.8	~	0.7	0.5	~	0.5	31.8
Items associated with high risk	156.3	1.3	~	~	~	~	7.1	164.7
Claims on institutions and corporates with short term credit assessment	27.2	~	5.6	17.9	12.8	0.1	2.0	65.6
Other items	6.2	~	1.4	~	~	~	~	7.6
As at 31 December	248.3	7.3	48.6	46.4	37.1	8.4	14.8	410.9

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK WEIGHTED ASSETS BY GEOGRAPHICAL REGION

The tables below detail the Bank's risk weighted assets (post CRM/CCF) by geographical region.

2016	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	6.6	~	1.4	11.3	6.9	2.1	0.9	29.2
Regional Government or Local Authorities	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	~	2.1	0.4	~	~	0.8	1.0	4.3
Corporates	~	~	7.6	4.0	13.5	0.8	2.6	28.5
Retail	~	~	~	~	~	~	~	-
Secured by mortgages on immoveable property	33.1	~	~	0.2	~	~	2.3	35.6
Items associated with high risk	185.3	1.9	~	~	~	~	~	187.2
Claims on institutions and corporates with short term credit assessment	4.5	7.6	0.1	19.2	28.5	0.1	~	60.0
Other items	5.2	~	~	~	~	~	~	5.2
As at 31 December	234.7	11.6	9.5	34.7	48.9	3.8	6.8	350.0

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK WEIGHTED ASSETS BY GEOGRAPHICAL REGION

2015	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	~	~	4.0	4.1	5.9	1.8	0.7	16.5
Regional Government or Local Authorities	~	~	1.2	0.4	~	~	~	1.6
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	~	0.1	~	5.6	17.9	0.7	1.0	25.3
Corporates	~	1.4	5.0	2.8	~	0.6	2.8	12.6
Retail	~	~	~	~	~	~	~	-
Secured by mortgages on immoveable property	9.9	0.7	~	0.2	0.2	~	0.2	11.2
Items associated with high risk	234.4	1.9	~	~	~	~	10.8	247.1
Claims on institutions and corporates with short term credit assessment	9.9	~	2.1	17.7	19.1	~	1.0	49.8
Other items	11.0	~	1.3	~	~	~	~	12.3
As at 31 December	265.2	4.1	13.6	30.8	43.1	3.1	16.5	376.4

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY INDUSTRY SECTOR

The tables below detail the Bank's credit risk exposure (post CRM/CCF) by industry sector.

2016	Government/ Public administration £m	Financial £m	Property £m	Other £m	Total £m
Central Government or Central Bank	126.8	~	~	~	126.8
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	3.2	~	~	3.2
Institutions	~	8.6	~	~	8.6
Corporates	~	32.1	5.0	~	37.1
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	52.3	~	52.3
Items associated with high risk	~	~	124.9	~	124.9
Claims on institutions and corporates with short term credit assessment	~	67.4	~	~	67.4
Other items	~	~	~	5.3	5.3
As at 31 December	**126.8**	**111.3**	**182.2**	**5.3**	**425.6**

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY INDUSTRY SECTOR

2015	Government/ Public administration £m	Financial £m	Property £m	Other £m	Total £m
Central Government or Central Bank	85.9	~	~	~	85.9
Regional Government or Local Authorities	4.2	~	~	~	4.2
Multilateral Development Banks	~	2.7	~	~	2.7
Institutions	~	31.2	~	~	31.2
Corporates	~	~	~	17.2	17.2
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	31.8	~	31.8
Items associated with high risk	~	~	164.7	~	164.7
Claims on institutions and corporates with short term credit assessment	~	65.6	~	~	65.6
Other items	~	~	~	7.6	7.6
As at 31 December	90.1	99.5	196.5	24.8	410.9

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY MATURITY

The tables below detail the maturity profile of the Bank's credit risk exposures (post CRM/CCF).

2016	Less than 1yr £m	Between 1-5yrs £m	More than 5yrs £m	Undated £m	Total £m
Central Government or Central Bank	93.1	15.8	17.9	~	126.8
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	3.2	~	~	3.2
Institutions	1.6	7.0	~	~	8.6
Corporates	15.5	15.1	6.5	~	37.1
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	~	52.3	52.3
Items associated with high risk	~	~	~	124.9	124.9
Claims on institutions and corporates with short term credit assessment	58.0	~	~	9.4	67.4
Other items	~	~	~	5.3	5.3
As at 31 December	168.2	41.1	24.4	191.9	425.6

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY MATURITY

2015	Less than 1yr £m	Between 1-5yrs £m	More than 5yrs £m	Undated £m	Total £m
Central Government or Central Bank	63.3	8.1	14.5	~	85.9
Regional Government or Local Authorities	~	2.5	1.7	~	4.2
Multilateral Development Banks	~	2.7	~	~	2.7
Institutions	20.9	9.2	1.0	0.1	31.2
Corporates	4.5	5.1	6.9	0.7	17.2
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	0.5	1.3	~	30.0	31.8
Items associated with high risk	~	~	~	164.8	164.8
Claims on institutions and corporates with short term credit assessment	52.5	6.2	~	6.9	65.6
Other items	~	~	3.2	4.4	7.6
As at 31 December	141.7	35.1	27.3	206.9	411.0

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS

The tables below detail the effects of credit risk mitigation on the Bank's credit risk exposures.

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
2016	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density %
ASSET CLASSES						
Central Government or Central Bank	126.6	1.1	126.6	0.2	29.2	23
Regional Government or Local Authorities	~	~	~	~	~	~
Multilateral Development Banks	3.3	~	3.3	~	~	~
Institutions	8.6	~	8.6	~	4.3	50
Corporates	36.9	1.2	36.9	0.2	28.5	77
Retail	~	~	~	~	~	~
Secured by mortgages on immoveable property	52.3	~	52.3	~	35.6	68
Items associated with high risk	109.4	30.9	109.4	15.4	187.2	150
Claims on institutions and corporates with short term credit assessment	67.3	0.4	67.3	0.1	60.0	89
Other assets	5.3	~	5.3	~	5.2	98
As at 31 December	409.7	33.6	409.7	15.9	350.0	82

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
2015	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density %
ASSET CLASSES						
Central Government or Central Bank	85.9	~	85.9	~	16.5	19
Regional Government or Local Authorities	4.2	~	4.2	~	1.6	37
Multilateral Development Banks	2.7	~	2.7	~	~	~
Institutions	30.9	1.5	30.9	0.3	25.3	81
Corporates	17.2	~	17.2	~	12.6	74
Retail	~	~	~	~	~	~
Secured by mortgages on immoveable property	31.8	~	31.8	~	11.2	35
Items associated with high risk	136.2	57	136.2	28.5	247.1	150
Claims on institutions and corporates with short term credit assessment	64.7	4.4	64.7	0.9	49.8	76
Other assets	7.6	~	7.6	~	12.3	162
As at 31 December	381.2	62.9	381.2	29.7	376.4	92

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY RISK WEIGHT

The tables below detail the Bank's credit exposures by risk weighting.

	RISK WEIGHTINGS									
2016	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Others £m	Total credit exposure amount (post CCF and CRM) £m
ASSET CLASS										
Central Government or Central Bank	95.1	~	5.0	~	8.0	~	13.0	3.0	2.7	126.8
Regional Government or Local Authorities	~	~	~	~	~	~	~	~	~	~
Multilateral Development Banks	3.2	~	~	~	~	~	~	~	~	3.2
Institutions	~	~	~	~	8.6	~	~	~	~	8.6
Corporates	~	~	9.3	~	5.9	~	18.5	3.4	~	37.1
Retail	~	~	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	~	25.8	~	~	26.5	~	~	52.3
Items associated with high risk	~	~	~	~	~	~	~	124.9	~	124.9
Claims on institutions and corporates with short term credit assessment	~	~	18.4	~	17.2	~	~	31.8	~	67.4
Other assets	0.1	~	~	~	~	~	5.2	~	~	5.3
As at 31 December	98.4	~	32.7	25.8	39.7	~	63.2	163.1	2.7	425.6

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY RISK WEIGHT

2015	RISK WEIGHTINGS 0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Others £m	Total credit exposure amount (post CCF and CRM) £m
ASSET CLASSES										
Central Government or Central Bank	63.3	~	4.1	~	8.2	~	7.8	2.5	~	85.9
Regional Government or Local Authorities	~	~	1.8	~	2.4	~	~	~	~	4.2
Multilateral Development Banks	2.7	~	~	~	~	~	~	~	~	2.7
Institutions	~	~	4.4	~	4.9	~	21.9	~	~	31.2
Corporates	~	~	3.5	~	3.5	~	10.2	~	~	17.2
Retail	~	~	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	~	31.8	~	~	~	~	~	31.8
Items associated with high risk	~	~	~	~	~	~	~	164.7	~	164.7
Claims on institutions and corporates with short term credit assessment	~	~	17.5	~	19.0	~	13.5	15.7	~	65.7
Other assets	0.1	~	~	~	~	~	4.3	~	3.2	7.6
As at 31 December	66.1	~	31.3	31.8	38.0	~	57.7	182.9	3.2	411.0

5. SOURCES OF RISK

5.1 Credit Risk

ADDITIONAL DISCLOSURE RELATED TO THE CREDIT QUALITY OF ASSETS

Non-Performing Assets (NPA) and specific provisions

The Bank acknowledges there are circumstances where an asset may be classified as non-performing due to a variety of reasons and that such an asset may or may not warrant a provision against it. The value of any such provision will depend upon a number of factors.

Provisioning Policy (specific provisions)

The Bank applies a series of thresholds to determine the level of provision required against any NPA. The minimum criteria are set out in the tables below.

CREDIT QUALITY	STATUS	DEFINITION	MINIMUM PROVISION
Vulnerable	Early warning/ performing	Weak business credit; judged to be of poor standing and subject to very high credit risk	0%
Substandard	Watch List/ Sub-standard	Unacceptable business credit with normal repayment in jeopardy	0%
Doubtful	Provision/ doubtful	Full repayment questionable. Likelihood of partial loss of principal	25%
In default	Recovery/ loss	Expected loss of principal	100%

Collective provisions

The Bank calculates a collective provision based upon the following steps:

- All assets (material classes of assets by value) are assigned a credit rating, either through application of the Bank's Credit Grading Model or through the use of external ratings.
- The Bank considers all assets not subject to a specific provision to be eligible for the collective provision.
- The Bank utilises idealised probability of default (PD) rates and associated loss given default rates (LGD's) to calculate the collective provision required.
- No collective provision is required for securities where the assets are revalued at market value.

5. SOURCES OF RISK

5.1 Credit Risk

CONCENTRATION OF CREDIT RISK

The Bank's balance sheet is diversified geographically by industry. The following geographical concentrations are considered significant:

	2016 £m	2015 £m
OECD	**307.7**	283.4
Jordan	**39.5**	45.3
Arab/Middle East	**40.9**	46.9
Other	**22.7**	12.8
Total	**410.8**	388.4

The following industry concentrations are considered significant:

	2016 £m	2015 £m
Government/Quasi-Government	**120.5**	84.8
Banks	**98.5**	102.8
Property lending	**161.6**	168.6
Other	**30.2**	32.2
Total	**410.8**	388.4

Credit risk mitigation

JIB employs a framework for managing collateral risk and other credit risk mitigants, providing the Bank with a transparent, effective and standardised system for minimising the impact of credit risk arising from its lending activities. The Bank defines collateral as an asset or a group of assets that a borrower or guarantor has pledged as security for a loan.

Collateral risk is defined as the risk of loss arising from deficiencies in the nature, quantity, pricing or characteristics of the collateral.

The Credit Risk Mitigation Framework is aimed at:

- Ensuring that all documentation used in collateralised transactions, on and off-balance sheet netting agreements and trade finance are binding to all parties and legally enforceable in all relevant jurisdictions
- Assuring that all necessary steps are taken in order to safeguard the Bank's right to enforce its security in the event of default (or one or more credit events set out in the transaction documentation).
- Defining general rules for acceptance, enforceability, valuation and monitoring of credit risk mitigants
- Enabling the classification and valuation of credit risk mitigants in a manner that allows the residual risk in a transaction to be accurately evaluated.

The Bank uses a number of different techniques to mitigate the credit risk to which it is exposed, including:

- First and second charges on assets (including property)
- Third Party Guarantees
- Cash Deposits
- Netting Agreements
- Promissory Notes and Side Letters

5. SOURCES OF RISK

5.2 Counterparty Credit Risk

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE

The table below provides an analysis of counterparty credit risk exposure.

	2016				2015			
	Replacement cost £m	Potential future exposure £m	EAD (post-CRM) £m	RWA £m	Replacement cost £m	Potential future exposure £m	EAD (post-CRM) £m	RWA £m
Mark to Market method	**0.3**	**0.3**	**0.6**	**0.1**	0.4	0.3	0.7	0.1
By exposure class:								
- of which institutions	**0.3**	**0.3**	**0.6**	**0.1**	0.4	0.3	0.7	0.1
By product:								
- of which Derivatives	**0.3**	**0.3**	**0.6**	**0.1**	0.4	0.3	0.7	0.1
By Region:								
- of which Europe	**0.3**	**0.3**	**0.6**	**0.1**	0.4	0.3	0.7	0.1
As at 31 December	**0.3**	**0.3**	**0.6**	**0.1**	**0.4**	0.3	0.7	0.1

Replacement cost

The cost of replacing the derivative position if the counterparty were to default and was closed out of its transactions immediately.

Potential future exposure

Any potential increase in exposure between the present and up to the end of the margin period of risk.

Exposure at default (post CRM)

The amount relevant for a capital requirements calculation having applied CRM techniques. This is the sum of the replacement cost and potential future exposure.

5. SOURCES OF RISK

5.2 Counterparty Credit Risk

CREDIT VALUATION ADJUSTMENT (CVA)

The tables below provide an analysis of the credit valuation adjustment capital charge.

2016	EAD (post-CRM) £m	RWA £m
All portfolios subject to the Standardised CVA capital charge	**0.6**	**0.1**
By product:		
– of which Derivatives	**0.6**	**0.1**
By region:		
- of which Europe	**0.6**	**0.1**
As at 31 December	**0.6**	**0.1**

2015	EAD (post-CRM) £m	RWA £m
All portfolios subject to the Standardised CVA capital charge	0.7	0.2
By product:		
- of which Derivatives	0.7	0.2
By region:		
- of which Europe	0.7	0.2
As at 31 December	0.7	0.2

5. SOURCES OF RISK

5.3 Market 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, capital or the value of its portfolios.

The Bank is exposed to market risk because of its on and off-balance sheet position in its banking book.
The Bank does not have a trading book.

Market risk appetite

JIB has a very low appetite for market risk. It does not take open positions on its own account (proprietary trading) and seeks to have minimal exposure across currencies.

The Bank's most significant cross-currency exposure is of a Jordanian Dinar/US Dollar position, where market risk exposure is mitigated by the existence of a fixed currency peg, whereby the Jordanian Dinar is pegged against the US Dollar.

The Board has set conservative limits for exposures to interest rate movements.

Market risk management

The management of market risk is principally undertaken by the Asset & Liability Committee (ALCO) using risk limits approved by the Board of Directors.
JIB has clearly defined market risk policies that reflect the Board's risk appetite. On a day-to-day basis compliance with the market risk policies is monitored by the Bank's risk management function.

All exceptions to policy are escalated when identified and mitigating action is taken.

Foreign exchange risk

With the exception of the Jordanian Dinar/US Dollar position mentioned above, 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. 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.

Foreign exchange risks are controlled through the monitoring against limits which have been approved by the Board of Directors. Compliance with position limits which have been independently monitored on an ongoing basis.

MARKET RISK UNDER STANDARDISED APPROACH

The capital requirement for JIB's market risk exposure is calculated using the standardised approach.

	2016		2015	
	RWAs £m	Capital requirement £m	RWAs £m	Capital requirement £m
Outright products:				
– Foreign exchange risk	**20.7**	**1.6**	18.9	1.5
As at 31 December	**20.7**	**1.6**	18.9	1.5

5. SOURCES OF RISK

5.3 Market Risk

SENSITIVITY ANALYSIS OF FOREIGN EXCHANGE 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) to which the Bank is exposed.

			% CHANGE IN US$/£ EXCHANGE RATE			
2016	**US$m**	**£m**	**-10% £m**	**-20% £m**	**+10% £m**	**+20% £m**
US DOLLARS						
Total assets	209.5	171.0	190.0	213.7	155.4	142.5
Total liabilities	(234.4)	(191.2)	(212.4)	(239.0)	(173.8)	(159.3)
Forward contracts	(0.8)	(0.7)	(0.8)	(0.9)	(0.6)	(0.6)
Net	(25.7)	(20.9)	(23.2)	(26.2)	(19.0)	(17.4)
Movement	~	~	(2.3)	(5.3)	1.9	3.5

			% CHANGE IN EURO/£ EXCHANGE RATE			
2016	**EURm**	**£m**	**-10% £m**	**-20% £m**	**+10% £m**	**+20% £m**
EUROS						
Total assets	6.6	5.7	6.3	7.1	5.2	4.7
Total liabilities	(27.9)	(23.8)	(26.5)	(29.8)	(21.7)	(19.9)
Forward contracts	21.3	18.1	20.2	22.7	16.5	15.2
Net	~	~	~	~	~	~
Movement	~	~	~	~	~	~

5. SOURCES OF RISK

5.3 Market Risk

2015	US$m	£m	% CHANGE IN US$/£ EXCHANGE RATE -10% £m	-20% £m	+10% £m	+20% £m
US DOLLARS						
Total assets	232.4	156.9	174.4	196.1	142.7	130.8
Total liabilities	(236.8)	(159.9)	(177.7)	(199.9)	(145.4)	(133.2)
Forward contracts	(20.4)	(13.8)	(15.3)	(17.2)	(12.5)	(11.5)
Net	(24.8)	(16.8)	(18.6)	(21.0)	(15.2)	(13.9)
Movement	~	~	(1.8)	(4.2)	1.6	2.9

2015	EURm	£m	% CHANGE IN EURO/£ EXCHANGE RATE -10% £m	-20% £m	+10% £m	+20% £m
EUROS						
Total assets	6.6	4.8	5.4	6.0	4.4	4.0
Total liabilities	(49.8)	(36.7)	(40.8)	(45.9)	(33.4)	(30.6)
Forward contracts	43.2	31.9	35.4	39.9	29.0	26.6
Net	~	~	~	~	~	~
Movement	~	~	~	~	~	~

5. SOURCES OF RISK

5.3 Market Risk

Interest rate risk

Structural interest rate risk arises in those 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.

Interest rate risk arises primarily from the Bank's banking book, including its treasury activities and property finance, trade finance and personal banking businesses. All interest rate risk is within the Banking Book.

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

Interest rate risks are controlled through monitoring against limits approved by the Board of Directors. Compliance with position limits is independently monitored on an ongoing basis.

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 overleaf in GBP and USD represent the net of floating rate assets and liabilities up to 12 months.

	2016		2015	
POUNDS STERLING	Gap £m	£'000	Gap £m	£'000
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

[3] Note: this section covers both the Market Risk Disclosures and Interest Rate Risk In The Banking Book (IRRBB)

5. SOURCES OF RISK

5.3 Market Risk

Interest rate risk

SENSITIVITY OF PROJECTED NET INTEREST INCOME

	2016		2015	
US DOLLARS	Gap US$m	US$'000	Gap US$m	US$'000
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)

5. SOURCES OF RISK

5.4 Operational Risk

Operational risk is defined as the risk of a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events.

Operational risk includes actual and/or potential losses caused by:

- Processing errors
- System failures (software and hardware)
- Electrical/telecommunications failures
- External events, such as natural disasters damaging physical assets
- Non compliance with legal and regulatory requirements
- Employee fraud
- External fraud
- Malicious acts (terrorism, vandalism, sabotage)
- Information security risks
- Business resilience and continuity risks
- Conduct risks
- Compliance risk
- Litigation risks
- Reputational risks

Operational risk capital assessment

The operational risk management framework has been developed in accordance with Basel II guidelines for the management of operational risks, also taking into account best practice within the industry.

In accordance with the Capital Requirements Directive 2013/36 (CRD IV) the Bank adopts the 'basic indicator' approach to calculate the capital requirement for operational risk under Pillar 1. The capital requirement is calculated as 15% of the average of the 3 prior year's relevant revenue.

Other sources of operational risk are assessed and measured under Pillar 2 in order to determine additional capital necessities.

The basic approach followed by JIB to forecast their potential operational losses as part of the Pillar 2 assessment are as follows:

- Review of Historic Operational Losses to predict the future losses
- Review of outstanding issues from Risk Assessments to anticipate future risk incidents
- Review of Key Operational Risk Indicators
- Review risk categories that have not been considered by the previous actions
- Consider the impact of insurance to mitigate operational losses
- Consider possible scenarios with exceptional outlying events
- Consider audit findings and external events

5. SOURCES OF RISK

5.4 Operational Risk

Operational risk management framework

The operational risk management framework ensures that the Bank has processes and procedures to manage its exposure to operational risk minimising the probability of an operational risk crystallising into an event, and the impact of its effect if it does. JIB's operational risk management framework is characterized by the following key elements:

- Risk and control identification
- Risk and control assessments
- Risk mitigation
- Control remediation
- Risk management process
- Risk monitoring
- Risk reporting

Supported by three key tools:

- Risk and control assessment
- Operational loss events monitoring
- Key Risk Indicators

A sound operational risk management framework is a fundamental element of a robust risk based culture and risk management practices, and reflects the Board and senior management's effectiveness in administering the Bank's portfolio of products, activities, process and systems.

Managing operational risk

Operational risk is intrinsic to all products, activities, process and systems and is generated in all business and support areas. For this reason all employees at JIB are responsible for managing and controlling operational risk.

Effective operational risk management relies on a three lines of defence model:

- **The first line of defence** - business line management – are responsible for identifying and managing the risk inherent in the products, activities, processes and systems for which they are accountable
- **The second line of defence** – operational risk function – are responsible for the operational risk framework, risk measurement and reporting to the different governing bodies
- **The third line of defence** – internal audit – gives assurance on operational risk management controls, processes and systems in place.

Additionally, the Board promotes a strong risk culture and solid ethical core values that support and provide appropriate standards and incentives for professional and responsible behavior throughout the Bank.

5. SOURCES OF RISK

5.4 Operational Risk

Managing operational risk

In managing operational risk JIB seeks to:

- Minimise actual or potential losses arising from operational risk failures
- Ensure that the adequate corrective measures for controlling and mitigating operational risk exposure are implemented and monitored by all employees
- Ensure that all critical business units complete the risk control assessment exercise in coordination with the Risk Management Function
- Ensure that each department is responsible for managing their operational risks as part of their day to day activities
- Ensure that all roles and responsibilities are agreed and clearly understood by all management levels
- Ensure that the potential impact of the operational risks on the activities and products from their outset is duly assessed, in order to minimize these risks as far as possible
- Ensure that the appropriate training in operational risks is given to all staff
- Ensure the adequate protection of all of the Bank's assets as well as of its employees
- Ensure the development of adequate business continuity plans, in order to minimise the impact of unpredictable events on the Bank's operations and customer service
- Minimise the financial impact of operational losses through the use of insurance for such risks that can be insured, or other transfer tools.

The following table details the type of approach adopted by JIB with resultant risk weighted assets and capital usage.

	2016		2015	
	RWAs £m	Capital requirements £m	RWAs £m	Capital requirements £m
Basic Indicator Approach	**21.0**	**1.7**	16.9	1.3
Standardised Approach	**~**	**~**	~	~
Advanced Measurement Approach	**~**	**~**	~	~
	21.0	**1.7**	16.9	1.3

5.5 Interest Rate Risk

The general qualitative disclosure requirement, including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and the behaviour of non-maturity deposits, and the frequency of IRRBB measurement are covered in the section on Market Risk.

5.6 Pension Risk

The Bank operates a defined contribution scheme. The assets of the scheme are held separately from those of the Bank and is independently administered. The pension cost charge of £442,453 for 2016, (2015: £371,310) represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

6. ASSET ENCUMBRANCE

The following is the disclosure of on-balance sheet encumbered and non-encumbered assets and off-balance sheet collateral.

2016	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	**~**	**~**	**414.1**	**128.8**
Equity instruments	**~**	**~**	**~**	**~**
Debt securities	**~**	**~**	**129.5**	**128.8**
Other assets	**~**	**~**	**284.6**	**~**
Collateral received	**~**	**~**	**~**	**~**

2015	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	~	~	390.1	127.6
Equity instruments	~	~	~	~
Debt securities	~	~	129.7	127.6
Other assets	~	~	260.4	~
Collateral received	~	~	~	~

7. REMUNERATION POLICY

Purpose

The remuneration policy of Jordan International Bank (the Bank), which has been adopted by the Board of Directors, applies to all employees of the Bank.

The policy and Bank's incentive structures reflect the Bank's objectives for good corporate governance as well as sustained and long term value creation for shareholders. It also ensures that:

- the Bank is able to attract, develop and retain high performing and motivated employees;
- employees are offered a competitive and market aligned remuneration package in which fixed salaries are the significant remuneration component; and
- employees feel encouraged to create sustainable results and there is alignment of interests among employees, customers and shareholders.

The policy also enables sound and effective risk management through:

- a clear governance structure for setting goals and communicating those goals to employees;
- alignment with the Bank's business strategy, values, key priorities and long term goals;
- alignment with the principle of protection of customer and shareholder interests; and
- ensuring that the total bonus pool and any other incentive related commitments do not negatively impact the Bank's ability to strengthen its capital base.

The Bank's general incentive structures are consistent with the Bank's long term strategy including overall business strategy, risk strategy and risk appetite across all types of risk including credit, market, operational, liquidity, reputational and other risks.

Furthermore, all employees will have individual role specific performance objectives set in the context of the agreed business strategy and regulatory environment.

The Board of Directors review, consider and approve any incentive scheme(s) for the coming year. A bonus pool accrual is approved annually by the Board of Directors as part of the budget setting process.

7. REMUNERATION POLICY

Purpose

The remuneration policy of Jordan International Bank (the Bank) applies to all employees of the Bank.
In respect of regulations associated with remuneration the Board has agreed that, where applicable, it will consider using the option to dis-apply elements of the regulations on remuneration where appropriate application of the published guidance on proportionality levels allows.

- Decisions on fixed remuneration and variable remuneration will be informed by the outcome of the annual review process and in the context of business unit or team performance and overall performance of the Bank.
- Fixed remuneration is determined on the basis of the role and position of the individual employee, taking into account, experience, relevant professional qualifications, seniority, responsibility, job complexity and local market conditions etc.
- Adjustments to individual fixed remuneration, may be made from time to time based on, but not limited to, any one or a combination of factors including, local market conditions and cost of living indices, individual contribution, expansion of responsibilities and accountabilities.
- Variable remuneration is awarded on the basis of the bonus scheme(s) in place from time to time and is intended to incentivise and reward individual performance in excess of that required fulfilling the basic requirements of the employee's role. Any award of variable pay will always be subject to an assessment of the performance of the individual, the business unit concerned and the overall results of the Bank.
- The relationship between the amount of fixed remuneration and variable remuneration will always be set on a basis that the fixed component represents a sufficiently high proportion of total remuneration to make non-payment of any performance based variable amount possible.
- Pension Scheme benefits are provided on an equal basis to all eligible employees of the Bank. A percentage of fixed remuneration is paid by the Bank into a defined contribution pension scheme that is provided for employees and managed by a third party. Employees may make additional voluntary contributions (AVC's) to their account up to Inland Revenue contribution limits. Variable remuneration is not included for the purposes of calculating pension contributions.
- Other benefits are available to all employees and these are reviewed from time to time to ensure that they are appropriate in the market place in which the Bank operates.

Remuneration of Executive Directors

Decisions on fixed and variable remuneration of any Executive Directors will be considered by the Non Executive Directors of the Board, or a sub committee of the Board, as directed by the Chairman from time to time.

Such decisions on fixed and variable remuneration will be based on a range of factors including;

- Delivery of the Bank's business strategy, values, key priorities and long term goals
- Alignment with the principles of protection of customer and shareholder interests in the delivery of the goals of the Bank
- Achievement of financial targets in alignment with the declared risk and control parameters for the business.