Jordan International Bank Plc

Report and Financial Statements 2018

Contents

Directors

Ammar Al-Safadi (Chairman)
Ian Schmiegelow (Deputy Chairman)
Hani Al-Qadi
Adel Assad
Riyad Taweel
Samer Al-Qadi
Nabil Hamadeh
Rakan Al-Tarawneh
Mark Williams

Secretary

Justine Goldberg

Shareholders

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

Registered Office

Almack House
26-28 King Street
London SW1Y 6QW

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, including structured property loans for real estate development and investment, trade finance, and certain treasury and private banking services to a range of individual and corporate clients as well as to a number of financial institutions. The Bank's clients and counterparties are predominantly located either in the UK or the Middle East. The Bank's primary business objective and current activities are described more fully in the Strategic Report and Directors Report both of which follow the Chairman's Statement.

Of particular note this year are the following: -

- For the year ended 31 December 2018 the Bank generated pre-tax profits of £4m (2017: £1.9m), the eighth consecutive year of profits generated by the Bank.
- Despite a more subdued property market and increased competition in lending to this sector, the Bank's Structured Property Finance department has maintained a sizeable lending book, retained its level of profitability and continued with its avoidance of any losses of capital.
- The Bank's financial statements for this year reflect the introduction of International Financial Reporting Standard (IFRS) 9 on 1 January 2018, replacing International Accounting Standard (IAS) 39 and include the required adjustment at the start of 2018.
- The Bank's deposit base was further diversified and strengthened by an increase of more than £26m (36%) in customer deposits from the start of 2018.
- The Bank moved into new refurbished premises in the prestigious St James's area of Central London, a location more in keeping with its ambitions to expand its private banking activities and other banking services.

The past year has been challenging with the continuing unsettled political and economic environment in the UK. At the time of writing it is still unclear whether or when the United Kingdom will leave the European Union. 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 profit before taxation for the year to 31 December 2018 amounted to £4.0m compared to £1.9m in 2017.

Jordan International Bank Plc (the 'Bank') is maintaining its strategy, initiated in 2011, of providing loans for real estate development and investment, trade finance, treasury services and private 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 private banking operations, increasing the volume of trade finance transactions, and strengthening the Bank's treasury activities. In the Bank's refreshed Strategic Plan approved in the year there are continuing plans to expand the Bank's Private Banking offering.

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.

During the year there were changes to the Board including my appointment as a Board Director and as the Board's Chairman. I also welcome the appointment of Mark Williams, the Bank's Chief Financial Officer which will strengthen Executive Management's representation on the Board.

In 2018 the Bank relocated into new larger premises in a central London location that is more appropriate to the Bank's business, expanded its product offering and continued 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.

Ammar Al-Safadi
Chairman
30 April 2019

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 selected prime areas in the UK;
- to provide trade finance services to clients involved in trade predominantly to or from the Middle East region;
- to provide fixed term deposit products and private banking services to customers from the UK, Jordan and the wider Middle East region;
- to provide treasury services (foreign exchange, money market and securities) to customers and counterparties of the Bank.

The Bank operates from a single office in the Piccadilly/St James's area in London from where services are provided by a properly supported team of professionals. The Bank moved into a new refurbished building in May 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 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 private banking team provides fixed-term, 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, the Bank's Chief Executive Officer and Chief Financial 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.

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).

Day-to-day responsibility of the Bank is the primary responsibility of the Executive Committee to which its authority has been 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 as and when necessary.

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. The actual profit each month is compared to the budgeted profit each month and variances are understood and explained. 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.

Business review

The Bank has reported pre-tax profit for the year of £4.0m (2017: £1.9m), a return on average equity of 2.04% (2017: 3.8%) and a cost income ratio of 68% (2017: 73%).

The Bank has achieved pre-tax profits in recent years as shown in the table below. Income has risen in 2018 compared to the previous year. At the same time the cost base has only risen marginally resulting in a reduced cost/income ratio for this year compared to the previous year.

	2014	2015	2016	2017	2018
Pre-tax profit £m	6.25	5.97	5.82	1.89	**4.0**
Cost/Income ratio %	48	54	62	73	**68**
Return on average equity %	7.6	5.9	7.0	3.8	**2.04**
Equity £m	60.99	74.90	80.12	83.10	**84.57**

For the year ended 31 December 2018 the asset backed lending book closed the year at a slightly higher overall level to the prior year resulting in a slight increase in interest income compared to the previous 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 increased year on year by circa 23%. Although the Bank's total portfolio of securities reduced in value during the year as maturities outweighed purchases, the portfolio benefited from increased yields. 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 125% 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 Bank's Strategic plan which was approved in the year is principally one of organically growing and strengthening two of its current business lines, Structured Property Finance and Private Banking. It is intended to enhance revenue streams through the introduction of additional Private Banking products, a later one being a mortgage offering for overseas High Net Worth individuals, to enhance revenue streams.

Principal risks for the business

The Bank is subject to risks and uncertainties from a range of sources. The principal risks are: geo-political risk; market risk; credit risk; development risk (in the case of structured property finance loans); and regulatory risk.

Geopolitical risk

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.

At the time of writing there is great political and economic uncertainty as it is still unclear whether or when the United Kingdom will leave the European Union (EU). Although the Bank has no cross EU border business it could be exposed to any resulting effects on interest rates, foreign exchange rates and property valuations. The Bank continues to monitor the current political and economic situation and will if necessary review its risk appetite depending on the severity of any changes. The Bank believes that its current risk appetite and limits are conservative and it has sufficient capital and liquidity to withstand any potential economic shocks following the UK's withdrawal from the EU.

Market risk

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 a greater risk of adverse price movements. To counter this risk: 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.

Credit risk

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.

Development risk

The structured property loan portfolio is formed of circa 47% development loans for the purpose of building new houses, small apartment buildings or blocks of apartment buildings, while the remaining 53% 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.

Since the Bank adopted its current lending strategy it has only incurred minimal impairment charges. The Bank firmly believes that its strict lending criteria will keep future losses to a minimum.

Regulatory risk

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.

Going concern

The Bank has now produced profits for eight consecutive years. The Bank continues to focus upon the areas of structured property lending, trade finance, private 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 since 2016 reflecting the stronger capital position resulting from shareholder support and retained income in prior years.

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

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

.

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

Rakan Al-Tarawneh
30 April 2019

Introduction

The directors present their annual report and audited financial statements for the year ended 31st December 2018.

Results and dividends

The total profit for the year after taxation amounted to £3.3m (2017: £1.46m). The directors recommend that no dividend be paid (2017: £nil).

Directors

The directors of the Bank who served during the year together with their appointment date or resignation date (if applicable) are shown below:

Directors	Appointment date in 2018	Resignation date in 2018
Ammar Al-Safadi	16 December 2018	
Ian Schmiegelow		
Hani Al-Qadi		
Adel Assad		
Riyad Taweel		
Samer Al-Qadi		
Nabil Hamadeh		
Rakan Al-Tarawneh		
Mark Williams	29 November 2018	
Ihab Saadi		10 November 2018

Payment policy

It is the Bank's policy to pay suppliers as they fall due. At 31 December 2018, the Bank's trade creditors had been outstanding for an average of 8 days (2017: 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. This includes directors who retired or resigned during the year.

Substantial shareholders

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

Principal activities, business review and future outlook

The Bank's principal activities, business review for the year and future outlook are referred to in the Strategic Report on pages 5 to 8.

Financial risk management

The Bank has exposure to a number of risks. A description of how these risks are managed is provided in note 29 Risk Management.

Financial reporting standards

The directors have prepared the Bank's financial statements for the year ended 31 December 2018 under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Subsequent events

The directors are not aware of any subsequent events that have taken place between 31 December 2018 and the date of the approval of these Financial Statements.

Going concern

The directors have reviewed the business activities and financial position of the Bank and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. For further details please refer to the Going concern section on page 8 within the strategic report. The directors have used the going concern basis in preparing the financial statements.

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.

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

Rakan Al-Tarawneh
30 April 2019

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 FRS 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 of Jordan International Bank Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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 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 39.

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 Financial Reporting Council's (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 matter that we identified in the current year was loan impairment and provisioning. We have not identified 'Management override of controls' as a key audit matter in current year
Materiality	The materiality that we used in the current year was £1.27m which was determined on the basis of 1.5% of net asset value.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We have revised our materiality benchmark from profit before tax to net assets in the current year to better align it with the key performance metrics by the users of the financial statements for the company's evaluation.

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 the 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.

Independent Auditor's Report (continued)

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.

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 IMPAIRMENT AND 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 £168m (2017: £158m). Impairment and provisioning is one of the most significant estimates made by the company's directors and management in preparing financial statements. Refer to the accounting policy note 1(h) in relation to the impairment of these loans on page 35 (Accounting policies) and page 38 (Critical accounting judgements and key sources of estimation uncertainty). The significant judgements include whether an impairment is required or not, and the level of provision required for loans that are considered to be impaired. These are considered on a case-by-case basis, and therefore, there is an inherent degree of subjectivity, and a corresponding increased risk of material misstatement. The audit committee reviews significant judgements in relation to financial reporting. Management apply IFRS 9 under FRS 102. This replaces the "incurred loss" model under FRS 102 with a forward looking "expected credit loss" (ECL) model. Based on the assets classification under the three stage impairment model, loans are impaired either through a 12 month ECL, or a loss allowance based on the lifetime expected losses. With the implementation of the expected loss model under IFRS 9 and limited historic data available, there is a risk of material misstatement relating to the identification of impairment triggers and the subsequent valuation of loan loss provisions on impaired loans (loans classified in Stage 3).

Independent Auditor's Report (continued)

LOAN IMPAIRMENT AND PROVISIONING (continued)	
How the scope of our audit responded to the key audit matter	To respond to this key audit matter, we have: • Evaluated the design and implementation of the key controls related to the company's impairment assessment process and provisioning calculation. This included an assessment of the credit sanctioning, credit monitoring and credit provisioning of loans and receivables; • Reviewed the classification and measurement of all loans to assess whether they comply with IFRS 9 requirements following the transition from IAS 39. Reviewed inputs and challenged the key assumptions within the ECL model to test that these is consistent with the IFRS 9 methodology and appropriate for the company's portfolio, such as the "significant increase in credit risk" definition and hence the categorisation of loans between stage 1 and 2. • Reviewed the Executive Committee minutes to identify any problematic borrowers and any recent decisions made. We have also reviewed the watch list and early warning reports and reassessed the judgements made by management regarding any stage 3 loans. • Tested the levels of impairment calculated using the expected credit loss model, by assessing the reasonableness of the variables such as probability of default ('PD'), loss given default ('LGD'), and exposure at default ('EAD') and performing stress testing over LGD percentages utilised by the client. • Tested a sample of loans for a significant increase in credit risk, ensuring these loans have been appropriately disclosed within the correct stages (Levels 1-3) in accordance with IFRS 9. • Performed a macroeconomic scenario analysis, including the potential impact of Brexit, where we have assessed the sensitivity of both favourable and unfavourable economic scenarios and their impact on the ECL.
Key observations	We conclude that the loan provisioning amount and related disclosures are reasonable.

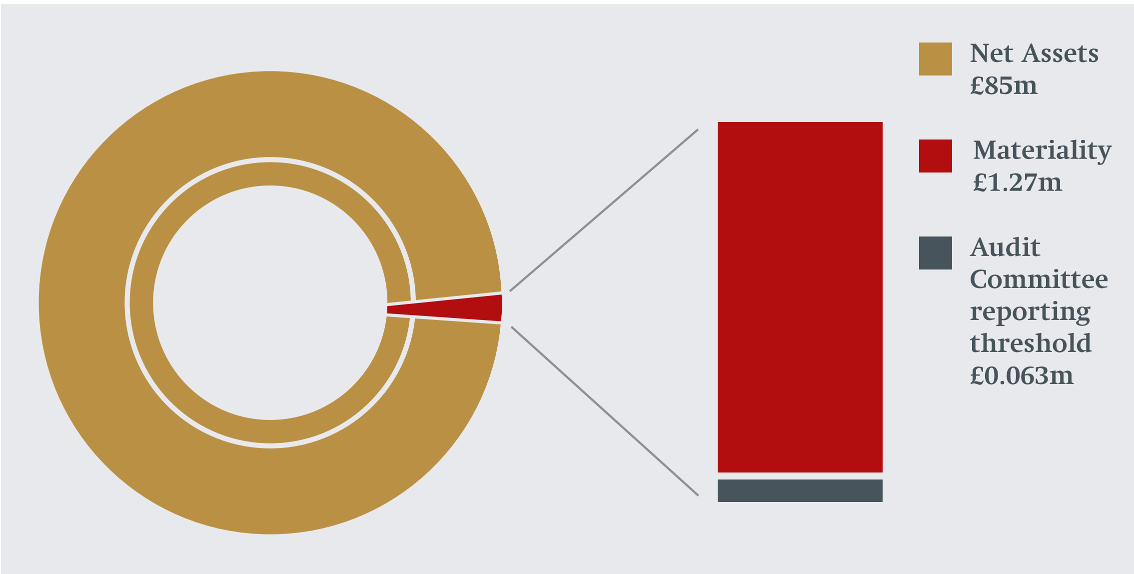
Independent Auditor's Report (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements which 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	£1.27m (2017: £328k)
Basis for determining materiality	1.5% of Net Assets (8% of adjusted pre-tax profit)
Rationale for the benchmark applied	We have used 'Net Assets' as the benchmark for the determination of audit materiality in the current year. This approach has been chosen taking into account the following key factors: The Net assets is a key metric within the financial statements that the users, being the owners of the company, tend to focus on when evaluating the company's performance on a periodic basis; and Net assets is a more stable benchmark considering the volatility in the company's results on an annual basis and is also a basis for regulatory capital.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £63k (2017: £16k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Compliance 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. Our audit approach was a fully substantive audit, focussing on the key audit matters, material accounts and disclosure balances. It was supported by an understanding of relevant business processes and 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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)

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management and the Audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Discussing among the engagement team and involving relevant internal specialists, including tax, valuations, Centre of Credit Excellence ('CCE') and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in loan impairment and provisioning.
- Obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, the Prudential Regulation Authority Rulebook, the Financial Conduct Authority Handbook and tax legislation. In addition, compliance with terms of the company's regulatory solvency requirements were fundamental to the company's ability to continue as a going concern.

Independent Auditor's Report (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

Audit response to risks identified

As a result of performing the above, we identified loan impairment and provisioning as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In additional to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA and the PRA; and
- in addressing the risk of fraud, through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report (continued)

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.

We have nothing to report in respect of these matters.

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 this matter.

Independent Auditor's Report (continued)

Other matters

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 2018.

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).

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.

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

30 April 2019

Profit & Loss Account

Year Ended 31 December 2018

	Notes	2018 £'000's	2017 £'000's
INTEREST INCOME			
Interest receivable and similar income arising from debt securities	3	**3,420**	2,794
Other interest receivable and similar income	3	**12,873**	11,585
		16,293	14,379
Interest payable	3	**(6,045)**	(4,822)
NET INTEREST INCOME		**10,248**	9,557
NON-INTEREST INCOME			
Fees and commissions		**2,031**	2,018
Dealing profits	6	**34**	109
Other operating income		**4**	6
Profit on disposal of securities	6	**262**	26
Fair value changes in assets held at FVTPL	6	**(10)**	(17)
TOTAL OPERATING INCOME		**12,569**	11,699
Administrative expenses	4	**(5,255)**	(5,807)
Depreciation	6, 16	**(426)**	(451)
Other operating charges		**(2,984)**	(2,267)
Impairment of loans and advances	12	**102**	(116)
Revaluation movement from OCI	25	**~**	(2,139)
Other gains	13	**~**	976
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	**4,006**	1,895
Tax (charge) on profit on ordinary activities	7	**(660)**	(435)
PROFIT FOR THE FINANCIAL YEAR	25	**3,346**	1,460

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.

Profit & Loss Account (continued)

Year Ended 31 December 2018

	Notes	2018 £'000's	2017 £'000's
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR			
Profit for the financial year		**3,346**	1,460
Items that may subsequently be reclassified to profit and loss:		**~**	~
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income		**~**	~
- Change in fair value	15,25	**(1,946)**	(229)
- Tax	7,25	**352**	(337)
- Income statement transfer	25	**~**	2,139
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,752**	3,033

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 2018

	Notes	2018 £'000's	2017 £'000's
ASSETS			
Cash		**83**	106
Nostros		**10,104**	7,560
Loans and advances to shareholder banks	8	**39,954**	36,129
Loans and advances to other banks	9	**36,766**	47,919
Loans and advances to customers	10	**168,221**	157,923
Investments in debt securities	15	**125,371**	137,846
Tangible fixed assets	16	**1,859**	1,132
Other assets	17	**548**	494
Deferred tax	7	**2,348**	2,101
Prepayments and accrued income		**1,951**	1,897
TOTAL ASSETS		**387,205**	393,107
LIABILITIES			
Deposits by shareholder banks	18	**118,252**	106,835
Deposits by other banks	19	**80,699**	124,563
Customer accounts	20	**99,516**	73,435
Other liabilities	21	**1,780**	1,497
Accruals and deferred income		**2,388**	3,629
TOTAL LIABILITIES		**302,635**	309,959

Balance Sheet (continued)
As at 31 December 2018

	Notes	2018 £'000's	2017 £'000's
Called-up share capital	23	**65,000**	65,000
Share premium	24	**316**	316
Revaluation reserve	25	**(978)**	616
Profit and loss account	25	**20,232**	17,216
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		**84,570**	83,148
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**387,205**	393,107

These financial statements of Jordan International Bank Plc, Registered No. 01814093, were approved by the Board of Directors and authorised for issue on 30 April 2019.

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 2018

2018	Share Capital £'000's	Share Premium £'000's	Securities Revaluation Reserve £'000's	Profit & Loss £'000's	Total £'000's
BALANCE AT 31 DECEMBER 2017	65,000	316	616	17,216	83,148
Adjustment on adoption of IFRS 9 (net of deferred tax)	~	~	~	(330)	(330)
BALANCE AT 1 JANUARY 2018	**65,000**	**316**	**616**	**16,886**	**82,818**
Shares issued and paid	~	~	~	~	~
Movement in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax	~	~	(1,594)	~	(1,594)
Profit retained for the year	~	~	~	3,346	3,346
CLOSING BALANCE AT 31 DECEMBER 2018	**65,000**	**316**	**(978)**	**20,232**	**84,570**

2017	Share Capital £'000's	Share Premium £'000's	Securities Revaluation Reserve £'000's	Profit & Loss £'000's	Total £'000's
BALANCE AT 01 JANUARY 2017	65,000	316	(957)	15,756	80,115
Shares issued and paid	~	~	~	~	~
Movement in revaluation reserve in respect of available for sale financial assets	~	~	(229)	~	(229)
Securities revaluation – income statement transfer, net of tax	~	~	1,802	~	1,802
Profit retained for the year	~	~	~	1,460	1,460
CLOSING BALANCE AT 31 DECEMBER 2017	65,000	316	616	17,216	83,148

Further details of movements in the Bank's share capital, reserves and other equity instruments are provided in note 25.

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

Cash Flow Statement

Year Ended 31 December 2018

	Notes	2018 £'000's	2017 £'000's
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	26	**(60,350)**	(26,140)
CASHFLOWS FROM FINANCING ACTIVITIES			
Increase in long term customer accounts		**7,428**	~
NET CASH (USED IN)/GENERATED BY INVESTING ACTIVITIES		**7,428**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets	15	**(102,879)**	(115,414)
Proceeds from the sale and maturity of financial assets	15	**99,096**	128,302
Interest received from debt securities		**3,290**	2,969
Other assets sold	13	**~**	976
Purchase of tangible fixed assets	16	**(1,153)**	(727)
NET CASH (USED IN)/GENERATED BY INVESTING ACTIVITIES		**(1,646)**	16,106
DECREASE IN CASH AND CASH EQUIVALENTS		**(54,568)**	(10,034)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27	**65,625**	75,659
Movement in cash and cash equivalents		**(56,556)**	(14,512)
Effect of foreign exchange rate changes		**1,988**	4,478
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**11,057**	65,625

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

Notes to the Accounts

Year Ended 31 December 2018

1. ACCOUNTING POLICIES

a) Statement of Compliance

Accounting convention - The accounts have been prepared in accordance with applicable law and Accounting Standards in the United Kingdom, under the historical cost convention basis as modified by the revaluation of derivatives and financial assets measured at fair value through other comprehensive income. Although Jordan International Bank is a Public Limited Company, it is unlisted, and consequently the financial statements are prepared under FRS102 & IFRS 9 (replacing IAS 39). A summary of the accounting policies is set out below. Except where indicated they have been applied consistently throughout the current and preceding year.

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 registered office address is:

Almack House
26–28 King Street
London
SW1Y 6QW.

Statement of compliance - The Bank has adopted IFRS 9 with effect from 1 January 2018.

IFRS 9 replaces IAS 39 and addresses classification, measurement and de-recognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income, expected credit loss provisions for loan commitments and financial guarantee contracts and general hedge accounting.

Impairment: IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

b) Going concern

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.

1. ACCOUNTING POLICIES (CONTINUED)

b) Going concern (continued)

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.

c) 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 (before adjusting for expected credit losses). 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.

d) Fees and commissions

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. The greater part of the Bank's fee income arise from its structured property lending where initial and exit fees are accounted for over the life of the loan facilities. Other fee income is generated from the Bank's trade finance and private banking activities where fees are taken to income on the completion of the relevant transaction.

e) Other operating income

As part of its Trade Finance activities the Bank is reimbursed for its communication and courier charges incurred.

f) Foreign currencies

Functional and presentation currency - The Bank's functional currency is sterling.

Transactions and balances - 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.

1. ACCOUNTING POLICIES (CONTINUED)

g) New and amended Standards and interpretations effective for the financial year ending 31 December 2018

The Bank has adopted IFRS 9 with effect from 1 January 2018. As permitted by IFRS 9, comparative information for previous periods have not been restated.

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 other comprehensive income or fair value through profit and loss which are initially measured at fair value. Under IFRS 9, the classification and subsequent measurement of financial assets is principally determined by the Bank's business model and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Under IFRS 9 financial assets are classified according to the following business models: Hold to collect (financial instruments measured at amortised cost), Hold to collect and sell (financial assets measured at fair value through comprehensive income), and Hold to sell (financial instruments measured at fair value through profit and loss).

Financial assets measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks together with certain debt securities. Interest income is accounted for using the effective interest method.

Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Profit and Loss statement. The Bank recognises a charge for expected credit losses in the income statement. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

Financial assets measured at fair value through profit and loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within total operating income.

1. ACCOUNTING POLICIES (CONTINUED)

g) New and amended Standards and interpretations effective for the financial year ending 31 December 2018 (continued)

The Bank has assessed its business models in order to determine the appropriate IFRS 9 classification for its financial assets. With the exception of a segment of its securities portfolio, financial assets are 'held to collect'.

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.

Impact on the Financial Statements

The impact on the Bank's financial position of applying IFRS 9 requirements is set out below;

IFRS 9 has been adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are therefore not necessarily comparable to the loss provisions reported for the current period.

Implementation of IFRS 9 resulted in a £330k reduction in the Bank's opening equity at 1 January 2018. There has been no change in the carrying amount of financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an expected credit loss (ECL) approach.

The following table shows the adjustments recognised for each individual line item affected by the application of IFRS 9 at 1 January 2018. The application of IFRS 9 had no impact on the cash flows of the Bank.

STATEMENT OF FINANCIAL POSITION	31/12/17 as originally presented £'000's	IFRS 9 adj-classification £'000's	IFRS adj-Expected Credit Loss £'000's	01/01/18 Restated £'000's
ASSETS				
Loans and advances to shareholder banks	36,129	~	(10)	**36,119**
Loans and advances to other banks	47,919	~	19	**47,938**
Loans and advances to customers	157,923	~	8	**157,931**
Investment in debt securities	137,846	~	(303)	**137,543**
Deferred tax asset	2,101	~	(44)	**2,057**
EQUITY				
Retained profit	17,216	~	(330)	**16,886**

Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

1. ACCOUNTING POLICIES (CONTINUED)

g) New and amended Standards and interpretations effective for the financial year ending 31 December 2018 (continued)

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 1(h). In accordance with the transitional provisions in IFRS 9(7.2.15), comparative figures have not been restated. The Bank does not use hedge accounting.

The total impact on the Bank's retained profit as at 1 January 2018 is as follows;

	2018 £'000's	2017 £'000's
Closing profit & loss account 31 December - IAS 39	**17,216**	15,756
Increase in provision for financial assets	**(286)**	~
Decrease in deferred tax assets relating to impairment provision	**(44)**	~
Opening profit & loss account 1 January – IFRS 9	**16,886**	15,756

Amounts receivable from financial assets

The amounts receivable from financial assets as at 31 December 2017 reconcile to the opening receivables balance on 1 January 2018 as follows:

AMOUNTS RECEIVABLE FROM FINANCIAL ASSETS	Loans and advances to shareholder banks £'000's	Loans and advances to other banks £'000's	Loans and advances to customers £'000's	Debt securities £'000's	Total £'000's
At 31 December 2017 – (calculated under IAS 39)	36,129	47,919	157,923	137,846	379,817
Amounts restated through opening reserves	(10)	19	8	(303)	(286)
Opening net balances at 1 January 2018 - (calculated under IFRS 9)	**36,119**	**47,938**	**157,931**	**137,543**	**379,531**

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to these asset classes.

1. ACCOUNTING POLICIES (CONTINUED)

g) New and amended Standards and interpretations effective for the financial year ending 31 December 2018 (continued)

To measure the expected credit losses, the financial assets have been grouped based on stages 1, 2 & 3. A summary by stage as at 1 January 2018 was determined as follows;

	Stage 1 £'000's	Stage 2 £'000's	Stage 3 £'000's	Total £'000's
LOANS AND ADVANCES TO SHAREHOLDER BANKS				
Gross carrying amount	36,129	~	~	36,129
Impairment provision	(9)	~	~	(9)
Net amounts receivable	36,120	~	~	36,120
LOANS AND ADVANCES TO OTHER BANKS				
Gross carrying amount	47,919	~	~	47,919
Impairment provision	(100)	~	~	(100)
Net amounts receivable	47,819	~	~	47,819
LOANS AND ADVANCES TO CUSTOMERS				
Gross carrying amount	147,809	2,187	7,927	157,923
Impairment provision	(36)	(11)	~	(47)
Net amounts receivable	147,773	2,176	7,927	157,876
DEBT SECURITIES				
Gross carrying amount	133,690	3,479	677	137,846
Impairment provision	(180)	(138)	~	(318)
Net amounts receivable	133,510	3,341	677	137,528

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Bank's management has assessed the financial instruments held by the Bank and determined whether reclassification was needed under IFRS 9. Financial assets and financial liabilities of the Bank comprise cash, loans and receivables, securities and bank borrowings. With the exception of securities measured at fair value though other comprehensive income, these are measured at amortised cost and there is no change in classification from IAS 39 under IFRS 9.

Notes to the Accounts

Year Ended 31 December 2018

1. ACCOUNTING POLICIES (CONTINUED)

h) Impairment of financial assets (see also note 29 –Risk Management)

The impairment charge in the Profit and Loss statement reflects the change in both Expected Credit Losses (ECL) as measured under IFRS 9 and net recoveries on specific provisions. ECL's are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. ECL's are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Bank at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

ECL's are required to be measured through a loss allowance at an amount equal to:

12- month ECL results

A lifetime ECL that results from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or

Full lifetime ECL results

A lifetime ECL that results from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECL's are measured at an amount equal to the 12-month ECL.

Credit impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit impaired financial assets are referred to as Stage 3 assets. If there is objective evidence that an impairment loss on a financial instrument measured at amortised cost 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 is 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.

When such a 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.

1. ACCOUNTING POLICIES (CONTINUED)

h) Impairment of financial assets (continued)

For financial assets measured at fair value through other comprehensive income, where there has been a significant or prolonged decline in the fair value of that asset this is considered to be objective evidence of impairment. When an financial asset measured at fair value is considered to be impaired , cumulative gains or losses previously recognised in the Statement of comprehensive income are reclassified to profit & loss in the period.

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 ECL.

Significant increase in credit risk -The Bank monitors all financial assets, loan commitments and financial guarantees to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

The Bank considers a 3 notch downgrade in internal credit grade as a significant increase in credit risk, however, since a significant increase in credit risk is a relative measure, a given change, in absolute terms, in the internal credit grade will be more significant for a financial asset with a lower internal credit grade compared to a financial asset with a higher internal credit grade.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses.

In determining whether there has been a significant increase in credit risk, the Bank uses quantitative tests based on probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty.

Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired.

Definition of default - The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12 –month or lifetime ECL.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligations, the Bank takes into account both qualitative and quantitative indicators.

1. ACCOUNTING POLICIES (CONTINUED)

h) Impairment of financial assets (continued)

Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Bank uses this 90 day backstop for all its exposures. The loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2).

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.. For property lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third party valuations) is available that there has been an irreversible decline in expected cash flows.

i) Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. In the case of Jordan International Bank these include deposits by shareholder banks, deposits by other banks, deposits from customers, other financial liabilities and accruals.

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.

j) Derivative Instrument

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, 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.

1. ACCOUNTING POLICIES (CONTINUED)

k) Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements in applying the Bank's accounting policies

Significant increase in credit risk: As explained in note 1(h) above and note 29, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Models and assumptions used: The Bank uses various assumptions when estimating ECL Judgement is applied in determining the assumptions including those that relate to key drivers of credit risk.

Probability of default - Probability of default (PD) constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Definition of default - See note 1 (h) (impairment of financial assets) on page 29.

Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Establishing the number and relative weightings of forward-looking scenarios for each product - When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss Given Default - Loss Given Default (LGD) is an estimate of the loss arising on default. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

l) 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.

m) Tangible fixed assets

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.

1. ACCOUNTING POLICIES (CONTINUED)

m) Tangible fixed asset (continued)

Fixed assets are considered for impairment on an annual basis.

Typical tangible fixed assets relevant to the Bank are:

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

Office fit-out costs are amortised over the life of the relevant lease term. All other fixed assets are amortised over 5 years.

n) Taxation

Tax expense comprises current and deferred tax.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible and 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.

0) 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 31).

p) Operating leases

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

q) Cash

Cash comprise 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.

1. ACCOUNTING POLICIES (CONTINUED)

r) Cash equivalents

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.

2. SEGMENTAL INFORMATION

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

3. NET INTEREST INCOME

Net interest received during the year was as follows:

	2018 £'000's	2017 £'000's
INTEREST AND SIMILAR INCOME FROM DEBT SECURITIES		
Financial assets at fair value through other comprehensive income	**3,078**	~
Available-for-sale securities	**~**	2,601
Fair value through profit & loss securities	**~**	35
Debt securities held at amortised cost	**342**	~
Held-to-maturity securities	**~**	158
	3,420	2,794
OTHER INTEREST RECEIVABLE AND SIMILAR INCOME		
Loans and advances to Banks	**2,952**	1,949
Loans and advances to customers	**9,921**	9,636
Total interest receivable	**12,873**	11,585
INTEREST PAYABLE		
Deposits from banks	**(3,759)**	(3,203)
Deposits from customers	**(2,286)**	(1,619)
Total interest payable	**(6,045)**	(4,822)
Net interest income	**10,248**	9,557

4. ADMINISTRATIVE EXPENSES

Staff costs including directors:

	2018 £'000's	2017 £'000's
Salaries	**3,654**	4,218
Social security costs	**448**	533
Other pension costs (note 31)	**456**	438
	4,558	5,189
Other administrative expenses	**697**	618
	5,255	5,807

In line with Companies Act requirements average number of persons employed by the Bank in 2018 was 39 (2017: 43), made up as follows:

	2018 No,	2017 No.
Retail banking	**4**	4
Corporate banking	**7**	8
Treasury and dealing activities	**5**	5
Other support staff	**23**	26
	39	43

5. DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments paid to directors consisted of:

	2018 £'000's	2017 £'000's
Fees	**274**	547
Salaries	**344**	401
Other	**33**	32
	651	980

Emoluments paid and contributions paid into a money purchase pension scheme on behalf of the highest paid director during 2018 were £376k (2017: £390k) and £30k (2017: £28k) respectively. The total value of contributions paid to a money purchase pension scheme in respect of directors qualifying services amounted to £30k. The Bank does not operate a defined benefit scheme.

During the year the Bank paid £250k (2017:nil) to its parent company for services performed by its representatives on the Bank's Board of Directors.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after (crediting)/charging:

	2018 £'000's	2017 £'000's
(i) Income:		
Dealing profits from treasury activities	**(34)**	(109)
Profits on disposal of debt securities	**(262)**	(26)
Net loss on financial assets and liabilities;		
– designated at fair value through profit and loss	**10**	17
(ii) Charges:		
Impairment (recovery)/charge	**(102)**	116
Recoveries	**~**	(976)
Depreciation on owned assets	**426**	451
Securities revaluation from OCI	**~**	2,139
Statutory auditors' remuneration;		
– Statutory audit of Financial Statements	**70**	70
– Taxation services	**~**	4
– Audit related assurance services	**11**	12
	81	86
(iii) Compliance work/consultancy cost		
- Taxation	**22**	11
- Other services	**33**	29
	55	40
Rental on land and buildings	**723**	598

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Based on profit for the year:	2018 £'000's	2017 £'000's
United Kingdom corporation tax	**601**	361
Adjustments in respect of prior periods	**(2)**	(1)
	599	360
Deferred tax – current year	**104**	39
Deferred tax – prior year adjustment	**(1)**	1
Deferred tax – rate change (from 19% to 17.26%)	**(42)**	35
Total tax charge for the year	**660**	435

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:

	2018 £'000's	2017 £'000's
Profit on ordinary activities before tax	**4,006**	1,895
Tax charge on profit on ordinary activities at 19% (2017: 19.25%)	**761**	365
Effects of:		
– Expenses not deductible for tax purposes	**6**	5
– FVOCI reserve movements	**(61)**	30
– Difference between actual and expected tax rates	**(43)**	35
– Adjustments to prior years	**(3)**	~
Total tax charge for the year	**660**	435

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is a credit of £307,613 (2017 charge: £337,221).

The standard rate of tax applied to reported profit on ordinary activities is 19% (2017: 19.25%). The applicable tax rate changed following the enactment of the Finance Act 2015 and Finance (No.2) Act 2015.

The net reversal in the deferred tax asset for 2019 is estimated at £287,836. The UK corporation tax rate is expected to fall to 17% for the financial year beginning April 2020..

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The movement on deferred taxation balance in the period is:

	2018 £'000's	2017 £'000's
Opening balance	**2,101**	2,513
Adjustment on adoption of IFRS 9	**(44)**	
Charge to profit and loss account	**(61)**	(75)
Credit/(Charge) to Other Comprehensive Income	**352**	(337)
Closing balance	**2,348**	2,101
Analysis of deferred tax balance:		
Accelerated capital allowances	**(52)**	(33)
Tax losses	**2,224**	2,392
Short-term timing differences	**176**	(258)
Deferred tax assets recognised	**2,348**	2,101

8. LOANS AND ADVANCES TO SHAREHOLDER BANKS AT AMORTISED COST

	2018 £'000's	2017 £'000's
Repayable		
– on demand	**2,260**	36,129
– within 3 months	**37,708**	~
Expected credit loss – Stage 1 (see page 48)	**(14)**	~
	39,954	36,129

9. LOANS AND ADVANCES TO OTHER BANKS AT AMORTISED COST

	2018 £'000's	2017 £'000's
Repayable		
– on demand	**15,704**	13,200
– within three months	**17,375**	18,049
– between three months and one year	**3,731**	16,670
Expected credit loss – Stage 1 (see page 48)	**(44)**	~
	36,766	47,919

10. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2018 £'000's	2017 £'000's
Repayable		
– on demand	**4,624**	9,395
– within three months	**51,784**	34,005
– between three months and one year	**32,348**	55,474
– between one and five years	**79,517**	59,509
Less specific provision for losses	**~**	(460)
Expected credit loss – Stage 1 (see page 48)	**(27)**	~
Expected credit loss – Stage 2 (see page 48)	**(25)**	~
	168,221	157,923

11. IMPAIRMENT ALLOWANCES

ANALYSIS OF TOTAL MOVEMENT IN PROVISIONS	2018 £'000's	2017 £'000's
At 1 January	**649**	535
Adjustment on adoption of IFRS 9	**286**	~
(Credit)/Charge to profit and loss	**(102)**	116
Other adjustments	**(306)**	(2)
At 31 December	**527**	649

From the above table the charge to profit and loss of £102k comprises the IFRS transitional adjustment (charge) of £286k and the £388k credit to profit and loss.

11. IMPAIRMENT ALLOWANCES (CONTINUED)

Analysis of movement in the allowance for impairment losses by Stage.

	Stage 1 £'000's	Stage 2 £'000's	Stage 3 £'000's	Total £'000's
In respect of drawn balances				
Balance at 31 December 2017	98	49	~	147
Adjustment on adoption of IFRS 9 (see note 12)	201	100	~	301
Balance at 1 January 2018	**299**	**149**	**~**	**448**
Transfers to Stage 2	**~**	**~**	**~**	**~**
Transfers to Stage 3	**~**	**(11)**	**11**	**~**
Charge to the income statement	**47**	**(4)**	**~**	**43**
At 31 December 2018	**346**	**134**	**11**	**491**

	Stage 1 £'000's	Stage 2 £'000's	Stage 3 £'000's	Total £'000's
In respect of undrawn balances				
Balance at 31 December 2017	**41**	**~**	**~**	**41**
Adjustment on adoption of IFRS 9 (see note 12)	**(15)**	**~**	**~**	**(15)**
Balance at 1 January 2018	**26**	**~**	**~**	**26**
Transfers to Stage 2	**~**	**~**	**~**	**~**
Charge to the income statement	**10**	**~**	**~**	**10**
At 31 December 2018	**36**	**~**	**~**	**36**
TOTAL	**382**	**134**	**11**	**527**

11. IMPAIRMENT ALLOWANCES (CONTINUED)

ANALYSIS OF EXPECTED CREDIT LOSS ALLOWANCE BY CLASS	£'000's
Loans & Advances to Shareholder banks	**14**
Loans & Advances to other banks	**44**
Loans & Advances to customers	**52**
Debt securities at amortised cost	**85**
Debt securities at FVOCI	**296**
	491
Undrawn commitments	**36**
	527

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at 31 December.

Net increase and decrease in balances comprise the movements in the expected credit loss as a result of new loans originated and repayments of outstanding balances throughout the reporting period.

12. IMPAIRMENT CHARGE

	2018 £'000's	2017 £'000's
Expected credit loss allowance for year	**(53)**	~
Release of provision	**344**	~
Increase in provision	**~**	(144)
Other movements/charges	**(189)**	~
Collective provision for year	**~**	28
	102	(116)

The net impairment credit of £102,416 in the profit and loss represents the net credit in the ECL provision during the year totalling £53,006 less a net impairment credit of £155,483 on provisions (£344,000 provision release less net other adjustments of £188,517).

13. OTHER GAINS

During 2017 the Bank recovered a net £975,755 relating to an asset which had previously been written off. No such gains were realised in 2018.

14. CONCENTRATIONS OF CREDIT RISK

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

	2018 £'000's	2017 £'000's
UK	**193,641**	177,367
OECD	**90,061**	91,379
Jordan	**44,025**	51,239
Arab/Middle East	**46,746**	41,525
Other	**12,732**	31,597
	387,205	393,107

The following industry concentrations are considered significant:

	2018 £'000's	2017 £'000's
Government/Quasi-Government	**87,585**	99,343
Banks	**102,911**	104,070
Property	**168,196**	157,891
Other	**28,513**	31,803
	387,205	393,107

15. INVESTMENTS IN DEBT SECURITIES

2018	Govt securities £'000's	Other debt securities £'000's	Total £'000's
Amortised cost	**3,904**	**4,780**	**8,684**
Financial assets measured at fair value through other comprehensive income	**84,035**	**33,033**	**117,068**
Expected credit losses	**(355)**	**(26)**	**(381)**
At 31 December 2018	**87,584**	**37,787**	**125,371**
2017			
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

15. INVESTMENTS IN DEBT SECURITIES (CONTINUED)

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

2018	Amortised Cost £'000's	FVOCI £'000's	Total £'000's
At 1 January	**7,519**	**130,327**	**137,846**
Additions*	**3,095**	**108,566**	**111,661**
Disposals and maturities	**(3,059)**	**(128,066)**	**(131,125)**
Exchange adjustment	**1,130**	**8,186**	**9,316**
Revaluation	**~**	**(1,946)**	**(1,946)**
Expected Credit Loss allowance	**(86)**	**(295)**	**(381)**
At 31 December 2018	**8,599**	**116,772**	**125,371**

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

*Included in the 2018 additions above include securities amounting to £102,789k which have a residual maturity of greater than 3 months at reporting date.

16. TANGIBLE FIXED ASSETS

	Furniture, fittings and office equipment £'000's	Improvement to leasehold premises £'000's	Total £'000's
COST			
At 1 January 2018	**2,538**	**439**	**2,977**
Additions	**395**	**758**	**1,153**
Disposals	**(2)**	**(439)**	**(441)**
At 31 December 2018	**2,931**	**758**	**3,689**
DEPRECIATION			
At 1 January 2018	**1,406**	**439**	**1,845**
Charge for the year	**374**	**52**	**426**
Disposals	**(2)**	**(439)**	**(441)**
At 31 December 2018	**1,778**	**52**	**1,830**
NET BOOK VALUE			
At 31 December 2018	**1,153**	**706**	**1,859**
At 31 December 2017	1,132	~	1,132

17. OTHER ASSETS

	2018 £'000's	2017 £'000's
Sundry loan receivables	**439**	394
Derivatives at fair value (note 28)	**109**	100
	548	494

18. DEPOSITS BY SHAREHOLDER BANKS

Repayable	2018 £'000's	2017 £'000's
– on demand	**15,219**	12,625
– within three months	**29,110**	23,831
– between three months and one year	**73,923**	70,379
– between one and five years	**~**	~
	118,252	106,835

19. DEPOSITS BY OTHER BANKS

Repayable	2018 £'000's	2017 £'000's
– on demand	**10,657**	8,528
– within three months	**70,042**	83,737
– between three months and one year	**~**	32,298
– between one and five years	**~**	~
	80,699	124,563

20. CUSTOMER ACCOUNTS

Repayable	2018 £'000's	2017 £'000's
– on demand	**17,218**	10,933
– within three months	**10,447**	6,153
– between three months and one year	**64,423**	56,349
– between one and five years	**7,428**	~
	99,516	73,435

21. OTHER LIABILITIES

	2018 £'000's	2017 £'000's
Derivatives at fair value (note 28)	**1**	57
Tax and social security	**249**	278
Other liabilities	**1,530**	1,162
	1,780	1,497

22. SUMMARY OF FINANCIAL ASSET AND LIABILITIES

2018	FVOCI £'000's	FVTPL £'000's	Financial assets at Amortised cost £'000's	Financial liabilities at amortised cost £'000's	Total £'000's
FINANCIAL ASSETS					
Cash	~	~	**83**	~	**83**
Nostros	~	~	**10,104**	~	**10,104**
Loans and advances to shareholder banks	~	~	**39,954**	~	**39,954**
Loans and advances to other banks	~	~	**36,766**	~	**36,766**
Loans and advances to customers	~	~	**168,221**	~	**168,221**
Debt securities	**116,772**	~	**8,599**	~	**125,371**
Other financial assets	~	**109**	**439**	~	**548**
Accrued income	~	~	**1,501**	~	**1,501**
	116,772	**109**	**265,667**	~	**382,548**
FINANCIAL LIABILITIES					
Deposits from shareholder banks	~	~	~	**118,252**	**118,252**
Deposits from other banks	~	~	~	**80,699**	**80,699**
Deposits from customers	~	~	~	**99,516**	**99,516**
Other financial liabilities	~	**1**	~	**1,787**	**1,788**
Accruals	~	~	~	**4,223**	**4,223**
	~	**1**	~	**304,477**	**304,478**

22. SUMMARY OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

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

23. CALLED-UP SHARE CAPITAL

CALLED-UP, ALLOTTED AND FULLY PAID:	2018 £'000's	2017 £'000's
65,000,000 (2017: 65,000,000) ordinary shares of £1 each	**65,000**	65,000

24. SHARE PREMIUM

	2018 £'000's	2017 £'000's
At 31 December	**316**	316

25. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS AND RESERVES

	2018 £'000's	2017 £'000's
SHARE CAPITAL		
Opening share capital	**65,000**	65,000
Closing share capital	**65,000**	65,000
SHARE PREMIUM		
Opening share premium	**316**	316
Closing share premium	**316**	316
PROFIT AND LOSS		
Profit and loss at 1 January	**17,216**	15,756
Restatement of opening balance under IFRS 9 (net of deferred tax)	**(330)**	~
Profit for the financial year	**3,346**	1,460
Profit and loss at 31 December	**20,232**	17,216
SECURITIES REVALUATION RESERVE		
Opening revaluation reserve	**616**	(957)
Transfer revaluation to Profit & Loss	**~**	2,139
Tax effect	**352**	(337)
Revaluation	**(1,946)**	(229)
Closing revaluation reserve	**(978)**	616

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

	2018 £'000's	2017 £'000's
Operating profit before tax	**4,006**	1,895
Interest received on debt securities	**(3,420)**	(2,969)
(Increase)/decrease in prepayments and accrued income	**(250)**	1,327
Profit on sale of debt securities	**(262)**	(26)
Depreciation	**426**	451
Fair value changes in financial assets	**10**	17
Impairment (reversal)/loss	**(102)**	116
Other financial revaluation	**~**	2,139
Corporation tax paid	**(345)**	(633)
Net effect of foreign exchange rate changes	**(7,082)**	5,050
Operating cash flow before movement in working capital	**(7,019)**	7,367
Net increase in loans and advances	**(34,336)**	(18,497)
Net decrease in deposits	**(18,517)**	(16,268)
(Decrease)/Increase in accruals and deferred income	**(1,071)**	644
Net increase in other assets and liabilities	**593**	614
Cash absorbed	**(60,350)**	(26,140)

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

	2018 £'000's	2017 £'000's	Change in year £'000's
Cash	**83**	106	(23)
Nostros	**10,104**	7,560	2,544
Loans and advances to shareholder banks	**2,260**	36,129	(33,869)
Loans and advances to other banks	**15,704**	13,200	2,504
Deposits by shareholder banks	**(15,219)**	(12,625)	(2,594)
Deposits by other banks	**(10,657)**	(8,528)	(2,129)
Cash equivalents	**8,782**	29,783	(21,001)
	11,057	65,625	(54,568)

As at 31 December 2018 the Bank held assets totalling £8.78m (2017: £29.78m) 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.

28. DERIVATIVES AT FAIR VALUE

2018	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	**16,329**	**109**	**1**

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

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

28. DERIVATIVES AT FAIR VALUE (CONTINUED)

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.

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.

29. RISK MANAGEMENT

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.

Risk principles

The following principles guide the Bank's overall approach to risk management:

- The Board sets the overall risk appetite for the Bank.
- Risk management is structured around the Bank's principal risk categories (see page 45).
- The Bank maintains a robust Risk Appetite Framework, manages to a consistent appetite using an approved set of metrics.
- The Bank regularly undertakes stress tests to ensure that it remains sustainable.

The Board which determines the overall risk appetite for the Bank has two Board sub- committees that 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 the Audit committee. 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.

29. RISK MANAGEMENT (CONTINUED)

Risk principles (continued)

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

The **Executive Committee** exercises both credit and operational authority as well as 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.

Risk Management Framework

The Risk Management Framework (RMF) defines the Bank's overall approach to risk. The RMF is the Bank's foremost risk document and is approved by the Board. The RMF describes risk management roles and responsibilities, and outlines the Bank's approach to each material risk to which it is exposed.

The Bank's risk governance structure ensures the Board and senior management are accountable for overall risk management.

Three lines of defence

The Bank employs a "three lines of defence" model to segregate responsibilities between 1) risk management as part of its business activities, 2) risk oversight and 3) independent assurance.

First line of defence - business lines:

The first line of defence comprises income generating departments that are not part of the risk or internal audit function.

Second line of defence – risk function:

- Develop robust frameworks and policies to manage risk;
- support the first line with embedding risk frameworks and policies;
- own the Bank's relationship with regulators;
- co-ordinate the Bank's approach to setting and reporting on risk appetite; and
- oversee the delivery of material risk management processes, such as the Internal Capital Adequacy Assessment Process ("ICAAP"), Individual Liquidity Adequacy Process ("ILAAP"), the Recovery Plan and Resolution Pack.

Third line of defence – internal audit

- Provide independent assurance to the Board that first and second line functions are properly discharging their risk management responsibilities;
- validate the appropriateness of risk management controls and governance; and
- track audit actions to completion.

29. RISK MANAGEMENT (CONTINUED)

Risk Appetite Framework

The Risk Appetite Framework (RAF) supports the Bank's strategic objectives. In defining key risk metrics, underpinned by triggers and limits, it underpins the Bank's approach to monthly risk reporting to senior management.

Risk Appetite Statement

All principal risks are identified in the Risk Appetite Statement (RAS), with each having a qualitative risk appetite statement and, where appropriate, quantitative metrics to measure the Bank's tolerance and appetite for risk. The suite of risk appetite metrics enable monitoring of the risk profile against appetite and is reported to the Board and its committees on a periodic basis. The Bank's risk appetite is set by the Board and embedded down to each business line.

Stress testing

Stress testing is an important risk management tool, with specific approaches documented for the Bank's key annual assessments including the ("ICAAP"), ("ILAAP"), the Recovery Plan and Resolution Pack.

Principal risks

The principal risks that the Bank manages are as follows:

Capital risk – inadequate capital to support the business and meet regulatory requirements and sub-optimal quantity or quality of capital, or that capital is inefficiently deployed.

Liquidity risk – Insufficient funds to meet obligations and liabilities as they fall due.

Conduct risk – the harm caused to the Bank, its clients or counterparties because of the inappropriate execution of the Bank's business activities.

Business/Strategic risk – Poor business and strategic planning that increase the risk across the whole Bank.

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 in accordance with agreed terms.

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.

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

Operational risk – the risks associated and arising from the failure of people, processes, systems or external events.

29. RISK MANAGEMENT (CONTINUED)

Principal risks (continued)

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.

Financial crime risk – failure to identify and prevent fraud or dishonesty, misconduct in, or misuse of information relating to the handling of the proceeds of crime.

Other price risk – 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.

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.

Significant increase in credit risk (see also note 1h)

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank considers an increase of 3 internal grades to represent a significant increase in credit risk.

The Bank's credit risk grading framework comprises 10 categories and are defined using qualitative and quantitative factors that are indicative of risk of default. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty, and is updated to reflect current information. For each asset class, the Bank considers all assets not subject to a specific provision to be eligible for a credit allowance as per IFRS 9 methodology. Assets subject to a specific provision are typically graded 9 to 10.

29. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The table below provides a mapping of the Bank's internal credit risk grades to external ratings:

Bank's credit risk grades	Moody's rating	Description
1	Aaa-Aa3	High Grade
2	A1-A3	Upper medium grade
3	Baa1-Baa2	Medium grade
4	Baa3	Lower medium grade
5	Ba1-Ba3	Non-investment grade
6	B1-B3	Highly speculative
7	Caa1-Caa3	Substantial risks
8	Ca	Extremely speculative
9	Ca	Default imminent
10	C	In default

The following causes can indicate deterioration, and potentially an increase in credit risk, of an exposure.

The following data are typically used to monitor the Bank's exposures;

- Payment record
- Changes in business and financial conditions
- Credit rating information supplied by rating agencies
- Review of audited statements.

29. RISK MANAGEMENT (CONTINUED)

Credit risks (continued)

Incorporation of forward looking information

The Bank uses forward looking information in its assessment of a significant increase of credit risk as well as in its measurement of ECL.

Measurement of ECL

The main components used for measuring ECL are:

- *Probability of default (PD)* - an estimate of the likelihood of default over a given time horizon.
- *Loss given default (LGD)* - an estimate of the loss arising on default. It is based on the difference between the contractual cashflows due and those that the Bank would expect to receive, taking into account cashflows from any collateral.
- *Exposure at default (EAD)* - an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

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 other charges/guarantees as and when required. At the year end the Bank held collateral valued at £317m against total customer loans of £168m (2017: collateral £299m: loans £158m).

	At 31 December 2018		At 31 December 2017	
CREDIT QUALITY- LOANS AND ADVANCES AT AMORTISED COST	**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	**168,273**	**76,778**	157,663	84,048
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	~
Expected credit loss allowance	**(52)**	**(58)**	(459)	~
Carrying amount	**168,221**	**76,720**	157,923	84,048

29. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

LOANS AND ADVANCES TO SHAREHOLDER BANKS AT AMORTISED COST	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
Grades 1-5: Performing	39,968	~	~	39,968
Grade 6: Performing-marginal	~	~	~	~
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	39,968	~	~	39,968
Loss allowance	(14)	~	~	(14)
Carrying amount	39,954	~	~	39,954

LOANS AND ADVANCES TO OTHER BANKS AT AMORTISED COST	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
Grades 1-5: Performing	36,810	~	~	36,810
Grade 6: Performing-marginal	~	~	~	~
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	36,810	~	~	36,810
Loss allowance	(44)	~	~	(44)
Carrying amount	36,766	~	~	36,766

29. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
Grades 1-5: Performing	**159,952**	~	~	**159,952**
Grade 6: Performing-marginal	~	**6,135**	~	**6,135**
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	**2,186**	**2,186**
Grade 10: Impaired	~	~	~	~
	159,952	**6,135**	**2,186**	**168,273**
Loss allowance	**(27)**	**(25)**	~	**(52)**
Carrying amount	**159,925**	**6,110**	**2,186**	**168,221**

THE CREDIT QUALITY OF LOANS AND ADVANCES THAT ARE NEITHER PAST DUE NOR IMPAIRED

	At 31 December 2018		At 31 December 2017	
	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	~	**15,755**	~	9,000
Non-investment grade	~	**48,874**	~	47,550
Unrated	**168,221**	**12,091**	157,923	27,498
Maximum credit exposure	**168,221**	**76,720**	157,923	84,048

29. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

THE CREDIT QUALITY OF LOANS AND ADVANCES THAT ARE NEITHER PAST DUE NOR IMPAIRED

Debt securities by rating agency designation

	At 31 December 2018		At 31 December 2017	
	Government securities £'000's	Other debt securities £'000's	Government securities £'000's	Other debt securities £'000's
AAA to A+	**63,233**	**10,249**	83,631	5,867
A or lower	**24,351**	**27,538**	24,154	23,569
Unrated	**~**	**~**	~	~
	87,584	**37,787**	107,785	29,436
Impaired	**~**	**~**	625	~
Maximum credit exposure	**87,584**	**37,787**	108,410	29,436

During the year the Bank did not repossess any property or collateral.

No financial assets were pledged as collateral against any debt during the year.

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
31 DECEMBER 2018 DEBT SECURITIES AT AMORTISED COST				
Grades 1-5: Performing	**4,780**	**~**	**~**	**4,780**
Grade 6: Performing-marginal	**3,905**	**~**	**~**	**3,905**
Grade 7: Vulnerable	**~**	**~**	**~**	**~**
Grade 8: Substandard	**~**	**~**	**~**	**~**
Grade 9: Doubtful	**~**	**~**	**~**	**~**
Grade 10: Impaired	**~**	**~**	**~**	**~**
	8,685	**~**	**~**	**8,685**
Loss allowance	**(86)**	**~**	**~**	**(86)**
Carrying amount	**8,599**	**~**	**~**	**8,599**

29. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
31 DECEMBER 2018 **DEBT SECURITIES AT FVOCI**				
Grades 1-5: Performing	**107,579**	~	~	**107,579**
Grade 6: Performing-marginal	**5,891**	**3,597**	~	**9,488**
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	113,470	**3,597**	~	**117,067**
Loss allowance	**(175)**	**(120)**	~	**(295)**
Carrying amount	**113,295**	**3,477**	~	**116,772**

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.

To protect the Bank and its depositors against liquidity risk, the Bank maintains a liquidity buffer which is based on our liquidity needs under stressed conditions. The liquidity buffer is monitored to ensure there is sufficient liquid assets at all times to cover cashflow movements and fluctuations in funding, enabling the Bank to meet all financial obligations and to support anticipated asset growth.

Analysis of Liquidity buffer

The Bank's liquidity position remains strong and in excess of the regulatory minimum and internal risk appetite.

At 31 December 2018, the Bank had £91.7m of highly liquid unencumbered LCR eligible assets (31 December 2017: £107.2m), of which £63.6m is LCR level 1 eligible (31 December 2017: £80.6m) and £28.4m is LCR level 2 eligible (31 December 2017: £26.5m). These assets are available to meet cash and net cash outflows and PRA regulatory requirements. In addition to the Bank's money market funding less than one year to maturity the LCR eligible assets provide an additional buffer in the event of market dislocation.

29. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The composition (Market value - gross basis) of the Bank's liquidity buffer is as follows:

	2018 £'000's	2017 £'000's
Cash	**83**	106
Level 1	**63,260**	80,646
Level 2A	**6,283**	4,964
Level 2B	**22,136**	21,515
	91,762	107,231

The Bank uses the definition of LCR eligible assets (Level 1, Level 2A & Level 2B) as provided by the Basel Committee.

Funding Sources

Shareholder bank deposits and other bank deposits continue to represent the core of the Bank's funding; short-term wholesale funds decreased during 2018 by 13% to £199m (2017: £231m). Funding from customer accounts increased by 36% during 2018 to £99m (2017: £73m).

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.

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.

Stress testing

As part of its stress testing of its access to sufficient liquidity, the Bank regularly evaluates the potential impact on liquidity and possible cashflow mismatch positions from a variety of scenarios, including short term (up to one month) and longer term horizons. This forms an important part of the Bank's internal risk appetite. The scenarios and assumptions are reviewed periodically to ensure that they continue to be relevant to the nature of the business including reflecting emerging risks to the Bank.

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 both short-term and long-term horizons. 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, maturing assets, new borrowing or from the sale of LCR eligible assets

29. 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 2018						
Deposits by shareholder banks	**10,498**	**33,289**	**73,375**	**~**	**~**	**117,162**
Deposits by other banks	**7,653**	**69,620**	**3,148**	**~**	**~**	**80,421**
Customer accounts	**35,792**	**10,190**	**45,638**	**7,427**	**~**	**99,047**
Derivatives	**~**	**5**	**35**	**~**	**~**	**40**
	53,943	**113,104**	**122,196**	**7,427**	**~**	**296,670**

	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
Derivatives	~	~	3	~	~	3
	26,560	118,655	158,580	~	~	303,795

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.

29. RISK MANAGEMENT (CONTINUED)

Assets available to meet these liabilities and to cover outstanding commitments include;

	At 31 December 2018		At 31 December 2017	
	£'000's	Repayable within 1 year £'000's	£'000's	Repayable within 1 year £'000's
Cash and nostros	**10,187**	**10,187**	7,560	7,560
Loans and advances to shareholder banks	**39,954**	**39,954**	36,129	36,129
Loans and advances to other banks	**36,766**	**36,766**	47,919	47,919
	£'000's	Of which HQLA £'000's	£'000's	Of which HQLA £'000's
Debt securities	**125,371**	**91,679**	137,846	107,300

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 2018 stood at £31,002,000 (2017: £27,320,000).

Jordan International Bank plc would meet unexpected net cash outflows primarily by seeking additional funding from its shareholders, the 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 Executive Committee (ALCO) using risk limits approved by the Board of Directors.

Foreign Exchange Risk

The Bank does not have any significant proprietary 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.

Sensitivity analysis of market risk

The tables over leaf 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.

29. RISK MANAGEMENT (CONTINUED)

			% 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 2018						
Total assets	**225,887**	**177,794**	**197,549**	**222,242**	**161,631**	**148,161**
Total liabilities	**(253,579)**	**(199,590)**	**(221,766)**	**(249,487)**	**(181,445)**	**(166,325)**
Forward contracts	**(243)**	**(191)**	**(213)**	**(239)**	**(174)**	**(160)**
Net	**(27,935)**	**(21,987)**	**(24,430)**	**(27,484)**	**(19,988)**	**(18,324)**
Movement	**~**	**~**	**(2,443)**	**(5,497)**	**1,999**	**3,663**

			% 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 2018						
Total assets	**4,175**	**3,758**	**4,175**	**4,697**	**3,416**	**3,131**
Total liabilities	**(20,826)**	**(18,746)**	**(20,828)**	**(23,432)**	**(17,041)**	**(15,621)**
Forward contracts	**16,721**	**15,051**	**16,723**	**18,814**	**13,683**	**12,542**
Net	**70**	**63**	**70**	**79**	**58**	**52**
Movement	**~**	**~**	**7**	**16**	**(5)**	**(11)**

			% 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

29. RISK MANAGEMENT (CONTINUED)

			% 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)

Interest rate risk

Interest rate risk arises primarily from the Bank's non-trading portfolio including treasury activities and private, 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.

Sensitivity of projected net interest income

The following tables 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.

29. RISK MANAGEMENT (CONTINUED)

Sensitivity of projected net interest income (continued)

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

	2018		2017	
POUNDS STERLING	gap £M's	Net interest £'000's	gap £M's	Net interest £'000's
Up to 15 days	**75.78**	**1,282**	89.68	1,284
15 days to 1 month	**16.85**	**316**	6.41	103
1 – 2 months	**22.26**	**390**	13.52	122
2 – 3 months	**20.88**	**331**	29.61	366
3 – 4 months	**(20.82)**	**(295)**	(14.82)	(209)
4 – 5 months	**(3.07)**	**(38)**	(8.83)	(110)
5 – 6 months	**(2.27)**	**(25)**	(4.64)	(50)
6 – 9 months	**(10.15)**	**(76)**	(18.99)	(142)
9 – 12 months	**(10.16)**	**(25)**	(11.97)	(30)
TOTAL	**89.30**	**1,860**	79.97	1,334

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

	2018		2017	
US DOLLARS	gap $M's	Net interest £'000's	gap $M's	Net interest £'000's
Up to 15 days	**(0.79)**	**(16)**	(0.70)	(10)
15 days to 1 month	**(24.74)**	**(464)**	(3.33)	(46)
1 – 2 months	**(34.78)**	**(609)**	(34.09)	(444)
2 – 3 months	**1.15**	**18**	(23.38)	(275)
3 – 4 months	**(70.19)**	**(994)**	(54.26)	(572)
4 – 5 months	**4.90**	**61**	(0.46)	(4)
5 – 6 months	**12.49**	**135**	(7.49)	(60)
6 – 9 months	**16.35**	**123**	0.56	3
9 – 12 months	**(2.91)**	**(7)**	27.97	52
TOTAL	**(98.52)**	**(1,753)**	(95.18)	(1,356)

29. 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 relating to anti-money laundering and "Know Your Customer" (KYC).

Capital risk

Measurement

The Group measures the amount of capital it requires and holds through applying the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) as implemented in the UK by the Prudential Regulation Authority (PRA) and supplemented through additional regulation under the PRA Rulebook. Further details of the Banks's regulatory capital and leverage frameworks, including the means by which its capital and leverage requirements and capital resources are calculated, will be provided in the Bank's Pillar 3 Report.

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

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8% of total risk-weighted assets. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework and a number of regulatory capital buffers as described below.

Additional minimum requirements under Pillar 2A are set by the PRA as a firm-specific Individual Capital Requirement (ICR) reflecting a point in time estimate, which may change over time, of the minimum amount of capital that is needed by the Bank to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered at all by Pillar 1, such as pensions and interest rate risk in the banking book (IRRBB).

The capital conservation buffer (CCB) is a standard buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of stress. The CCB has been phased in over a number of years – during 2018 it was 1.875% and it increases to the full 2.5% on 1 January 2019.

29. RISK MANAGEMENT (CONTINUED)

Capital risk (continued)

Measurement (continued)

The countercyclical capital buffer (CCYB) is time-varying and is designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of credit boom, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The amount of the buffer is determined by reference to buffer rates set by the Financial Policy Committee of the Bank of England (FPC) for the individual countries where the Bank has relevant credit exposures. The CCYB rate for the UK is currently set at 1.0%. The FPC regularly considers the adequacy of the UK CCYB rate in light of the evolution of the overall risk environment.

The Bank's overall countercyclical capital buffer at 31 December 2018 was 0.56% of risk-weighted assets.

Capital management and allocation

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

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

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

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

Capital management

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

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

In arriving at the Pillar 2 assessment, EXCO 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.

29. RISK MANAGEMENT (CONTINUED)

Capital management (continued)

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.

30. 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 2018	**Book value £'000's**	**Fair value £'000's**
ASSETS		
Other loans and receivables at amortised cost	**244,941**	**244,941**
Debt securities designated at fair value through profit and loss	**~**	**~**
Debt securities at amortised cost	**8,599**	**8,599**
Debt securities at FVOCI	**117,298**	**116,772**
LIABILITIES		
Deposits by banks and customers at amortised cost	**298,467**	**298,467**

	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		
Debt securities at market valuation	304,833	304,833

30. 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.

	2018			
31 DECEMBER 2018	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
FINANCIAL ASSETS AT FVTPL				
Exchange rate contracts	109	~	~	109
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Debt securities	116,703	~	69	116,772
FINANCIAL LIABILITIES AT FVTPL				
Exchange rate contracts	(1)	~	~	(1)
	116,811	~	69	116,880

30. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised in the balance sheet (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

31. 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 £456,585 (2017: £437,858) represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

32. TRANSACTIONS WITH MANAGERS

The aggregate amounts outstanding from persons of managerial grade or above at 31 December 2018 were £8,887 (2017: £18,035).

33. OPERATING LEASE COMMITMENTS

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

	Land and buildings	
	2018 £'000's	**2017 £'000's**
Leases which expire not later than one year	~	91
Leases which expire between two and five years	~	~
Leases which expire later than five years	**604**	532

34. 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 following table details the Bank's off balance sheet exposures at 31 December.

	Land and buildings	
OFF BALANCE SHEET ITEMS	2018 £'000's	2017 £'000's
Acceptances	~	129
Guarantees and irrevocable letters of credit	**7,670**	1,791
Undrawn commitments	**31,003**	27,320
	38,673	29,240

The Bank has no exposures categorised as acceptances (2017: £129k) and letters of guarantee and letters of credit totalling £7,670k (2017: £1,791k). 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 (2017: £14k) 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 £31,003k (2017: £27,320k) 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 £8,084k (2017: £13,593k) relating to facilities expiring in less than 1 year and £22,919k (2017: £13,727k) relating to facilities maturing in 1 to 5 years. A stage analysis of the Bank's undrawn contingent liabilities together with associated loss allowance calculated under IFRS 9 is shown below.

34. CONTINGENT LIABILITIES (CONTINUED)

31 DECEMBER 2018	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
CONTINGENT LIABILITIES – BANKS & CUSTOMERS				
Grades 1-5: Performing	**38,673**	~	~	**38,673**
Grade 6: Performing-marginal	~	~	~	~
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	38,673	~	~	**38,673**
Loss allowance (see note 11)	**(36)**	~	~	**(36)**
Carrying amount	**38,637**	~	~	**38,637**

35. RELATED PARTY TRANSACTIONS

Other than for the transactions with the shareholder banks included in note 8 (Loans to Shareholder Banks -2018: £39,954k, 2017: £36,129k) and note 18 (Deposits by Shareholder Banks – 2018: £118,252k, 2017: £106,835k) there have been no related party transactions during 2018. 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 (Executive and non-executive) during 2018 totalled £650,751 (2017: £968,931) (note 5).

Included within net interest income is £1,185,205 (2017: £1,017,163) in interest income from the Bank's shareholders and £1,893,114 (2017: £1,711,637) in interest expense paid to the Bank's shareholders.

During the year the Bank paid £250k (2017: nil) to its parent company for services performed by its representatives on the Bank's Board of Directors.

All equity balances are attributable to the Bank's shareholders, The Housing Bank for Trade and Finance (75%), and Arab Jordan Investment Bank (25%).

36. CONTROLLING PARTY

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

Parliament Street
Abdali
Amman
11118
Jordan

Copies of their accounts are available from their website at www.hbtf.com

37. CAPITAL REQUIREMENTS DIRECTIVE IV ("CRD IV") – COUNTRY BY COUNTRY REPORTING

During 2014, the UK Government enacted legislation (contained in the Financial Services and Markets Act 2000 Statutory Instrument 3118) which requires CRD IV regulated institutions to publish the following information:

a) The name, nature of activities and geographical location of the institution and any subsidiaries or branches

b) Turnover

c) The average number of employees on a full-time equivalent basis

d) Profit & Loss before tax

e) Corporation tax paid

f) Public subsidies received

The Bank falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2018 are set out below:

	UK	Total
a) Entity name	Jordan International bank Plc	
b) Nature of activities	Commercial Bank	
c) Operating income	£12,569,000	£12,569,000
d) Average number of employees	39	39
e) Profit before tax	£4,006,000	£4,006,000
f) Corporation tax paid	£345,000	£345,000

38. POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

39. 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:

Almack House
26 – 28 King Street
London
SW1Y 6QW

40. PILLAR 3 DISCLOSURES

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

Designed and produced by **pws-design.com** ©2018