Jordan International Bank Plc

Report and Financial Statements 2017

Contents

Directors

Ihab Saadi (Chairman)
Ian Schmiegelow (Deputy Chairman)
Hani Al-Qadi
Adel Assad
Riyad Taweel
Samer Al-Qadi
Nabil Hamadeh
Rakan Al-Tarawneh

Secretary

Justine Goldberg

Shareholders

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

Registered Office

Moreau House
116 Brompton Road
London SW3 1JJ

Bankers

Lloyds Bank Plc
London

Solicitors

Taylor Wessing
London

Auditor

Deloitte LLP
Statutory Auditor
London

Internet

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

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

For the year ended 31 December 2017, the Bank generated pre-tax profits of £1.9m (2016: £5.8m), total assets reduced slightly to £393m (2016: £411m) and the return on average equity was 3.8% (2016: 7.0%). The significant highlights for the year include:

The Bank recovered a net £0.98m relating to assets which had previously been written off and continues to make profits with those generated in 2017 representing the seventh consecutive year.

The Bank's senior management has been refreshed with the appointment of a new Chief Executive Officer, Chief Financial Officer and Chief Risk Officer during the year.

The same level of structured property finance business has been maintained despite uncertainity over Brexit and challenging fiscal measures.

The past year has continued to be challenging with an unsettled political and economic environment. While the Bank could not avoid all the challenges to the financial sector presented by these circumstances, I am pleased to report that it continued to be profitable. The total comprehensive income for the year to 31 December 2017 amounted to £3.0m compared to £5.2m in 2016. The levels of profit in 2017 were realised despite an impairment loss on a legacy sovereign bond of £2.1m transferred from Other Comprehensive Income to the Profit and loss account and increased regulatory costs. Also additional investment by the Bank was made in risk control which will provide a much firmer platform for the Bank's future business growth, regulatory compliance and professional competence.

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

The meeting of all regulatory requirements for banks in a climate of more stringent control is a major priority for the Bank and considerable resources, both in terms of personnel and cost, are directed to this end. In the year the Bank has successfully updated and improved its Credit Risk Management Framework.

During the year there were changes to the Management team of the Bank including the appointment of a new Chief Executive who had previously served as Deputy Chief Executive for a number of years and as Acting Chief Executive. I have confidence that the new management team is well suited to achieve the Bank's strategic objectives in the years ahead.

In 2018 the Bank looks forward to relocating into new larger premises in a central location that is more appropriate to the Bank's business, expanding its product offering and continuing to grow steadily.

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

Ihab Saadi
Chairman
29 March 2018

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

Strategy and objectives

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

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

The Bank operates from a single office in Knightsbridge, London from where services are provided by a properly supported team of professionals. A lease was signed for part of a new refurbished building which is located in a more prestigious area in St James's, London.. The Bank will be moving premises in the second quarter of 2018. The Bank benefits from the additional resources of its two shareholder banks where appropriate.

Business model

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

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

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

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

Finally, the Bank offers corporate and institutional banking facilities.

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

Governance and management process

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

The Bank's performance is measured against a number of Key Performance Indicators (KPIs) (profit and loss, cost income ratio and return on equity), the principal one being a budgeted pre-tax profit, which is set annually. Within this budget, individual business lines account for their performance with the Bank's senior management, whilst the Bank's Board of Directors receive commentary on the Bank's results each month. The Bank also reports internally on a range of measures, including KPIs, such as return on average equity and net interest margin, along with regulatory measures such as common equity tier 1 (CET1), liquidity coverage ratio (LCR) and leverage ratio.

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

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

Business review

The Bank has reported pre-tax profit for the year of £1.9m (2016: £5.8m), a return on average equity of 3.8% (2016: 7%) and a cost income ratio of 73% (2016: 62%). The pre-tax profit of £1.9m includes a loss of £2.1m which relates to a revaluation movement from Other Comprehensive Income to the profit and loss account.

The Bank has achieved pre-tax profits in recent years as shown in the table below. Income has risen year on year with the exception of the current year. At the same time the cost base has also risen, reflecting the increasing headcount in particular as well as the additional costs associated with greater office space and improved risk management systems and processes. Equity has continued to rise as shown below.

	2014	2015	2016	2017
Pre-tax profit £m	6.25	5.97	5.82	**1.89**
Cost / Income ratio %	48	54	62	**73**
Return on average equity %	7.6	5.9	7.0	**3.8**
Equity £m	60.99	74.90	80.12	**83.10**

As for the year ended 31 December 2017 the asset backed lending book closed the year at a similar overall level to the prior year. Lending rates were maintained throughout the year, despite some indications of falling rates at competitor banks, resulting in a continuing stream of attractive risk adjusted returns.

Treasury revenues were slightly reduced year on year. The Bank's total portfolio of securities reduced in value during the year as maturities outweighed purchases in the portfolio. The foreign exchange markets remained very competitive whilst inter-bank lending rates showed increases in the year following the increase in base rates in the US.

Trade Finance income increased year on year by 35% and is expected to continue to contribute more to the Bank's total income in the future although its current contribution is from a low base amount. It continues to be an important part of the Bank's offering to both domestic and international clients.

With room for expansion and improvement within its current business strategy, it is not anticipated that there will be any significant change in the Bank's product offering or operating model in the immediate future. The plan for 2018 envisages further expansion of the balance sheet with increases in the size of all asset classes with particular focus on growing the UK retail deposit base of the Bank.

Principal risks for the business

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

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

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

The Bank is also exposed to credit risk, being the risk that a counterparty will fail to fulfil its obligations. With the exception of the fixed income portfolio, the Bank has a minimal value of unsecured lending to corporate or individual borrowers.By ensuring that adequate collateral is held, the Bank is able to significantly reduce the risk of losses in the event of a default by a customer. The Bank defines collateral as an asset or a group of assets that a borrower or guarantor has pledged as security for a loan. The Bank, as the lender, has the legal right to repossess and sell the asset(s) if the borrower is unable to pay back the loan by the agreed date.

The structured property loan portfolio is formed of circa 59% development loans for the purpose of building new houses, small apartment buildings or blocks of apartment buildings, while the remaining 41% of the portfolio consists of investment loans. The Bank aims to ensure its position is protected at all times.This is achieved by following a thorough due diligence process with every lending proposal. The Bank's lending criteria ensure that it only lends to developers with sufficient experience of the type of proposed development and to projects which the Bank fully understands and in areas where demand for the completed product should be high; it is also required that the Bank has sufficient collateral against the loan by way of a first mortgage and, as appropriate, an additional guarantee.Loans are typically drawn in stages as each project progresses and the construction process is monitored by one of the Bank's panel of quantity surveyors.

During the year, having reviewed the maturity profile of its structured property loan portfolio, the Bank decided to change the profile of these loans from "on demand" to contractual maturity (see Note 9).

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

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

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

Going concern

The Bank has now produced profits for seven consecutive years. The Bank continues to focus upon the areas of structured property lending, trade finance, personal banking and treasury. In the period 2013–2016 the Bank's shareholders demonstrated their continued confidence in the Bank by increasing its issued share capital. The Bank has not sought further additional capital in 2017 reflecting the stronger capital position resulting from shareholder support and retained income in prior years.

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

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

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

Justine Goldberg
Company Secretary
29 March 2018

Directors and their interests

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

Samer Al-Qadi	6 April 2017
Nabil Hamadeh	2 May 2017
Rakan Al-Tarawneh	23 November 2017

The following directors retired on the date shown;

Abdulkader Al-Qadi	30 March 2017
Seyed Morteza Mirghavameddin	7 April 2017
Gerald Hawkins	2 May 2017

Payment Policy

It is the Bank's policy to pay suppliers as they fall due. At 31 December 2017, the Bank's trade creditors had been outstanding for an average of 6 days (2016: 6 days).

Directors' and officers' liability insurance

During the year, the Bank has maintained cover for directors and officers under directors' and officers' liability insurance policies as permitted by section 233 of the Companies Act 2006.

Substantial shareholders

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

Disclosure of information to the auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

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

Results and dividends

The total profit for the year after taxation amounted to £1.460m (2016: Profit £4.418m). The directors recommend that no dividend be paid (2016: £nil).

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

Justine Goldberg
Secretary
29 March 2018

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including IFRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

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

Report on the Audit of the Financial Statements

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Jordan International Bank Plc (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and;
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (continued)

SUMMARY OF OUR AUDIT APPROACH	
Key audit matters	The key audit matters that we identified in the current year were: • Loan loss provisioning • Management override of controls
Materiality	The materiality that we used in the current year was £328k (2016: £587k) which was determined on the basis of profit before tax, adjusted for the impairment loss recognised on a legacy sovereign bond of £2.1m.
Scoping	Our audit approach was a fully substantive audit, focussed on the key audit matters, material accounts and disclosure balances. It was supported by an understanding of relevant business processes and controls.
Significant changes in our approach	There have been no changes in our audit approach for this year.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

Independent Auditor's Report (continued)

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters:

LOAN LOSS PROVISIONING	
Key audit matter description	The company provides lending to customers for property development and investment in the UK, referred to as structured property finance. This forms the loans and advances to customers line on the balance sheet of £158m (2016: £163m). There is a risk that this amount is not fully recoverable by the company if its customers are unable to repay the amounts owed. The company assesses these loans for objective evidence of whether an impairment event has occurred, in line with the impairment triggers detailed in IAS 39, as set out in Note 1. If an event has occurred, loans are assessed individually for impairment, for which a charge of £144k (2016: (£111k)) has been recognised in the period (Note 10). Loans where there no evidence of an individual event, are assessed collectively for impairment using an incurred but not reported loss model, for which a liability has been recorded (Note 10) of £189k (2016: £217k). Individual provisions are subjective due to the judgements made on the circumstances of each borrower and the valuation of collateral to determine the amount the company will recover. The judgements made in the collective provisioning model are the emergence period, probability of default and loss given default. In both cases, individual and collective, the company has very limited loss history and historical data, making these judgements difficult to estimate.
How the scope of our audit responded to the key audit matter	Our testing of this key audit matter has involved the following: We selected a sample of loans and advances to customers that did not have a provision made against them and independently assessed whether they had exhibited any impairment indicators per IAS 39 and if an impairment was required. Where the bank had identified an impairment indicator for an individual customer, we reviewed the reports prepared by the credit department and independently verified whether the conclusions reached were supportable and appropriate. We checked whether the impairment indicator was appropriately evaluated under IAS 39 and verified supporting documentation such as collateral valuations. We obtained the incurred but not reported loss provision model calculation. We assessed the completeness of the inputs into the model. The judgements within the model where checked against supporting external data where available and stress tested in a more difficult scenario to assess their appropriateness.
Key observations	We verified that the judgements used by management to determine the impairment amounts are appropriate. We did not identify a requirement for any additional impairments.

Independent Auditor's Report (continued)

MANAGEMENT OVERRIDE OF CONTROLS	
Key audit matter description	The ISAs (UK) require us to presume that a risk of fraud arises from the management override of controls. The risk arises from the ability of management to manipulate accounting records and prepare fraudulent financial statements by overriding the system of internal controls, including through the posting of inappropriate accounting journal entries, bias in estimates, or the treatment of significant unusual transactions. We considered this to be a key audit matter in the current year because of the changes in key senior management personnel, as well the posting of the default of the legacy sovereign bond.
How the scope of our audit responded to the key audit matter	We obtained a full listing of journal postings made in the year and used data analytics to identify journals that have a higher susceptibility to management override of controls. Explanations and supporting documentation to verify the rationale for each entry were obtained. We reviewed the key management estimates made in relation to loan loss provisioning (as detailed above) and revenue recognition for indicators of management bias. We also assessed whether the assumptions used in these estimates are supportable and in line with the accounting standards. We also reviewed the accounting treatment and calculation of the impairment for the legacy sovereign bond. We tested whether the market prices used to determine the amount were appropriate and postings were made to the profit and loss statement correctly.
Key observations	We have not identified any evidence of management override of controls.

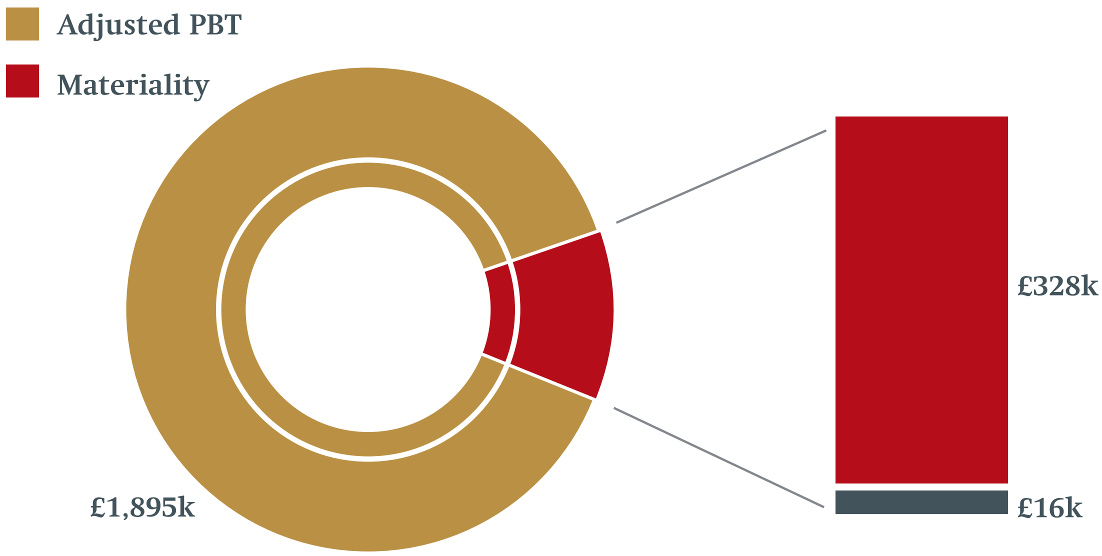
Independent Auditor's Report (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£328k (2016: £587k)
Basis for determining materiality	8% of adjusted pre-tax profit
Rationale for the benchmark applied	Profit before tax continues to be the most appropriate benchmark, as the bank has been profitable for a number of years with a stable business and revenue stream. The profit amount used was adjusted for the impairment loss on the legacy sovereign bond (£2.1m) recognised in the year as this does not reflect the underlying profitability of the bank's business in the year.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £16k (2016: £27k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report (continued)

An overview of the scope of our audit

We considered a number of factors when deciding on the scope of our audit. These factors include changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

As an individual entity, our audit approach was a fully substantive audit supported by an understanding of relevant business processes and tests of the design and implementation of relevant controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report (continued)

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Independent Auditor's Report (continued)

Other matters

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members at the Annual General Meeting on 1 August 2002 to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2002 to 31 December 2017.

Mark Rhys FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

29 March 2018

Profit & Loss Account

Year Ended 31 December 2017

	Notes	2017 £'000's	2016 £'000's
INTEREST INCOME			
Interest receivable and similar income arising from debt securities		**2,794**	3,647
Other interest receivable and similar income		**11,585**	11,308
		14,379	14,955
Interest payable		**(4,822)**	(4,514)
NET INTEREST INCOME		**9,557**	10,441
NON-INTEREST INCOME			
Fees and commissions		**2,018**	2,792
Dealing profits	5	**109**	112
Other operating income		**6**	25
Profit on disposal of securities		**26**	14
Fair value changes in assets held at FVTPL	5	**(17)**	(33)
TOTAL OPERATING INCOME		**11,699**	13,351
Administrative expenses	3	**(5,807)**	(5,819)
Depreciation	5, 14	**(451)**	(409)
Other operating charges		**(2,267)**	(2,102)
Impairment of loans and advances	10	**(116)**	(106)
Revaluation movement from OCI	13,23	**(2,139)**	~
Other gains	11	**976**	906
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	**1,895**	5,821
Tax (charge) on profit on ordinary activities	6	**(435)**	(1,403)
PROFIT FOR THE FINANCIAL YEAR	23	**1,460**	4,418

Profit & Loss Account (continued)

Year Ended 31 December 2017

	Notes	2017 £'000's	2016 £'000's
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR			
Profit for the financial year		**1,460**	4,418
Revaluation (losses)/profit on AFS investments	23	**(229)**	986
Revaluation movement to Profit & Loss – current year	13,23	**654**	~
Revaluation movement to profit & Loss – prior years	13,23	**1,485**	~
Tax (charge)/credit on revaluation losses	23	**(337)**	(190)
TOTAL COMPREHENSIVE INCOME		**3,033**	5,214

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

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

Balance Sheet

As at 31 December 2017

	Notes	2017 £'000's	2016 £'000's
ASSETS			
Cash		**106**	116
Nostros		**7,560**	9,416
Loans and advances to shareholder banks	7	**36,129**	29,264
Loans and advances to other banks	8	**47,919**	41,094
Loans and advances to customers	9	**157,923**	162,860
Investments in debt securities	13	**137,846**	160,356
Tangible fixed assets	14	**1,132**	856
Other assets	15	**494**	922
Deferred tax	6	**2,101**	2,513
Prepayments and accrued income		**1,897**	3,375
TOTAL ASSETS		**393,107**	410,772
LIABILITIES			
Deposits by shareholder banks	16	**106,835**	106,831
Deposits by other banks	17	**124,563**	132,770
Customer accounts	18	**73,435**	86,186
Other liabilities	19	**1,497**	2,535
Accruals and deferred income		**3,629**	2,335
TOTAL LIABILITIES		**309,959**	330,657

Balance Sheet (continued)

As at 31 December 2017

	Notes	2017 £'000's	2016 £'000's
Called-up share capital	21	**65,000**	65,000
Share premium	22	**316**	316
Revaluation reserve	23	**616**	(957)
Profit and loss account	23	**17,216**	15,756
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		**83,148**	80,115
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**393,107**	410,772
OFF BALANCE SHEET ITEMS			
CONTINGENT LIABILITIES	33		
Acceptances		**129**	~
Guarantees and irrevocable letters of credit		**1,791**	2,778
Undrawn commitments		**27,320**	30,880
		29,240	33,658

These financial statements of Jordan International Bank Plc, Registered No. 01814093, were approved by the Board of Directors and authorised for issue on 29 March 2018.

Signed on behalf of the Board of Directors

Rakan Al-Tarawneh

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

Statement of Changes in Equity

Year ended 31 December 2017

2017	Share Capital £'000's	Share Premium £'000's	Securities Revaluation Reserve £'000's	Retained Profit £'000's	Total £'000's
OPENING BALANCE AT 1 JANUARY 2017	65,000	316	(957)	15,756	80,115
Shares issued and paid	~	~	~	~	~
Securities revaluation	~	~	(229)	~	(229)
Securities revaluation - transfer	~	~	2,139	~	2,139
Securities revaluation - tax effect	~	~	(337)	~	(337)
Profit retained for the year	~	~	~	1,460	1,460
CLOSING BALANCE ON 31 DECEMBER 2017	65,000	316	616	17,216	83,148

ATTRIBUTABLE TO SHAREHOLDERS	Housing Bank For Trade & Finance £'000's	Arab Jordan Investment Bank £'000's	Total £'000's
OPENING BALANCE AT 1 JANUARY 2017	60,087	20,028	80,115
Shares issued and paid	~	~	~
Movement on securities revaluation reserve	(172)	(57)	(229)
Securities revaluation - transfer	1,604	535	2,139
Securities revaluation - tax effect	(253)	(84)	(337)
Profit retained for the year	1,095	365	1,460
CLOSING BALANCE ON 31 DECEMBER 2017	62,361	20,787	83,148

Statement of Changes in Equity (continued)

Year ended 31 December 2017

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

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

Cash Flow Statement

Year ended 31 December 2017

	Notes	2017 £'000's	2016 £'000's
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	24	**(26,140)**	17,609
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities	13	**(115,414)**	(80,297)
Securities sold and matured	13	**128,302**	102,898
Interest received from debt securities		**2,969**	3,039
Other assets sold	11	**976**	789
Purchase of tangible fixed assets	14	**(727)**	(392)
NET CASH GENERATED BY INVESTING ACTIVITIES		**16,106**	26,037
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	25	**(10,034)**	43,646
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**75,659**	32,013
Movement in cash and cash equivalents		**(14,512)**	58,379
Effect of foreign exchange rate changes		**4,478**	(14,733)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**65,625**	75,659

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

Notes to the Accounts

Year ended 31 December 2017

1. ACCOUNTING POLICIES

a) Accounting convention and going concern basis

The accounts have been prepared in accordance with applicable law and Accounting Standards in the United Kingdom, under the historical cost convention basis except for the revaluation of derivatives and financial assets designated at fair value through profit or loss and available for sale. Although Jordan International Bank is a PLC, it is unlisted, and consequently the financial statements are prepared under FRS102 & IAS 39.

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

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

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

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

b) Income recognition

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

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

c) Commissions and fees

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

1. ACCOUNTING POLICIES (CONTINUED)

d) Foreign currencies

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

e) Financial assets

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

f) Impairment of financial assets

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

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

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

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

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

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

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

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

In addition to impairment assessment of assets showing signs of distress, the Bank has estimated a 'collective' provision allowance know as 'incurred but not reported', or IBNR. The IBNR provision is calculated as an estimate of credit losses against assets currently held, but which have yet to be reported as having fallen into default. 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) the securities portfolio, and iii) commercial lending activities, which are based upon historic market data. Expected default rates from external credit rating agencies are then applied against the Bank's internal grading model.

1. ACCOUNTING POLICIES (CONTINUED)

g) Standards issued but not yet effective

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Bank will apply IFRS 9 on 1 January 2018. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's capital at 1 January 2018 will be approximately in the range of -£250k to -£350k reflecting mainly changes in impairment levels and tax assets/liabilities. Future changes in accounting processes, assumptions, judgements and controls may affect these assessments.

Impact assessment

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets. New classification categories include: measured at amortised cost, FVOCI (Fair Value Through Other Comprehensive Income) and FVTPL (Fair Value Though Profit and Loss).

The standard will affect the classification and measurement of financial assets as follows:

- Loans and advances to banks and customers previously classified as loans and receivables and measured at amortised cost will in general also be measured at amortised cost under IFRS 9.
- Held to maturity investment securities previously measured at amortised cost will in general also be measured at amortised cost under IFRS9.
- Debt investment securities previously classified as available–for-sale, may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the circumstances.

Impairment

IFRS 9 replaces the "incurred loss" model under FRS 102 with a forward looking "expected credit loss" (ECL) model. Depending on the asset's classification under the three stage impairment model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased & Stage 3 – credit impaired financial asset). Where credit risk is deemed not to have increased significantly since initial recognition a loss allowance is calculated based on an amount equal to 12-month ECL (Expected Credit Loss). Where credit risk is deemed to have increased significantly since initial recognition a loss allowance based on lifetime expected losses is calculated. An asset is deemed to have moved to Stage 3 where management consider the asset to be impaired in accordance with the Bank's credit risk management policies .

Quantitative modelling will be used in conjunction with internal & external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank will monitor the effectiveness of the criteria used to identify any increase through regular reviews.

Under IFRS 9 the Bank will consider a financial asset to be in default when either the borrower is unlikely to pay its credit obligations or the borrower is more than 90 days past due.

Forward looking

Under IFRS 9, the Bank will incorporate forward-looking information and scenarios into both its assessment of any significant increase in credit risk and its measurement of ECLs.

Capital planning

The Bank will take advantage of the transitional guidelines issued by the Prudential Regulation Authority (PRA) of phasing in the full impact of IFRS 9 adoption over a 5 year period.

1. ACCOUNTING POLICIES (CONTINUED)

h) Financial liabilities

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

Financial liabilities are measured at amortised cost using the effective interest method.

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

i) Derivatives and hedging

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

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

An embedded derivative in a host contract is accounted for as a stand-alone derivative if its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract and the embedded derivative meets the definition of a derivative in terms of IAS 39, unless the entire contract is carried at fair value through profit and loss. FRS 102 permits the adoption of this treatment.

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

j) Equity

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

k) Depreciation

All items purchased by the Bank, which under FRS 102 are considered as tangible fixed assets, are to be considered for inclusion in the fixed asset register. Single items costing less than £500 will generally be treated as an expense item, unless the Bank already owns a number of similar items which collectively cost over £500 in which case the items are classified as a fixed asset.

Tangible fixed assets (except Leasehold property and leasehold improvements) are depreciated over a five year period, from the date that the asset is brought into use. Leasehold property and improvements are depreciated over the life of the lease. Depreciation is charged monthly on a straight line basis per FRS 102. Any residual value or discount on the purchase price or 'rent-free' period in the case of a leasehold property is taken into account when determining the depreciation charge. Fixed assets are held in the Bank's ledger system at 'cost'. The ledger also records the accumulated depreciation on the asset as a separate item. The item is removed from the ledger if sold or is no longer in use and any profit / loss is taken to profit and loss at that time. Fixed assets are considered for impairment on an annual basis.

Typical tangible fixed assets relevant to the Bank are:

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

1. ACCOUNTING POLICIES (CONTINUED)

l) Taxation

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

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

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

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

m) Pension costs

The Bank operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year.Any differences between contributions payable in the year and contributions actually paid would be shown as either accruals or prepayments in the balance sheet (note 29).

n) Operating leases

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

o) Cash

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

p) Cash equivalents

Cash for equivalents are defined as short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Such investments would have a maturity of 3 months or less.

2. SEGMENTAL INFORMATION

The Bank has one main activity, commercial banking, which is carried out in the United Kingdom.

3. ADMINISTRATIVE EXPENSES

Staff costs including directors:

	2017 £'000's	2016 £'000's
Salaries	**4,218**	4,461
Social security costs	**533**	562
Other pension costs (note 30)	**438**	442
	5,189	5,465
Other administrative expenses	**618**	354
	5,807	5,819

The average number of persons employed by the Bank in 2017 was 43 (2016: 43), made up as follows:

	2017 No,	2016 No.
Retail banking	**4**	4
Corporate banking	**8**	9
Treasury and dealing activities	**5**	6
Other support staff	**26**	24
	43	43

4. DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments paid to directors consisted of:

	2017 £'000's	2016 £'000's
Fees	**547**	735
Salaries	**401**	418
Other	**32**	35
	980	1,188

Emoluments paid and contributions paid into a money purchase pension scheme on behalf of the highest paid director during 2017 were £390k (2016: £481k) and £28k (2016: £33k) respectively.

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after (crediting)/charging:

	2017 £'000's	2016 £'000's
(i) Income:		
Dealing profits from treasury activities	**(109)**	(112)
Profits on disposal of debt securities	**(26)**	(14)
Net loss on financial assets and liabilities;		
– designated at fair value through profit and loss	**17**	33
(ii) Charges:		
Impairment	**116**	106
Recoveries	**(976)**	(906)
Depreciation on owned assets	**451**	409
Securities revaluation from OCI	**2,139**	~
Auditors' remuneration;		
– Statutory audit of Financial Statements	**70**	77
– Taxation services	**15**	17
– Audit related assurance services	**12**	13
– Other services	**29**	~
Total non-audit services	**56**	30
Rental on land and buildings	**598**	558

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Based on profit for the year:	2017 £'000's	2016 £'000's
United Kingdom corporation tax	**361**	932
Adjustments in respect of prior periods	**(1)**	4
	360	936
Deferred tax – current year	**39**	243
Deferred tax – prior year adjustment	**1**	(98)
Deferred tax – rate change (from 20% to 17.1%)	**35**	322
Total tax charge for the year	**435**	1,403

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

	2017 £'000's	2016 £'000's
Profit on ordinary activities before tax	**1,895**	5,821
Tax charge on profit on ordinary activities at 19.25% (2016 – 20%)	**365**	1,164
Effects of:		
– Expenses not deductible for tax purposes	**5**	4
– AFS reserve movements	**30**	7
– Difference between actual and expected tax rates	**35**	322
– Adjustments to prior years	**~**	(94)
Current tax charge for the year	**435**	1,403

The aggregate current and deferred tax relating to items that are recognized as items of other comprehensive income is a charge of £337,221 (2016 charge: £190,000).

The standard rate of tax applied to reported profit on ordinary activities is 19.25% (2016: 20%). The applicable tax rate changed following the enactment of the Finance Acts 2014 and 2015.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The movement on deferred taxation balance in the period is:

	2017 £'000's	2016 £'000's
Opening balance	**2,513**	3,170
(Charge) to profit and loss account	**(75)**	(467)
(Charge) to Other Comprehensive Income	**(337)**	(190)
Closing balance	**2,101**	2,513
Analysis of deferred tax balance:		
Accelerated capital allowances	**(32)**	(92)
Tax losses	**2,392**	2,579
Short-term timing differences	**(259)**	26
Deferred tax assets recognised	**2,101**	2,513

7. LOANS AND ADVANCES TO SHAREHOLDER BANKS

	2017 £'000's	2016 £'000's
Repayable		
– on demand	**36,129**	29,264
	36,129	29,264

8. LOANS AND ADVANCES TO OTHER BANKS

	2017 £'000's	2016 £'000's
Repayable		
– on demand	**13,200**	29,481
– within three months	**18,049**	2,715
– between three months and one year	**16,670**	8,326
– between one and five years	**~**	572
	47,919	41,094

9. LOANS AND ADVANCES TO CUSTOMERS

Repayable	2017 £'000's	2016 £'000's
– on demand	**9,395**	40,210
– within three months	**34,005**	31,073
– between three months and one year	**55,474**	38,340
– between one and five years	**59,509**	53,555
Impairment (note 10)	**(460)**	(318)
	157,923	162,860

10. IMPAIRMENT LOSSES

SPECIFIC ASSETS	2017 £'000's	2016 £'000's
At 1 January	**318**	424
Charge/(Credit) to profit and loss	**144**	(111)
Other adjustments	**(2)**	5
At 31 December	**460**	318

See accounting policy note 1(f) "Impairment of financial assets". The year end impairment balance held against specific assets of £459,623 relate to impairments held against a customer account and against two structured property development loans, the latter of which was reduced in part during the year upon the maturity of the loan. Management are optimistic of recovering the remaining outstanding loan balances.

COLLECTIVE PROVISION	2017 £'000's	2016 £'000's
At 1 January	**(217)**	~
– IBNR – Credit/(Charge) to profit and loss	**28**	(217)
At 31 December	**(189)**	(217)

11. OTHER GAINS

During 2017 the Bank recovered a net £975,755 relating to assets which had previously been written off (2016: £905,563).

12. CONCENTRATIONS OF CREDIT RISK

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

	2017 £'000's	2016 £'000's
UK	**177,367**	232,284
OECD	**91,379**	75,396
Jordan	**51,239**	39,480
Arab/Middle East	**41,525**	40,882
Other	**31,597**	22,730
	393,107	410,772

The following industry concentrations are considered significant:

	2017 £'000's	2016 £'000's
Government/Quasi-Government	**99,343**	120,469
Banks	**104,070**	98,474
Property	**157,891**	161,569
Other	**31,803**	30,260
	393,107	410,772

13. DEBT SECURITIES

2017	Govt securities £'000's	Other debt securities £'000's	Total £'000's
Designated at fair value through profit and loss	**251**	**~**	**251**
Held to maturity	**2,968**	**4,551**	**7,519**
Available for sale	**105,187**	**24,889**	**130,076**
At 31 December 2017	**108,406**	**29,440**	**137,846**

2016	Govt securities £'000's	Other debt securities £'000's	Total £'000's
Designated at fair value through profit and loss	580	~	580
Held to maturity	3,250	~	3,250
Available for sale	120,469	36,057	156,526
At 31 December 2016	124,299	36,057	160,356

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

2017	HTM £'000's	FVTPL £'000's	AFS £'000's	Total £'000's
At 1 January	**3,250**	**580**	**156,526**	**160,356**
Additions	**4,865**	**~**	**110,549**	**115,414**
Disposals and maturities	**~**	**(280)**	**(128,302)**	**(128,582)**
Exchange adjustment	**(596)**	**(29)**	**(8,467)**	**(9,092)**
Revaluation	**~**	**(20)**	**(230)**	**(250)**
At 31 December 2017	**7,519**	**251**	**130,076**	**137,846**

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

13. DEBT SECURITIES (CONTINUED

During the year an impairment loss of £2,139k was recognised on a legacy sovereign bond after it was agreed that there was evidence of a diminution in the value of the bond. The loss was measured as the difference between the amortised cost and market value as at the end of December 2017. Consequently, this loss was transferred from the Bank's AFS revaluation reserve to Profit & Loss, however, the Bank's equity was unaffected by this transfer as the bond was already being valued at market value through other comprehensive income. Of this loss £654k, related to revaluation movements in the current year and £1,485k in prior years.

14. TANGIBLE FIXED ASSETS

	Furniture, fittings and office equipment £'000's	Improvement to leasehold premises £'000's	Total £'000's
COST			
At 1 January 2017	**1,961**	**439**	**2,400**
Additions	**727**	**~**	**727**
Disposals	**(150)**	**~**	**(150)**
At 31 December 2017	**2,538**	**439**	**2,977**
DEPRECIATION			
At 1 January 2017	**1,183**	**361**	**1,544**
Charge for the year	**373**	**78**	**451**
Disposals	**(150)**	**~**	**(150)**
At 31 December 2017	**1,406**	**439**	**1,845**
NET BOOK VALUE			
At 31 December 2017	**1,132**	**~**	**1,132**
At 31 December 2016	778	78	856

15. OTHER ASSETS

	2017 £'000's	2016 £'000's
Sundry loan receivables	**394**	582
Derivatives at fair value (note 26)	**100**	340
	494	922

16. DEPOSITS BY SHAREHOLDER BANKS

Repayable	2017 £'000's	2016 £'000's
– on demand	**12,625**	12,119
– within three months	**23,831**	11,744
– between three months and one year	**70,379**	58,585
– between 1 and 5 years	**~**	24,383
	106,835	106,831

17. DEPOSITS BY OTHER BANKS

Repayable	2017 £'000's	2016 £'000's
– on demand	**8,528**	12,650
– within three months	**83,737**	81,458
– between three months and one year	**32,298**	28,650
– between one and five years	**~**	10,012
	124,563	132,770

18. CUSTOMER ACCOUNTS

Repayable	2017 £'000's	2016 £'000's
– on demand	**10,933**	2,764
– within three months	**6,153**	19,298
– between three months and one year	**56,349**	59,626
– between one and five years	**~**	4,498
	73,435	86,186

19. OTHER LIABILITIES

	2017 £'000's	2016 £'000's
Derivatives at fair value (note 26)	**57**	177
Tax and social security	**278**	959
Other liabilities	**1,162**	1,399
	1,497	2,535

20. SUMMARY OF FINANCIAL ASSET AND LIABILITIES

2017	FVTPL/AFS £'000's	Held to maturity £'000's	Loans and receivables at amortised cost £'000's	Financial asset/ liabilities at amortised cost £'000's	Total £'000's
FINANCIAL ASSETS					
Cash	~	~	~	106	106
Nostros	~	~	~	7,560	7,560
Loans and advances to shareholder banks	~	~	36,129	~	36,129
Loans and advances to other banks	~	~	47,919	~	47,919
Loans and advances to customers	~	~	157,923	~	157,923
Debt securities	255	7,515	~	~	7,770
Debt securities – AFS	130,076	~	~	~	130,076
Other financial assets	100	~	~	394	494
Accrued income	~	~	~	1,458	1,458
	130,431	7,515	241,971	9,518	389,435
FINANCIAL LIABILITIES					
Deposits from shareholder banks	~	~	~	106,835	106,835
Deposits from other banks	~	~	~	124,563	124,563
Deposits from customers	~	~	~	73,435	73,435
Other financial liabilities	57	~	~	1,440	1,497
Accruals	~	~	~	3,629	3,629
	57	~	~	309,902	309,959

20. SUMMARY OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

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

21. CALLED-UP SHARE CAPITAL

CALLED-UP, ALLOTTED AND FULLY PAID:	2017 £'000's	2016 £'000's
65,000,000 (2016: 65,000,000) ordinary shares of £1 each	**65,000**	65,000

22. SHARE PREMIUM

	2017 £'000's	2016 £'000's
At 31 December	**316**	316

23. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS AND RESERVES

	2017 £'000's	2016 £'000's
EQUITY		
Opening share capital and share premium	**65,316**	65,316
Issue of ordinary shares	**~**	~
Closing share capital and share premium	**65,316**	65,316
PROFIT AND LOSS		
Profit and loss at 1 January	**15,756**	11,338
Profit for the financial year	**1,460**	4,418
Profit and loss at 31 December	**17,216**	15,756
SECURITIES REVALUATION RESERVE		
Opening revaluation reserve	**(957)**	(1,753)
Transfer revaluation to Profit & Loss	**2,139**	~
Tax effect on revaluation movements	**(337)**	(190)
Revaluation (losses)/profits on AFS portfolio	**(229)**	986
Closing revaluation reserve	**616**	(957)

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

	2017 £'000's	2016 £'000's
Operating profit before tax	**1,895**	5,821
Interest received on debt securities	**(2,969)**	(3,039)
Decrease/(increase) in prepayments and accrued income	**1,327**	(162)
Increase in accruals and deferred income	**644**	81
Profit on sale of debt securities	**(26)**	(14)
Depreciation	**451**	409
Fair value changes in financial assets	**17**	33
Impairment (net of recoveries)	**116**	106
Other financial revaluation (legacy sovereign bond)	**2,139**	~
Corporation tax paid	**633**	583
Net effect of foreign exchange rate changes	**3,784**	(21,910)
Operating cash flow before movement in working capital	**8,011**	(18,092)
Net (increase)/decrease in loans and advances	**(18,497)**	25,934
Net (decrease)/increase in deposits	**(16,268)**	10,790
Net increase/(decrease) in other assets and liabilities	**614**	(1,023)
Cash (absorbed)/generated	**(26,140)**	17,609

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

	2017 £'000's	2016 £'000's	Change in year £'000's
Cash	**106**	116	(10)
Nostros	**7,560**	9,416	(1,856)
Loans and advances to shareholder banks	**36,129**	29,264	6,865
Loans and advances to other banks	**13,200**	29,481	(16,281)
Deposits by shareholder banks	**(12,625)**	(12,119)	(506)
Deposits by other banks	**(8,528)**	(12,650)	4,122
Cash equivalents	**29,783**	32,151	(2,368)
	65,625	75,659	(10,034)

As at 31 December 2017 the Bank held assets totalling £29.78 million (2016: £32.15m) which fell within the definition of cash equivalents as laid out in FRS 102. Cash equivalents are defined as short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Such investments would have a maturity of 3 months or less.

26. DERIVATIVES AT FAIR VALUE

2017	Notional Amounts £'000's	Fair Value Assets £'000's	Fair Value Liabilities £'000's
Exchange rate contracts:			
Contract or underlying principal amount			
– for dealing purposes	**28,896**	**100**	**57**

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

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

27. RISK MANAGEMENT

i) Governance Framework

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

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

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

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

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

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

ii) Types of derivatives and their use

Foreign exchange

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

The Bank enters into foreign exchange forward contracts as protection against fluctuations in foreign exchange rates.

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

Interest rate swaps

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

27. RISK MANAGEMENT (CONTINUED)

iii) Risk management

The principal risks that the Bank manages are as follows:

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

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

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

Market risk – the Bank is exposed to market risk because of its positions held in its banking book, off and on-balance sheet.

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

Foreign exchange risk – the risk that the value of the Bank's assets and liabilities change, due to changes in currency exchange rates.

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

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

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

27. RISK MANAGEMENT (CONTINUED)

Credit risk

Key principles of credit risk management

- All policies relating to credit risk are reviewed and approved by the Board of Directors. The Board Risk Committee and the Board oversee credit risk on a quarterly basis.
- Approval of all credit exposures must be granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and related credit facilities must be undertaken prior to approval of the credit exposure. This must include a review of, amongst other things, the purpose of the credit and sources of repayment, affordability, repayment history, ability to repay and sensitivity to economic and market developments. In relation to loans for development purposes, the most significant risk faced is the ability of the borrower to complete the construction project on time and on budget. For this reason the Bank only extends this type of facility to experienced property developers.
- The Board approves all large credit exposures.
- All credit exposures, once approved, must be effectively monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment which may include the placement onto the Bank's credit watch list.

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

The Bank takes collateral where a loan to a customer is a property finance transaction, either for development or investment purposes. The Bank will take a 'first charge' against the asset in question and usually also a charge over any income from the asset. At the year end the Bank held collateral valued at £299m against total customer loans of £158m (2016: collateral £342m: loans £163m).

27. RISK MANAGEMENT (CONTINUED)

Distribution of loans and advances by credit quality.

	At 31 December 2017		At 31 December 2016	
	Loans and advances to customers £'000's	Loans and advances to banks £'000's	Loans and advances to customers £'000's	Loans and advances to banks £'000's
Neither past due nor impaired	**157,663**	**84,048**	162,793	70,358
Past due but not impaired				
– loans and receivables at amortised cost:				
– less than 3 months	**~**	**~**	~	~
– 3 to 12 months	**~**	**~**	~	~
– 1 to 5 years	**~**	**~**	~	~
Impaired	**719**	**~**	385	~
Less: provisions	**(459)**	**~**	(318)	~
	157,923	**84,048**	162,860	70,358

Impaired assets

- *Loans and Advances to customers*
  Total impaired loans to customers were £0.7 million at 31 December 2017 (2016: £0.4m) representing less than 1% of gross loans to customers (2016: 0.4%). Doubt was still being expressed over the recoverability of a commercial loan extended on a partly secured basis and on two structured property finance transactions on a fully secured basis. Security taken against the commercial loan was considered insufficient to retire this outstanding loan.
- *Debt securities*
  With the prolonged decline in the fair value of one of the Bank's Available for sale securities, and in accordance with the Bank's Non-Performing Assets and Provisioning policy, management agreed that there was objective evidence of impairment. Consequently, cumulative losses previously recognised in the Statement of Comprehensive Income of £2,139k were reclassified to the Profit and Loss account.

27. RISK MANAGEMENT (CONTINUED)

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

	At 31 December 2017		At 31 December 2016	
	Loans and advances to customers £'000's	Loans and advances to banks £'000's	Loans and advances to customers £'000's	Loans and advances to banks £'000's
Investment grade	~	**9,000**	~	26,214
Non-investment grade	~	**47,550**	~	30,543
Unrated	**157,923**	**27,498**	162,860	13,601
	157,923	**84,048**	162,860	70,358

Debt securities by rating agency designation

	At 31 December 2017		At 31 December 2016	
	Government securities £'000's	Other debt securities £'000's	Government securities £'000's	Other debt securities £'000's
AAA to A+	**83,631**	**5,867**	99,290	8,524
A or lower	**24,154**	**23,569**	25,009	27,533
Unrated	~	~	~	~
	107,785	**29,436**	124,299	36,057
Impaired	**625**	~	~	~
	108,410	**29,436**	124,299	36,057

27. RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by the Board of Directors. Adherence to internal policies are monitored by the Executive Committee. Compliance, in respect of internal policy, is monitored and co-ordinated daily, with the regulatory requirements of the Prudential Regulation Authority (PRA) being co-ordinated by the Senior Manager, Financial Reporting.

Funding sources

Shareholder bank deposits and other bank deposits continue to represent the core of the Bank's funding with; short-term wholesale funds increasing during 2017 by 13% to £231 million (2016: £205 million). Funding from customer accounts decreased by 15% during 2017 to £73 million (2016: £86 million).

Contingency funding

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

Stress testing

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

Daily risk management

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

The Bank monitors a range of liquidity metrics including its Liquidity Coverage (LCR) and Net Stable Funding (NSFR) ratios on a daily basis and expects to comply with the LCR and NSFR requirements by the implementation deadlines as they fall due.

Liquid assets

In addition to meeting the LCR, the Bank has both extended its funding maturity profile and established a buffer of High Quality Liquid Assets (HQLA), that can be converted easily and immediately, enabling it to survive LCR and internally set stress scenarios. The HQLA buffer is monitored on a daily basis. At 31 December 2017 this buffer totalled £107.3 million (2016: £115.5 million).

27. RISK MANAGEMENT (CONTINUED)

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

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

	On demand £'000's	Due within 3 months £'000's	Due between 3 and 12 months £'000's	Due between 1 and 5 years £'000's	Due after 5 years £'000's	Total £'000's
AT 31 DECEMBER 2017						
Deposits by shareholder banks	**9,349**	**27,063**	**70,235**	**~**	**~**	**106,647**
Deposits by other banks	**6,279**	**85,493**	**32,123**	**~**	**~**	**123,895**
Customer accounts	**10,932**	**6,099**	**56,219**	**~**	**~**	**73,250**
	26,560	**118,655**	**158,577**	**~**	**~**	**303,792**

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

The balances in the above tables will not agree directly to the balances in the balance sheet as the table incorporates all cash flows on an undiscounted basis, relating just to principal and not future coupon payments.

27. RISK MANAGEMENT (CONTINUED)

Assets available to meet these liabilities, and to cover outstanding commitments include:

	At 31 December 2017		At 31 December 2016	
	£'000's	Repayable within 1 year £'000's	£'000's	Repayable within 1 year £'000's
Cash and nostros	**7,560**	**7,560**	9,146	9,146
Loans and advances to shareholder banks	**36,129**	**36,129**	29,264	29,264
Loans and advances to other banks	**47,919**	**47,919**	41,094	40,522
	£'000's	Of which HQLA £'000's	£'000's	Of which HQLA £'000's
Debt securities	**137,846**	**107,300**	160,356	115,500

High Quality Liquid Assets (HQLA) as meeting criteria as defined under Prudential Regulation Authority(PRA) guidelines. None of these assets were pledged to secure liabilities.

Undrawn loan commitments at 31 December 2017 stood at £27,320,000 (2016: £30,880,000).

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

Market risk

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

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

Foreign Exchange Risk

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

27. RISK MANAGEMENT (CONTINUED)

Sensitivity analysis of market risk

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

			% change in US$/£ exchange rate			
			-10%	-20%	+10%	+20%
US DOLLARS	US$'000's	£'000's	£'000's	£'000's	£'000's	£'000's
AT 31 DECEMBER 2017						
Total assets	243,807	181,377	201,530	226,721	164,888	151,148
Total liabilities	(278,053)	(206,854)	(229,838)	(258,568)	(188,049)	(172,378)
Forward contracts	7,776	5,785	6,428	7,232	5,259	4,820
Net	(26,470)	(19,692)	(21,880)	(24,615)	(17,902)	(16,410)
Movement	~	~	(2,188)	(4,923)	1,790	3,282

			% change in Euro/£ exchange rate			
			-10%	-20%	+10%	+20%
EUROS	Eur'000's	£'000's	£'000's	£'000's	£'000's	£'000's
AT 31 DECEMBER 2017						
Total assets	4,595	4,083	4,537	5,104	3,712	3,403
Total liabilities	(19,947)	(17,720)	(19,689)	(22,150)	(16,109)	(14,767)
Forward contracts	15,378	13,661	15,179	17,076	12,419	11,384
Net	26	24	27	30	22	20
Movement	~	~	3	6	(2)	(4)

27. RISK MANAGEMENT (CONTINUED)

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

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

Interest rate risk

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

Treasury

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

Personal, corporate and institutional banking

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

27. RISK MANAGEMENT (CONTINUED)

Sensitivity of projected net interest income

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

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

	2017		2016	
POUNDS STERLING	gap £M's	£'000's	gap £M's	£'000's
Up to 15 days	**89.68**	**1,284**	102.51	1,177
15 days to 1 month	**6.41**	**103**	10.61	119
1 – 2 months	**13.52**	**122**	10.31	90
2 – 3 months	**29.61**	**366**	25.99	269
3 – 4 months	**(14.82)**	**(209)**	(21.63)	(306)
4 – 5 months	**(8.83)**	**(110)**	(10.55)	(132)
5 – 6 months	**(4.64)**	**(50)**	(5.80)	(63)
6 – 9 months	**(18.99)**	**(142)**	9.33	70
9 – 12 months	**(11.97)**	**(30)**	(13.48)	(34)
TOTAL	**79.97**	**1,334**	107.29	1,190

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

	2017		2016	
US DOLLARS	gap $M's	$'000's	gap $M's	$'000's
Up to 15 days	**(0.70)**	**(10)**	6.14	120
15 days to 1 month	**(3.33)**	**(46)**	(21.11)	(396)
1 – 2 months	**(34.09)**	**(444)**	(19.75)	(346)
2 – 3 months	**(23.38)**	**(275)**	(3.86)	(61)
3 – 4 months	**(54.26)**	**(572)**	(60.29)	(854)
4 – 5 months	**(0.46)**	**(4)**	(5.37)	(67)
5 – 6 months	**(7.49)**	**(60)**	(24.11)	(261)
6 – 9 months	**0.56**	**3**	33.20	249
9 – 12 months	**27.97**	**52**	1.37	3
TOTAL	**(95.18)**	**(1,356)**	(93.78)	(1,613)

27. RISK MANAGEMENT (CONTINUED)

Operational risk

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

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

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

Regulatory risk

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

Capital management and allocation

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

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

27. RISK MANAGEMENT (CONTINUED)

Capital management

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

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

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

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

Tier 1 Capital

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

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	Non-trading book	
AS 31 DECEMBER 2017	Book value £'000's	Fair value £'000's
ASSETS		
Other loans and receivables at amortised cost	**241,971**	**241,971**
Debt securities designated at fair value through profit and loss	**255**	**255**
Debt securities held-to-maturity	**7,515**	**7,515**
Debt securities at market valuation	**130,883**	**130,076**
LIABILITIES		
Deposits by banks and customers at amortised cost	**304,833**	**304,833**

	Non-trading book	
AS 31 DECEMBER 2016	Book value £'000's	Fair value £'000's
ASSETS		
Other loans and receivables at amortised cost	233,218	233,215
Debt securities designated at fair value through profit and loss	580	580
Debt securities held-to-maturity	3,250	3,250
Debt securities at market valuation	156,895	156,526
LIABILITIES		
Deposits by banks and customers at amortised cost	325,787	325,787

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised in the balance sheet

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

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

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

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

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

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2017			
31 DECEMBER 2017	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
FINANCIAL ASSETS AT FVTPL				
Debt securities	**~**	**~**	**255**	**255**
Exchange rate contracts	**100**	**~**	**~**	**100**
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Debt securities	**130,076**	**~**	**~**	**130,076**
FINANCIAL LIABILITIES AT FVTPL				
Exchange rate contracts	**(57)**	**~**	**~**	**(57)**
	130,119	**~**	**255**	**130,374**

	2016			
31 DECEMBER 2016	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
FINANCIAL ASSETS AT FVTPL				
Debt securities	~	~	580	580
Exchange rate contracts	340	~	~	340
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Debt securities	92,794	63,732	~	156,526
FINANCIAL LIABILITIES AT FVTPL				
Exchange rate contracts	(177)	~	~	(177)
	92,957	63,732	580	157,269

29. PENSION SCHEME

The Bank operates a defined contribution scheme. The assets are held in a group personal pension plan and are separate from those of the Bank. This plan is independently administered. The pension cost charge of £437,858 (2016: £442,453) represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

30. TRANSACTIONS WITH MANAGERS

The aggregate amounts outstanding from persons of managerial grade or above at 31 December 2017 were £18,035 (2016: £20,537).

31. OPERATING LEASE COMMITMENTS

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

	Land and buildings	
	2017 £'000's	2016 £'000's
Leases which expire not later than one year	**91**	364
Leases which expire between two and five years	**~**	~
Leases which expire later than five years	**532**	~

32. CONTINGENT LIABILITIES

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

The Bank has exposures categorised as acceptances £129k (2016: nil) and letters of guarantee and letters of credit totalling £1,791k (2016:£2,778k). These exposures have maturity dates of less than 1 year and the Bank considers the likelihood of any outflow to be remote. Letters of guarantee total £14k (2016:£74k) and are payment guarantees issued in relation to underlying transactions in the travel and tourism industries and automotive parts supply industries.

The Bank also has undrawn loan facilities totalling £27,320k (2016: £30,880k) relating to the structured finance lending product. These facilities are drawn as the underlying development project proceeds towards completion and it is anticipated that the majority of the undrawn facility will be drawn before the facility matures. The exact timing of drawdowns cannot be determined as this is determined by the cash flow requirements of each project. The total contingent liability is composed of £13,593k (2016: £16,527k) relating to facilities expiring in less than 1 year and £13,727k (2016: £14,353k) relating to facilities maturing in 1 to 5 years.

33. RELATED PARTY TRANSACTIONS

Other than for the transactions with the shareholder banks included in note 7 and 16 there have been no related party transactions during 2017. All transactions with shareholder banks are undertaken on commercial terms and there have been no changes in these terms during the year. Emoluments paid to directors of the Bank during 2017 totalled £968,931 (2016: £1,188,853) (note 4).

Included within net interest income is £1,017,163 (2016: £682,934) in interest income from the Bank's shareholders and £1,711,637 (2016: £1,814,138) in interest expense paid to the Bank's shareholders.

34. CONTROLLING PARTY

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

35. POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

36. CORPORATE INFORMATION

Jordan International Bank Plc is a Public Limited Company, incorporated in the United Kingdom and registered in England and Wales. Its Company Registration Number is 01814093.

The company's registered office is:

Moreau House
116 Brompton Road
London
SW3 1JJ

37. PILLAR 3 DISCLOSURES

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

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