



Report and Financial Statements 2019



## CONTENTS

---

OFFICERS AND PROFESSIONAL ADVISERS	2
HIGHLIGHTS	3
CHAIRMAN'S REPORT	4
STRATEGIC REPORT	5
DIRECTORS' REPORT	12
DIRECTORS' RESPONSIBILITIES STATEMENT	14
INDEPENDENT AUDITOR'S REPORT	15
PROFIT & LOSS ACCOUNT	25
BALANCE SHEET	27
STATEMENT OF CHANGES IN EQUITY	29
CASH FLOW STATEMENT	30
NOTES TO THE ACCOUNTS	31

## Directors

Ammar Al-Safadi (Chairman)  
Ian Schmiegelow (Deputy Chairman)  
Nidal Ahmad  
Raed Al-Massis  
Basel Araj  
Samer Al-Qadi  
Nabil Hamadeh  
Riyad Taweel  
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

Addleshaw Goddard  
London

## Auditor

Deloitte LLP  
Statutory Auditor  
London

## Internet

The Bank's website is at  
[www.jordanbank.co.uk](http://www.jordanbank.co.uk)

Jordan International Bank Plc ('the Bank') 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 Report.

Of particular note this year are the following: -

- For the year, ended 31 December 2019 the Bank generated pre-tax profits of £3.1m (2018: £4.0m), the ninth 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 statutory equity capital.
- The Bank enhanced its Private Banking offering to customers with the launch of new products including read only internet banking and debit cards for current accounts.
- The Bank's deposit base was further diversified and strengthened by an increase of approximately £7.8m (2018: £26.1m increase) in customer deposits from the start of 2019. This is in line with the Bank's target to increase the customer deposit balances as a proportion of the overall deposit balance.
- The recruitment of a new Head of Information Technology, together with a refreshed IT team, has already led to a transformation of systems capability leading to an intended application for ISO 27001 certification.

Since the year-end significant economic and social disruption has arisen from the COVID-19 pandemic. Further details on the effect of COVID-19 are disclosed in the Chairman's Statement, Strategic Report, and the Directors Report under the Going Concern section and in note 37 Post Balance Sheet Events.

The past year has been challenging with the continuing unsettled political and economic environment in the UK which was only reduced with the outcome of the General Election in December 2019 and with the UK leaving the European Union on 31 January 2020. 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 2019 amounted to £3.1m compared to £4.0m in 2018.

We are currently facing a challenge, shared with the rest of the world, from COVID-19, the impact of which is currently uncertain. Our priority continues to be the well-being of our customers, employees and the wider community. The Bank remains operational and is committed to offering clients the same level of service as normal.

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. The Bank's Private Banking offering was enhanced in the year with the launch of read only internet banking and debit cards for customers. In the Bank's refreshed Strategic Plan, approved in 2019, there are continuing plans to expand the Bank's Private Banking offering in 2020 with a mortgage offering for overseas High Net Worth individuals.

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 the appointment of Nidal Ahmad and the resignation of Adel Assad as Board Directors. I welcome the appointment of Nidal Ahmad who will strengthen the Board with his considerable experience especially in financial matters.

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  
24 June 2020

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 proficiently a range of banking services to both its international and UK 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 deposit products and private banking services to customers from Jordan, the wider Middle East region as well as the UK; and
- to provide treasury services (foreign exchange, money market and securities) to customers and counterparties of the Bank.

The Bank operates from a single office in the St James's area in London from where services are provided by a properly supported team of professionals. The Bank benefits from the additional resources of its two shareholder banks when 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, issuing and confirming letters of credit together with letters of guarantee, whilst also providing discounted financing for receivables. In controlling the risk 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 Jordan, the wider Middle East region and the UK.
- 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 investment portfolio, mainly fixed income securities.

## **Governance and management process**

Governance is handled in the first instance through three forums, the Board of Directors together with 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 consists of five non-executive directors, two independent non-executive directors and the Bank's Chief Executive Officer and Chief Financial Officer. The Audit Committee comprises of non-executive directors and is chaired by a UK based independent non-executive director. The Risk Committee is similarly structured and is also chaired by an independent non-executive director.

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

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 actual profit each month is compared to the equivalent budgeted profit and variances are noted and explained. Within the budget process, individual business lines account for their performance to senior management, whilst the Bank's Board of Directors receives a monthly commentary on the Bank's results. The Bank also reports internally on a range of measures, including KPIs, such as the return on average equity and net interest margin, along with regulatory measures such as common equity tier 1 (CET1), the liquidity coverage ratio (LCR) and leverage ratio.

## Business review

The Bank has reported a pre-tax profit for the year of £3.1m (2018: £4.0m), a return on average equity of 5.11% (2018: 2.04%) and a cost income ratio of 75% (2018: 68%).

The Bank has achieved pre-tax profits in recent years as shown in the table below, but with a worsening and challenging cost income ratio. Income has fallen in 2019 compared to the previous year.

	2015	2016	2017	2018	2019
Pre-tax profit £m	5.97	5.82	1.89	4.0	<b>3.1</b>
Cost/Income ratio %	54	62	73	68	<b>75</b>
Return on average equity %	5.9	7.0	3.8	2.04	<b>5.11</b>
Equity £m	74.90	80.12	83.10	84.57	<b>89.01</b>

For the year ended 31 December 2019, the asset backed lending book's on balance sheet amount was £15m lower than at 31 December 2018 resulting in a slight decrease in interest income in 2019 compared to 2018. Lending rates were maintained throughout the year despite some indications of declining rates at competitor banks, resulting in a continuing stream of attractive risk adjusted returns.

Treasury revenues increased year on year by circa 18%. Although the Bank's total portfolio of securities reduced in value during the year as maturities outweighed new purchases, the portfolio mix changed with a reduced number of securities in the Liquid Asset Buffer (LAB) with lower yields and an increased number of other non-LAB securities with higher yields. The foreign exchange markets remained competitive whilst inter-bank lending rates showed decreases in the year following the fall in US base rates.

Trade Finance income decreased year on year by 38% as country and individual bank limits were reduced following downgrades in relevant credit ratings, especially in Turkey where currently a sizeable proportion of the Bank's current exposure is concentrated. Despite the present difficulties in markets where it operates Trade Finance remains part of the Bank's offering to both domestic and international clients.



## Business Development

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 refreshed Strategic plan, 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, one of which will be a mortgage offering for overseas High Net Worth individuals.

Since the year end significant economic and social disruption has arisen from the COVID-19 pandemic. The Bank has invoked business continuity plans, as it seeks to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff. The Bank continues to serve its customers through its branches which are operating in line with the business continuity plan. It is also closely monitoring that the critical functions remain resilient through weekly management meetings. All third party outsourced services are provided in line with the service level agreement.

As a result of the pandemic, the Bank is expected to be impacted in the year ahead by reduction in income from all activities. This along with the potential increase in expected credit loss may impact the Bank's profitability forecast for FY20. Notwithstanding this, the Bank's capital and liquidity ratios are expected to remain strong.

The Board considered in depth the impact of COVID-19 on the Bank's going concern assumption. The relevant disclosures are set out in Note 37.

## Principal risks for the business

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

### Geopolitical risk including COVID-19

Geopolitical risk can 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, the United Kingdom left the European Union on 31 January 2020 and is currently in a transition period until 31 December 2020. 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 end of the transition period on 31 December 2020.

The COVID-19 pandemic is a new emerging risk. The Bank has closely followed the information and advice released by the UK Government and Public Health England with regards to the spread and containment of COVID-19. The Bank also been assessing our technology, systems and processes to ensure it is able to continue to provide safe and secure services for its customers. The Bank is currently well capitalised with an excess over the regulatory capital buffer. In addition the Bank has a strong liquidity position with a high Liquidity Cover Ratio. The Bank's Treasury department, working together with other departments, is monitoring the Bank's liquidity position closely. Being well aware that the impact of COVID-19 and the restrictive measures on human movement may continue for months, the Bank is keeping all its emergency measures under constant review to ensure the continuance of their practicality and resilience.

### **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 investment portfolio, a small portion is held in floating rate notes and the average maturity of the portfolio is kept relatively short, currently just above two and a half years. This short maturity profile reduces the risk to the Bank from interest rate movements. Another portion of the investment 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 cognisant of market developments and general news and are able to act quickly in the event that there is any negative news which might impact adversely a particular security.

The Bank is aware, following the announcement on 27 July 2017 by the FCA, that the London interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021. The Bank has limited exposures within LIBOR that mature after the end of 2021. The Bank has identified and considered the risks associated with moving away from LIBOR to a new reference rate and is developing a plan to mitigate these risks.

### **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 investment 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 an agreed date.

With the current outbreak of COVID-19 the Bank is continually monitoring its credit exposures and the markets that it operates in. The Bank has assessed the impact of COVID-19 on its property loan book, securities, trade finance exposures and its other exposures, both in terms of capital and liquidity. The Bank recognises that losses on any individual property loan could have a material impact on annual profits and the Bank's capital position and therefore adopts a largely manual credit underwriting process, supported by models, employing experienced first and second line of defence personnel with every loan assessed by Executive Committee. The Bank is monitoring the expected credit loss on a regular basis.

## Development risk

The structured property loan portfolio is formed of circa 53% development loans for the purpose of building new houses, small apartment buildings, blocks of apartment buildings, buildings that have some commercial purpose or of refurbishing of existing buildings while the remaining 47% of the portfolio consists of investment loans. The Bank aims to ensure its position is protected at all times through a rigorous 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 charge and, as appropriate, an additional guarantee. Loans, especially development loans are typically drawn in stages as each project progresses and one of the Bank's panel of quantity surveyors closely monitors the construction process.

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.

## Liquidity risk

Liquidity risk is the risk that the Bank is not able to meet its obligations as they fall due. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding. The Bank through its Liquidity and Funding risk appetite aims to maintain adequate liquidity resources and a prudent funding profile at all times, within normal and stressed market conditions and as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The Bank aims to maintain a prudent level of liquidity at all times.

## Capital risk

The Bank defines capital risk as the risk of not having sufficient capital resources in quantity or quality to support its strategic objectives, meet stakeholders' expectations and regulatory requirements or that capital is inefficiently deployed across the Bank. The Bank undertakes close monitoring of capital ratios to ensure it complies with current regulatory capital requirements and is well positioned to meet any anticipated future requirement. A weekly report of capital usage compared to internal and regulatory capital limits is prepared and sent to Senior Management.

The management of capital is governed through ALCO, the Risk Committee and the Board.

## Operational risk

The Bank aims to manage operational risk within the limits set in the Risk Appetite. The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has a number of operational risk mechanisms that include operational risk event reporting, key risk indicators, operational risk registers and a risk and control effectiveness assessment.

### 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 be fully conversant with changes and to ensure that the Bank complies with all its regulatory obligations.

### Climate Change

Jordan International Bank's two shareholders are both actively engaged with matters such as sustainability and corporate social responsibility; the Bank's majority shareholder published its first Sustainability Report in 2017. Senior executives from both shareholder banks serve on the Board of Jordan International Bank Plc.

The Bank's most prolific business area, the Structured Property Finance Department, provides funding to UK property developers, primarily for multi-unit residential developments. All developments are subject to local authority building regulations and regular monitoring by surveyors appointed by the Bank. This enables the Bank to be confident that all regulations relating to climate change in this area of activity are being met.

The Bank also holds a well-diversified investment portfolio, composed primarily of fixed income securities. In the event of the disclosure of adverse climate-related information, the price of one or more of the Bank's investments could be affected; this risk is not currently considered material.

The Bank has reviewed the Task Force on Climate Related Financial Disclosure (TCFD) guidance and considers that the business has no material or limited exposure to any of the following climate-related risks:

- Physical risks to business operations and supply chains, for example, logistical interruption or changes to the availability of raw goods due to severe weather events, rising temperatures or rising sea levels.
- Transitional risks for businesses, including regulatory change, litigation risk, reputational risk, change in customer behaviour, and new legal and financial liabilities, such as the costs of transitioning to lower emissions technology, substituting high emissions goods and services, or adapting to carbon taxes.

Jordan International Bank Plc has approximately 50 members of staff and operates from a single office in central London. To minimise the Bank's impact on the environment and greenhouse gasses, all staff are actively encouraged to use the eco settings on the office equipment and reduce the use of or recycle paper, metal, glass and plastic.

## Section 172 Statement by the Directors

Under Section 172(1) of the Companies Act 2006, the directors are required to describe how they consider a broad range of stakeholders when performing their duty to promote the success of the Bank. In this statement we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year.

Our key stakeholder are:

- **Employees:** the Bank recognises that people are its most important asset. The Bank aims to ensure that its staff feel valued and appreciated while working for Jordan International Bank. The Bank engages with its employees through an annual appraisal process, through regular employee surveys, all staff meetings and through a separate meeting of a representative of employees. The Bank actively encourages employees to attend training courses that align to their objectives and their roles whether this is classroom or online training.
- **Customers:** customers remain at the heart of the Bank's business. For each of the Bank's business lines regular contact with clients is paramount and ensures that the Bank can support its clients with existing and any future business needs going forward.
- **Regulators:** the Bank seeks to maintain a high standard of conduct both internally within the Bank and externally when communicating with all external parties. This is especially the case as a regulated the Bank must hold customer deposits safely and in line with the deposit regulations. The Bank strives to have a clear and open relationship with both the Prudential Regulatory Authority and the Financial Conduct Authority that both regulate the Bank.

Section 172 requires that a director must act in the way he considers, in good faith, would be most likely to promote the success of the Bank for the benefit of its shareholders as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the Bank's business relationships with customers, clients and suppliers of products and services used by the Bank;
- the impact of the Bank's operations on the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct.

In discharging its section 172 duties, the Board has regards to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. By considering the Bank's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board does aim to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the CEO, and through him, to Senior Management to set, approve and oversee execution of the Bank's strategy and related policies. The Board reviews matters relating to financial and operational performance; business strategy; key risks; compliance; and legal and regulatory matters over the course of the financial year.

The Board made a strategic decision in the year to expand its Private Banking offering and to prepare an application for a mortgage offering for High Net Worth individuals.

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

Mark Williams

24 June 2020

### Introduction

The directors present their annual report and audited financial statements for the year ended 31 December 2019.

### Results and dividends

The total profit for the year after taxation amounted to £2.4m (2018: £3.3m). The directors recommend that no dividend be paid (2018: £nil).

### Directors

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

Directors	Appointment date	Resignation date
Ammar Al-Safadi		
Ian Schmiegelow		
Hani Al-Qadi		20 February 2020
Samer Al-Qadi		20 February 2020
Nidal Ahmad	29 July 2019	
Raed Al-Massis	20 February 2020	
Basel Araj	20 February 2020	
Adel Assad		23 May 2019
Nabil Hamadeh		
Riyad Taweel		
Rakan Al-Tarawneh		
Mark Williams		

### Payment policy

It is the Bank's policy to pay suppliers as amounts fall due. At 31 December 2019, the Bank's trade creditors had been outstanding for an average of 18 days (2018: 8 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. The cover is a qualifying indemnity policy. Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the annual reports and financial statements. No third party indemnities were enforced for the directors of Jordan International Bank or the parent bank.

### 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 and future outlook are referred to in the Strategic Report.

### Financial risk management

The Bank has exposure to a number of risks, the principal ones of which are described in the Strategic Report. A description of how these risks are managed is provided in Note 29 Risk Management.

## **Political donations**

The Bank made no political donations during the financial year.

## **Financial reporting standards**

The directors have prepared the Bank's financial statements for the year ended 31 December 2019 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**

Details of events occurring after the reporting date are disclosed in Note 37 to the financial statements.

## **Going concern**

The directors recognise their responsibility to assess the Bank's ability to continue as a going concern, for a period of at least twelve months from the date the financial statements are approved. The assessment was based on the Bank's business and capital plan having sufficient liquidity and capital and include consideration of its funding and the ILAAP and ICAAP approved by the Board. The directors are satisfied that having considered the Bank's objectives, risk management policies, capital and liquidity management, nature of exposures, and revenue and expenditure projections, the Bank has adequate financial resources, appropriate capital and a suitable management structure in place to manage its business risks successfully and continue in operational existence for the foreseeable future.

The directors have made an assessment of going concern, taking into account both current performance and the Bank's outlook, which considered the impact of the COVID-19 pandemic, and including considerations of the impact of COVID-19 on the Bank's capital and liquidity position.

As a result of the assessment, The directors are satisfied 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 of the Bank. The details of key assumptions considered in the going concern assessment are disclosed under the heading of "Key sources of estimation uncertainty" in Note 1(c) and Note 37 of 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.

Mark Williams  
24 June 2020

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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 'Bank'):

- give a true and fair view of the state of the Bank's affairs as at 31 December 2019 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 Bank 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 Bank.

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	
<b>Key audit matters</b>	<p>The key audit matter that we identified in the current year was Loan loss provisioning.</p> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li>① Newly identified</li> <li>⊗ Increased level of risk:</li> <li>⊙ Similar level of risk</li> <li>⊖ Decreased level of risk</li> </ul>
<b>Materiality</b>	The materiality that we used in the current year was £1.34 million which was determined on the basis of 1.5% of net assets.
<b>Scoping</b>	Audit work was performed directly by the audit engagement team to respond to the risks of material misstatement.
<b>Significant changes in our approach</b>	We have included consideration of the COVID-19 pandemic as a post balance sheet event in our key audit matter relating to loan loss provisioning.

### Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank'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 LOSS PROVISIONING

##### Key audit matter description

The Bank 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 customer line on the balance sheet of £152.6m (2018: £168.2m).

Loan loss provisioning is one of the most significant estimates made by the Bank's directors and management in preparing financial statements. Refer to the accounting policy Note 1(i) in relation to the impairment of these loans on page 34 (Accounting policies) and page 37 (Critical accounting judgements and key sources of estimation uncertainty). The significant judgements include whether an impairment provision 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.

Management apply IFRS 9 under FRS 102 which uses forward looking "expected credit loss" (ECL) model. Based on the asset's classification under the three stage impairment model, expected credit loss provision is recognised either through a 12 month ECL, or a loss allowance based on the lifetime expected losses is calculated where there is a significant increase in credit risk. This also includes assessment of forward looking factors on expected credit loss.

With the implementation of expected loss model under IFRS 9 and limited historic data available, we have identified a key audit matter around timely identification of a significant increase in credit risk ('SICR') and the subsequent valuation of loan loss provisions on impaired loans (loans classified in Stage 3).

Also, as disclosed in Note 37, management have assessed the impact of the COVID-19 pandemic on the provision, as a non-adjusting post balance sheet event. This covered an assessment of the post balance sheet disclosures including sufficient transparency over the uncertainty surrounding measurement of ECL, particularly in the light of changes in the macroeconomic environment subsequent to the reporting date as a result of COVID-19 pandemic.

## Independent Auditor's Report (continued)

LOAN LOSS PROVISIONING (continued)	
<b>How the scope of our audit responded to the key audit matter</b>	<p>To respond to this key audit matter:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the relevant controls related to the Bank's impairment assessment process and provisioning calculation. This included an assessment of the quarterly credit review performed by the Executive committee on all borrowers;</li> <li>• We reviewed the inputs and challenged the key assumptions and mechanics of the ECL model to test that these are consistent with the IFRS 9 methodology and appropriate for the Bank's portfolio, such as the "significant increase in credit risk" definition and hence the categorisation of loans between stage 1 and 2;</li> <li>• We 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 customers;</li> <li>• For a sample of loans classified in stage 3, we 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');</li> <li>• We tested the application of significant increase in credit risk ('SICR') criteria and default definition on a sample of loan accounts. We also assessed whether the borrowers tested have been appropriately disclosed within the correct stages (Levels 1-3) in accordance with IFRS 9;</li> <li>• We reviewed a sample of loans classified in stage 1 and assessed whether exposures exist in this population which meet the definition of SICR or default and have not yet been identified by management for lifetime ECL assessment; and</li> <li>• We reviewed management's assessment of COVID-19 on expected credit loss on Loans and advances as a non – adjusting post balance sheet event.</li> </ul>
<b>Key observations</b>	<p>We conclude that the loan provisioning amount and related disclosures are reasonable.</p>

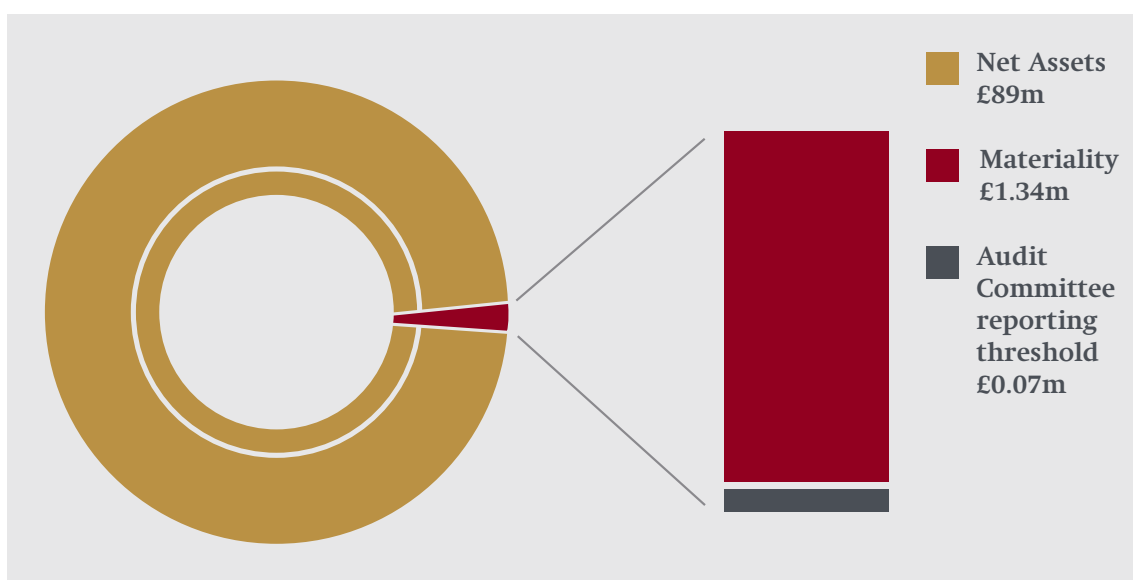
## Independent Auditor's Report (continued)

### Our application of materiality

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

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

<b>Materiality</b>	£1.34 million (2018: £1.27 million)
<b>Basis for determining materiality</b>	1.5% of Net Assets (2018: 1.5% of Net Assets)
<b>Rationale for the benchmark applied</b>	<p>We have used 'Net assets' as the benchmark for the determination of audit materiality in the current year (and the prior year). This approach has been chosen taking into account the following key factors:</p> <p>Net assets is a key metric within the financial statements that the users, being the owners of the Bank, tend to focus on when evaluating the Bank's performance on a periodic basis; and</p> <p>Net assets is a more stable benchmark considering the volatility in the Bank's results on annual basis and is also a basis for regulatory capital.</p>



### Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the Bank's control environment, and the low level of corrected and uncorrected misstatements identified in previous audits.

## **Independent Auditor's Report (continued)**

### **Error reporting threshold**

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £66.8k (2018: £63k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### **An overview of the scope of our audit**

#### **Scoping**

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 in which it operates from the last annual report and financial statements. Our audit approach was a fully substantive one, as was the prior year audit approach, focusing on the key audit matters, material accounts and disclosure balances. It was supported by an understanding of relevant business processes and controls. Audit work to respond to risks of material misstatement was performed directly by the audit engagement team in the UK.

#### **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 Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

## Independent Auditor's Report (continued)

### 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 and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Bank's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, and internal audit about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Bank's documentation of their 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;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit 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.

## **Independent Auditor's Report (continued)**

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential in loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, the Prudential Regulation Authority (PRA) Rulebook, the Financial Conduct Authority (FCA) Handbook, pension and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Bank's ability to operate or to avoid a material penalty. These included the Bank's compliance with the Prudential Authority Rulebook and the Financial Conduct Authority Handbook.

#### **Audit response to risks identified**

As a result of performing the above, we identified loan loss provisioning as a key audit matter related to the potential risk of fraud. 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 addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and internal 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;
- 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 Bank 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.

#### **Opinions on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013**

In our opinion the information given in Note 36 to the financial statements for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements Directive and Regulation (CRD IV) as implemented in the UK by the Prudential Regulation Authority.

### **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 Board of Directors 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 18 years, covering the years ending 31 December 2002 to 31 December 2019.

#### 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 Bank'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 Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Rhys (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK

24 June 2020

## Profit & Loss Account

### Year Ended 31 December 2019

	Notes	2019 £'000's	2018 £'000's
<b>INTEREST INCOME</b>			
Interest receivable and similar income arising from debt securities	3	<b>4,028</b>	3,420
Other interest receivable and similar income	3	<b>12,186</b>	12,873
		<b>16,214</b>	16,293
Interest payable	3	<b>(6,655)</b>	(6,045)
<b>NET INTEREST INCOME</b>		<b>9,559</b>	10,248
<b>NON-INTEREST INCOME</b>			
Fees and commissions		<b>2,153</b>	2,031
Dealing profits	6	<b>47</b>	34
Other operating income		<b>4</b>	4
Profit on disposal of securities	6	~	262
Fair value changes in assets held at FVTPL	6	<b>(4)</b>	(10)
<b>TOTAL OPERATING INCOME</b>		<b>11,759</b>	12,569
Administrative expenses	4	<b>(5,504)</b>	(5,255)
Depreciation	6, 16	<b>(513)</b>	(426)
Other operating charges		<b>(2,930)</b>	(2,984)
Impairment of loans and advances	12	<b>(40)</b>	102
Revaluation movement from OCI	25	~	~
Other gains	13	<b>287</b>	~
<b>OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	6	<b>3,059</b>	4,006
Tax (charge) on profit on ordinary activities	7	<b>(610)</b>	(660)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	25	<b>2,449</b>	3,346

The accompanying notes are an integral part of these financial statements.  
All the Bank's income is derived from continuing operations.

**Profit & Loss Account (continued)**  
**Year Ended 31 December 2019**

	Notes	2019 £'000's	2018 £'000's
<b>STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the financial year		<b>2,449</b>	3,346
<i>Items that may subsequently be reclassified to profit and loss:</i>		~	~
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income		~	~
- Change in fair value	15,25	<b>2,456</b>	(1,946)
- Tax	7,25	<b>(470)</b>	352
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>4,435</b>	1,752

The accompanying notes are an integral part of these financial statements.  
 All the Bank's income is derived from continuing operations.

## Balance Sheet

As at 31 December 2019

	Notes	2019 £'000's	2018 £'000's
<b>ASSETS</b>			
Cash		69	83
Nostros		5,347	10,104
Loans and advances to shareholder banks	8	58,803	39,954
Loans and advances to other banks	9	39,787	36,766
Loans and advances to customers	10	152,660	168,221
Investments in debt securities	15	120,917	125,371
Tangible fixed assets	16	1,759	1,859
Other assets	17	470	548
Deferred tax	7	1,723	2,348
Prepayments and accrued income		2,191	1,951
<b>TOTAL ASSETS</b>		<b>383,726</b>	<b>387,205</b>
<b>LIABILITIES</b>			
Deposits by shareholder banks	18	115,068	118,252
Deposits by other banks	19	68,177	80,699
Customer accounts	20	107,367	99,516
Other liabilities	21	1,860	1,780
Accruals and deferred income		2,249	2,388
<b>TOTAL LIABILITIES</b>		<b>294,721</b>	<b>302,635</b>

**Balance Sheet (continued)**

As at 31 December 2019

	Notes	2019 £'000's	2018 £'000's
Called-up share capital	23	<b>65,000</b>	65,000
Share premium	24	<b>316</b>	316
Revaluation reserve	25	<b>1,008</b>	(978)
Profit and loss account	25	<b>22,681</b>	20,232
<b>SHAREHOLDERS' FUNDS – EQUITY INTERESTS</b>		<b>89,005</b>	84,570
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>383,726</b>	387,205

These financial statements of Jordan International Bank Plc, Registered No. 01814093, were approved by the Board of Directors and authorised for issue on 24 June 2020.

Signed on behalf of the Board of Directors

Mark Williams

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

## Statement of Changes in Equity

### Year Ended 31 December 2019

2019	Share Capital £'000's	Share Premium £'000's	Securities Revaluation Reserve £'000's	Profit & Loss £'000's	Total £'000's
<b>BALANCE AT 01 JANUARY 2019</b>	<b>65,000</b>	<b>316</b>	<b>(978)</b>	<b>20,232</b>	<b>84,570</b>
Movement in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax	~	~	1,986	~	1,986
Profit retained for the year	~	~	~	2,449	2,449
<b>CLOSING BALANCE AT 31 DECEMBER 2019</b>	<b>65,000</b>	<b>316</b>	<b>1,008</b>	<b>22,681</b>	<b>89,005</b>

2018	Share Capital £'000's	Share Premium £'000's	Securities Revaluation Reserve £'000's	Profit & Loss £'000's	Total £'000's
<b>BALANCE AT 31 DECEMBER 2017</b>	65,000	316	616	17,216	83,148
Adjustment on adoption of IFRS 9 (net of deferred tax)	~	~	~	(330)	(330)
<b>BALANCE AT 1 JANUARY 2018</b>	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
<b>CLOSING BALANCE AT 31 DECEMBER 2018</b>	<b>65,000</b>	<b>316</b>	<b>(978)</b>	<b>20,232</b>	<b>84,570</b>

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 2019

	Notes	2019 £'000's	2018 £'000's
<b>NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES</b>	26	<b>6,906</b>	(6,666)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of debt securities	15	<b>(69,903)</b>	(102,879)
Proceeds from the sale and maturity of debt securities	15	<b>72,333</b>	99,096
Interest received from debt securities		<b>3,869</b>	3,290
Purchase of tangible fixed assets	16	<b>(424)</b>	(1,153)
<b>NET CASH GENERATED/(USED IN) BY INVESTING ACTIVITIES</b>		<b>5,875</b>	(1,646)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>12,781</b>	(8,312)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Movement in cash and cash equivalents		<b>12,892</b>	(10,743)
Effect of foreign exchange rate changes		<b>(111)</b>	2,431
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>93,750</b>	80,969

\* During the year, the Bank revisited its definition of cash and cash equivalent and reclassified the balances presented in cash flows from operating activities. The comparative information has been restated to reflect the reclassification adjustment made in the cash and cash equivalent balance and cash flows from operating and financing activities. Please refer Note 38 for details of changes made in the comparative.

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



## Notes to the Accounts

### Year Ended 31 December 2019

#### 1. ACCOUNTING POLICIES

##### a) The Bank and its operations

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.

##### b) Statement of compliance

*Statement of compliance* - The financial statements have been prepared in accordance with Financial Reporting Standard (FRS – 102).

*Accounting convention* - The accounts have been prepared under the historical cost convention basis as modified by the revaluation of derivatives and financial assets measured at fair value through other comprehensive income.

A summary of the accounting policies is set out below. Except where indicated they have been applied consistently throughout the current and preceding year.

##### c) Going concern

The financial statements of Jordan International Bank have been prepared on the going concern basis. 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. This has been done with consideration of the possible effects of the current global outbreak of COVID-19 on the Bank and its operations. As part of this assessment, the directors have considered:

- the impact on the Bank's capital position and whether the Bank has sufficient capital resources;
- the Bank's liquidity and funding position and whether the Bank's forecasted liquidity is adequate;
- the impact on the Bank's profitability with potential reduction in business from the pandemic together with potential increases in expected credit loss charges;
- any potential valuation concerns in respect of the Bank's assets as set of in the Statement of Financial Position;
- the operational resilience of the Bank's critical activities and the Bank's ability to provide continuity of service to its customers through a uncertain and protracted stress period;
- the resilience of the Bank's IT systems; and
- the impact on the Bank's staff and their ability to continue to work in a safe environment.

## 1. ACCOUNTING POLICIES (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. Further information on the sensitivity of key assumptions used in the going concern assumption are disclosed in Note 37.

### d) **Income recognition**

Interest income on financial assets that are carried at amortised cost 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.

### e) **Fees and commissions**

Commissions and fees receivable which represent a return for services is earned when the related service is performed or taken to the profit and loss over the life of the facility. Fee and commission comprise of fee income on 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.

### f) **Other operating income**

As part of its trade finance activities the Bank is reimbursed for its communication and courier charges incurred. Other operating income is recognised in profit and loss statement when earned.

### g) **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)

### h) 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 Profit and loss 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 Profit and loss 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.

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.

## Notes to the Accounts

### Year Ended 31 December 2019

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### i) Impairment of financial assets (see also Note 29 – Risk Management)

The Bank adopted IFRS 9 with effect from 1 January 2018. IFRS 9 replaced the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach with regards to creating an impairment allowance. The revised approach applies to financial assets recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees recorded at amortised cost 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.

The impairment charge in the Profit and Loss statement reflects the change in both Expected Credit Losses (ECLs) as measured under IFRS 9 and net recoveries on specific provisions. ECL 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.

ECLs are required to be measured through a loss allowance at an amount equal to:

- *12-month ECL* - 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 is measured at an amount equal to the 12-month ECL.

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.

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 a 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.

## 1. ACCOUNTING POLICIES (CONTINUED)

### i) Impairment of financial assets (continued)

*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. 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.

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.

The Bank considers a three 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. In addition the Bank considers that if an account's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place.

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.

Loans in default are classified as Stage 3 assets. 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).

*Forward looking factors* - 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.

When assessing the Bank's assets with respect to credit risk and calculating the ECL forward looking macroeconomic factors are considered. These will include various economic variables such as forecasted house price valuations, unemployment rate, GDP, inflation and interest rates. These variables are used in determining the positive and negative stress scenarios that are used to calculate the overall ECL provision.

## 1. ACCOUNTING POLICIES (CONTINUED)

### i) Impairment of financial assets (continued)

*Write-off policy* - A loan or advance is 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.

### j) 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.

### k) 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)

### 1) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in the section above, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most important areas where the directors use critical accounting estimates and judgements in applying its accounting policies are as follows;

*Critical accounting judgements* - 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. This includes:

- *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.
- *Default definition* - The definition of a default event has been disclosed in Note 1(i).

*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:

- *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.

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 £304m against total customer loans of £153m (2018: collateral £317m: loans £168m).

The Bank ensures that newly underwritten lending cases are written to, and structured against, appropriate valuations, where an independent assessment is carried out by an appointed, qualified surveyor accredited by RICS. These valuations are reviewed on an ongoing basis for accuracy and appropriateness with reference to market data including recognised House Price Index and other data sources. The valuation will be subject to formal review and update, as appropriate, where a material change is proposed or the market data indicates material movements in market prices or upon a significant credit risk event.

## 1. ACCOUNTING POLICIES (CONTINUED)

### l) Critical accounting judgements and key sources of estimation uncertainty (continued)

The collateral is subject to sensitivity analysis on an individual basis as part of the loan underwriting and approval process. In addition the collateral for every loan is stress tested as part of portfolio analysis on a regular basis throughout the loan life cycle for inter alia a severe fall in market values.

- *Deferred tax asset* - The Bank uses various assumptions with regard to both revenue and expenditure when forecasting future reportable profits over the period up to and including 2026. Assumptions include expected returns on equity, steady increases in profit before tax, operating income and a reduction in its cost to income ratio.
- *Going concern* - The key assumptions used in the going concern assessment and its sensitivity analysis is disclosed in Note 37 post balance sheet events.

### m) 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.

### n) 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.

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.



**1. ACCOUNTING POLICIES (CONTINUED)****o) 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 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.

**p) 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).

**q) Operating leases**

Rentals paid under operating leases are charged to Profit and loss statement on a straight-line basis over the lease term.

**r) Cash**

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

**s) 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:

	2019 £'000's	2018 £'000's
<b>INTEREST AND SIMILAR INCOME FROM DEBT SECURITIES</b>		
Financial assets at fair value through other comprehensive income	<b>3,313</b>	3,078
Available-for-sale securities	~	~
Fair value through profit & loss securities	~	~
Debt securities held at amortised cost	<b>715</b>	342
Held-to-maturity securities	~	~
	<b>4,028</b>	3,420
<b>OTHER INTEREST RECEIVABLE AND SIMILAR INCOME</b>		
Loans and advances to Banks	<b>2,819</b>	2,952
Loans and advances to customers	<b>9,367</b>	9,921
Total interest receivable	<b>12,186</b>	12,873
<b>INTEREST PAYABLE</b>		
Deposits from banks	<b>(4,147)</b>	(3,759)
Deposits from customers	<b>(2,508)</b>	(2,286)
Total interest payable	<b>(6,655)</b>	(6,045)
Net interest income	<b>9,559</b>	10,248

**4. ADMINISTRATIVE EXPENSES**

Staff costs including directors:

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Salaries	<b>4,009</b>	3,654
Social security costs	<b>478</b>	448
Other pension costs (note 31)	<b>491</b>	456
	<b>4,978</b>	4,558
Other administrative expenses	<b>526</b>	697
	<b>5,504</b>	5,255

In line with Companies Act requirements average number of persons employed by the Bank in 2019 was 43 (2018: 39), made up as follows:

	<b>2019</b> <b>No.</b>	<b>2018</b> <b>No.</b>
Retail banking	<b>4</b>	4
Corporate banking	<b>7</b>	7
Treasury and dealing activities	<b>5</b>	5
Other support staff	<b>27</b>	23
	<b>43</b>	39

**5. DIRECTORS' EMOLUMENTS**

The aggregate amount of emoluments paid to directors consisted of:

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Fees	<b>198</b>	274
Salaries	<b>510</b>	344
Other	<b>55</b>	33
	<b>763</b>	651

Emoluments paid and contributions paid into a money purchase pension scheme on behalf of the highest paid director during 2019 were £340k (2018: £376k) and £30k (2018: £30k) respectively. The total value of contributions paid to a money purchase pension scheme in respect of directors qualifying services amounted to £49k (2018: £30k). The Bank does not operate a defined benefit scheme.

## 5. DIRECTORS' EMOLUMENTS (CONTINUED)

During the year the Bank paid £200k (2018: £250k) to its parent company for services performed by its representatives on the Bank's Board of Directors.

For the purposes of this disclosure, it has been determined that, excluding directors (executive and non-executive), there are no key management personnel. Consequently, the emoluments disclosed above include those emoluments earned by directors only.

## 6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after (crediting)/charging:

	Notes	2019 £'000's	2018 £'000's
(i) Income:			
Foreign exchange gains		(47)	(34)
Profits on disposal of debt securities		~	(262)
Net loss on financial assets and liabilities;			
– designated at fair value through profit and loss		4	10
(ii) Charges:			
Impairment charge/(recovery)	12	40	(102)
Other gains	13	(287)	~
Depreciation on owned assets	16	513	426
Statutory auditors' remuneration;			
– Statutory audit of Financial Statements		123	70
– Audit related assurance services		17	11
		<u>140</u>	<u>81</u>
(iii) Compliance work/consultancy cost:			
– Taxation		19	22
– Other services		9	33
		<u>28</u>	<u>55</u>
Rental on land and buildings	32	<u>717</u>	<u>604</u>

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

Based on profit for the year:

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
United Kingdom corporation tax	<b>448</b>	601
Adjustments in respect of prior periods	<b>7</b>	(2)
	<b>455</b>	599
Deferred tax – current year	<b>136</b>	104
Deferred tax – prior year adjustment	<b>2</b>	(1)
Deferred tax – rate change (from 19% to 17.26%)	<b>17</b>	(42)
Total tax charge for the year	<b>610</b>	660

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:

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Profit on ordinary activities before tax	<b>3,059</b>	4,006
Tax charge on profit on ordinary activities at 19% (2018: 19%)	<b>581</b>	761
Effects of:		
– Expenses not deductible for tax purposes	<b>6</b>	6
– FVOCI reserve movements	<b>(3)</b>	(61)
– Difference between actual and expected tax rates	<b>17</b>	(43)
– Adjustments to prior years	<b>9</b>	(3)
Total tax charge for the year	<b>610</b>	660

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is a charge of £469,990 (2018 credit: £307,613).

The standard rate of tax applied to reported profit on ordinary activities is 19% (2018: 19%).

The applicable tax rate changed following the enactment of the Finance Act 2015 and Finance (No.2) Act 2015.

It is expected that the deferred asset will increase marginally by £41,860 during 2020, however, management are confident that the deferred tax asset will totally reverse by 2026, based on projected profit expectations. Losses carried forward at 31 December 2019 amount to £12,093,469 by which time the deferred tax asset will be totally recognised. 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:

	2019 £'000's	2018 £'000's
Opening balance	2,348	2,101
Adjustment on adoption of IFRS 9	~	(44)
Charge to profit and loss account	(155)	(61)
Credit/(Charge) to Other Comprehensive Income	(470)	352
Closing balance	<u>1,723</u>	<u>2,348</u>
Analysis of deferred tax balance:		
Accelerated capital allowances	(118)	(52)
Tax losses	2,054	2,224
Short-term timing differences	(213)	176
Deferred tax assets recognised	<u>1,723</u>	<u>2,348</u>

## 8. LOANS AND ADVANCES TO SHAREHOLDER BANKS AT AMORTISED COST

	2019 £'000's	2018 £'000's
Repayable		
– on demand	21,508	2,260
– within 3 months	37,309	37,708
Expected credit loss – Stage 1 (see note 11)	(14)	(14)
	<u>58,803</u>	<u>39,954</u>

As at 31 December 2019, loans and advances to shareholder banks amounting to £58.803 million (2018: 39.954 million) was classified in stage 1.

**9. LOANS AND ADVANCES TO OTHER BANKS AT AMORTISED COST**

	<b>2019</b>	<b>2018</b>
	<b>£'000's</b>	<b>£'000's</b>
Repayable		
– on demand	<b>11,000</b>	15,704
– within three months	<b>17,595</b>	17,375
– between three months and one year	<b>11,272</b>	3,731
Expected credit loss – Stage 1 (see note 11)	<b>(80)</b>	(44)
	<b>39,787</b>	36,766

As at 31 December 2019, loans and advances to other banks amounting to £39.787 million (2018: 36.766 million) was classified in stage 1.

**10. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST**

	<b>2019</b>	<b>2018</b>
	<b>£'000's</b>	<b>£'000's</b>
Repayable		
– on demand	<b>764</b>	4,624
– within three months	<b>46,909</b>	51,784
– between three months and one year	<b>42,216</b>	32,348
– between one and five years	<b>62,836</b>	79,517
Expected credit loss – Stage 1 (see note 11)	<b>(45)</b>	(27)
Expected credit loss – Stage 2 (see note 11)	<b>(20)</b>	(25)
	<b>152,660</b>	168,221

As at 31 December 2019, loans and advances to customers amounting to £144.495 million (2018: 159.952 million) was classified in stage 1, £6.044 million (2018: 6.135 million) in stage 2 and £2.186 million (2018: 2.186 million) in stage 3.

## 11. IMPAIRMENT ALLOWANCES

<b>ANALYSIS OF TOTAL MOVEMENT IN PROVISIONS</b>	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
At 1 January	<b>527</b>	649
Adjustment on adoption of IFRS 9	~	286
(Credit)/Charge to profit and loss	<b>55</b>	(102)
Other adjustments	~	(306)
At 31 December	<b>582</b>	527

Analysis of movement in the allowance for impairment losses by Stages. The table shown above include those relating to Loans and advances to Banks, Loans and advances to customers, Loans and advances to shareholders and debt securities measured at amortised cost and FVOCI.

<b>2019</b>	<b>Stage 1</b> <b>£'000's</b>	<b>Stage 2</b> <b>£'000's</b>	<b>Stage 3</b> <b>£'000's</b>	<b>Total</b> <b>£'000's</b>
<i>In respect of drawn balances</i>				
Balance at 1 January 2019	<b>346</b>	<b>134</b>	<b>11</b>	<b>491</b>
– Transfers to Stage 2	~	~	~	~
– Transfers to Stage 3	~	~	~	~
Charge/(credit) to the income statement (see note 12 below)	<b>116</b>	<b>(78)</b>	<b>(11)</b>	<b>27</b>
At 31 December 2019	<b>462</b>	<b>56</b>	~	<b>518</b>

<b>2018</b>	<b>Stage 1</b> <b>£'000's</b>	<b>Stage 2</b> <b>£'000's</b>	<b>Stage 3</b> <b>£'000's</b>	<b>Total</b> <b>£'000's</b>
<i>In respect of drawn balances</i>				
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 (see note 12)	47	(4)	~	43
At 31 December 2018	346	134	11	491



**11. IMPAIRMENT ALLOWANCES (CONTINUED)**

The tables represent staging analysis of undrawn commitments outstanding as at 31 December 2019.

<b>2019</b>	<b>Stage 1 £'000's</b>	<b>Stage 2 £'000's</b>	<b>Stage 3 £'000's</b>	<b>Total £'000's</b>
<i>In respect of undrawn balances</i>				
Balance at 31 December 2019 (Restated)	<b>36</b>	~	<b>1,000</b>	<b>1,036</b>
– Transfers to Stage 2	~	~	~	~
– Charge to the income statement (see note 11)	<b>27</b>	<b>1</b>	~	<b>28</b>
– Other movement	~	~	<b>(100)</b>	<b>(100)</b>
At 31 December 2019 (Restated)	<b>63</b>	<b>1</b>	<b>900</b>	<b>964</b>

<b>2018</b>	<b>Stage 1 £'000's</b>	<b>Stage 2 £'000's</b>	<b>Stage 3 £'000's (Restated)*</b>	<b>Total £'000's</b>
<i>In respect of undrawn balances</i>				
Balance at 31 December 2017 (Restated)	41	~	1,000	1,041
Adjustment on adoption of IFRS 9 (see note 11)	(15)	~	~	(15)
Balance at 1 January 2018	26	~	1,000	1,026
– Transfers to Stage 2	~	~	~	~
– Charge to the income statement (see note 11)	10	~	~	10
At 31 December 2018 (Restated)	<b>36</b>	~	<b>1,000</b>	<b>1,036</b>

\* The expected credit loss allowance has been restated to include the provision of £1.0 million on an off balance sheet customer exposure previously classified in other liabilities balance.

## 11. IMPAIRMENT ALLOWANCES (CONTINUED)

A breakdown of expected credit loss on each financial asset is summarised in the table below:

ANALYSIS OF EXPECTED CREDIT LOSS ALLOWANCE BY CLASS	Notes	2019 £'000's	2018 £'000's
Loans and advances to Shareholder banks	8	14	14
Loans and advances to other banks	9	80	44
Loans and advances to customers	10	65	52
Debt securities at amortised cost	16	113	85
Debt securities at FVOCI	16	246	296
ECL on undrawn commitments	21	964	1036
<b>TOTAL</b>		<b>1482</b>	1527

\* The expected credit loss allowance has been restated to include the provision of £1.0 million on an off balance sheet customer exposure previously classified in other liabilities balance.

There were transfers between stages during 2019. If there are transfers between stages, these 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 because of new loans originated and repayments of outstanding balances throughout the reporting period.

### Interest on impaired financial assets

Interest on impaired financial assets is not recognised into profit until such time as management believe that credit risk has substantially improved or monies due on the loan has been fully recovered.

### Collateral repossessed

No collateral was repossessed during the year (2018: Nil).

### Financial assets pledged as collateral

The Bank gave no security during the year for any liabilities shown on the balance sheet.

**12. IMPAIRMENT CHARGE**

	Notes	2019 £'000's	2018 £'000's
Increase in ECL – drawn balances	11	(27)	(43)
Increase in ECL - undrawn balances	11	(28)	(10)
Release of provision		~	344
Other movements/charges		15	(189)
		<b>(40)</b>	102

**13. OTHER GAINS**

During 2019, the Bank recovered a net £286,660 relating to assets, 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:

	2019 £'000's	2018 £'000's
UK	179,289	193,641
OECD	69,604	90,061
Jordan	77,630	44,025
Middle East	28,000	46,746
Other	29,203	12,732
	<b>383,726</b>	387,205

Country exposures considered material within "Other" category include Brazil, Indonesia, China, India, Russia and Australia.

#### 14. CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The following industry concentrations are considered significant:

	2019 £'000's	2018 £'000's
Government/Quasi-Government	81,176	87,585
Banks	121,658	102,911
Property	152,659	168,196
Other	28,233	28,513
	<b>383,726</b>	387,205

#### 15. INVESTMENTS IN DEBT SECURITIES

	Govt securities £'000's	Other debt securities £'000's	Total £'000's
<b>2019</b>			
Amortised cost	3,768	17,190	20,958
Financial assets measured at fair value through other comprehensive income	77,745	22,573	100,318
Expected credit losses	(337)	(22)	(359)
At 31 December 2019	<b>81,176</b>	<b>39,741</b>	<b>120,917</b>
<b>2018</b>			
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	<b>87,584</b>	<b>37,787</b>	<b>125,371</b>

**15. INVESTMENTS IN DEBT SECURITIES (CONTINUED)**

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

<b>2019</b>	<b>Amortised Cost £'000's</b>	<b>FVOCI £'000's</b>	<b>Total £'000's</b>
At 1 January	8,599	116,772	125,371
Additions*	12,809	64,657	77,466
Disposals and maturities	~	(81,169)	(81,169)
Exchange adjustment	(535)	(2,694)	(3,229)
Revaluation	~	2,456	2,456
Expected Credit Loss allowance (see note 11)	(28)	50	22
At 31 December 2019	<b>20,845</b>	<b>100,072</b>	<b>120,917</b>

<b>2018</b>	<b>Amortised Cost £'000's</b>	<b>FVOCI £'000's</b>	<b>Total £'000's</b>
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	<b>8,599</b>	<b>116,772</b>	<b>125,371</b>

\* Included in the 2019 additions above are high quality liquid assets (HQLA) amounting to £7.56million (2018:£8.78million) which have an original maturity of three months or less.

## 16. TANGIBLE FIXED ASSETS

	Furniture, fittings and office equipment £'000's	Improvement to leasehold premises £'000's	Total £'000's
<b>COST</b>			
At 1 January 2019	2,931	758	3,689
Additions	424	~	424
Disposals	(197)	~	(197)
At 31 December 2019	<u>3,158</u>	<u>758</u>	<u>3,916</u>
<b>DEPRECIATION</b>			
At 1 January 2019	1,778	52	1,830
Charge for the year	435	78	513
Disposals	(186)	~	(186)
At 31 December 2019	<u>2,027</u>	<u>130</u>	<u>2,157</u>
<b>NET BOOK VALUE</b>			
At 31 December 2019	<u>1,131</u>	<u>628</u>	<u>1,759</u>
At 31 December 2018	<u>1,153</u>	<u>706</u>	<u>1,859</u>

## 17. OTHER ASSETS

	Notes	2019 £'000's	2018 £'000's
Other receivables		469	439
Derivatives at fair value	28	1	109
		<u>470</u>	<u>548</u>

**18. DEPOSITS BY SHAREHOLDER BANKS**

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Repayable		
– on demand	<b>8,941</b>	15,219
– within three months	<b>38,025</b>	29,110
– between three months and one year	<b>68,102</b>	73,923
– between one and five years	~	~
	<b>115,068</b>	118,252

**19. DEPOSITS BY OTHER BANKS**

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Repayable		
– on demand	<b>11,162</b>	10,657
– within three months	<b>57,015</b>	70,042
– between three months and one year	~	~
– between one and five years	~	~
	<b>68,177</b>	80,699

**20. CUSTOMER ACCOUNTS**

	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Repayable		
– on demand	<b>16,819</b>	17,218
– within three months	<b>14,439</b>	10,447
– between three months and one year	<b>72,621</b>	64,423
– between one and five years	<b>3,488</b>	7,428
	<b>107,367</b>	99,516

## 21. OTHER LIABILITIES

	2019 £'000's	2018 £'000's
Derivatives at fair value (note 28)	292	1
Tax and social security	117	249
Other liabilities	1,451	1,530
	<b>1,860</b>	<b>1,780</b>

The 'Other' category includes a provision against a contingent guarantee amounting to £0.9 million (2018: 1.0 million). The amount is included in the expected credit allowance in Note 11.

## 22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

2019	FVOCI £'000's	FVTPL £'000's	Financial assets at Amortised cost £'000's	Financial liabilities at Amortised cost £'000's	Total £'000's
<b>FINANCIAL ASSETS</b>					
Cash	~	~	69	~	69
Nostros	~	~	5,347	~	5,347
Loans and advances to shareholder banks	~	~	58,803	~	58,803
Loans and advances to other banks	~	~	39,787	~	39,787
Loans and advances to customers	~	~	152,660	~	152,660
Debt securities	100,072	~	20,845	~	120,917
Other assets	~	1	469	~	470
Accrued income	~	~	1,195	~	1,195
	<b>100,072</b>	<b>1</b>	<b>279,175</b>	<b>~</b>	<b>379,248</b>
<b>FINANCIAL LIABILITIES</b>					
Deposits from shareholder banks	~	~	~	115,068	115,068
Deposits from other banks	~	~	~	68,177	68,177
Deposits from customers	~	~	~	107,367	107,367
Other liabilities	~	292	~	1,568	1,860
Accruals	~	~	~	2,249	2,249
	~	<b>292</b>	~	<b>294,429</b>	<b>294,721</b>



## 22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2018	FVOCI £'000's	FVTPL £'000's	Financial assets at Amortised cost £'000's	Financial liabilities at Amortised cost £'000's	Total £'000's
<b>FINANCIAL ASSETS</b>					
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 assets	~	109	439	~	548
Accrued income	~	~	1,501	~	1,501
	116,772	109	265,667	~	382,548
<b>FINANCIAL LIABILITIES</b>					
Deposits from shareholder banks	~	~	~	118,252	118,252
Deposits from other banks	~	~	~	80,699	80,699
Deposits from customers	~	~	~	99,516	99,516
Other liabilities	~	1	~	1,787	1,788
Accruals	~	~	~	4,223	4,223
	~	1	~	304,477	304,478

## 23. CALLED-UP SHARE CAPITAL

<b>CALLED-UP, ALLOTTED AND FULLY PAID:</b>	<b>2019</b> £'000's	<b>2018</b> £'000's
65,000,000 (2018: 65,000,000) ordinary shares of £1 each	<b>65,000</b>	65,000

## 24. SHARE PREMIUM

	<b>2019</b> £'000's	<b>2018</b> £'000's
At 31 December	<b>316</b>	316

## 25. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS AND RESERVES

	<b>2019</b> £'000's	<b>2018</b> £'000's
<b>SHARE CAPITAL</b>		
Opening share capital	<b>65,000</b>	65,000
Closing share capital	<b>65,000</b>	65,000
<b>SHARE PREMIUM</b>		
Opening share premium	<b>316</b>	316
Closing share premium	<b>316</b>	316
<b>PROFIT AND LOSS</b>		
Profit and loss at 1 January	<b>20,232</b>	17,216
Restatement of opening balance under IFRS 9 (net of deferred tax)	~	(330)
Profit for the financial year	<b>2,449</b>	3,346
Profit and loss at 31 December	<b>22,681</b>	20,232
<b>SECURITIES REVALUATION RESERVE</b>		
Opening revaluation reserve	<b>(978)</b>	616
Tax effect	<b>(470)</b>	352
Revaluation	<b>2,456</b>	(1,946)
Closing revaluation reserve	<b>1,008</b>	(978)

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

	2019 £'000's	2018 £'000's
Operating profit before tax	3,059	4,006
Adjustments:		
– Interest income on debt securities	(4,028)	(3,420)
– Interest income on loans and advances	(12,186)	(12,872)
– Interest expense on deposits	6,655	6,045
– Depreciation	513	426
– Write-off of tangible fixed assets	11	~
– Fair value changes in financial assets	4	10
– Impairment charge / (reversal)	55	(102)
– Net effect of foreign exchange rate changes	3,441	(9,775)
<b>OPERATING CASH FLOW BEFORE MOVEMENT IN WORKING CAPITAL</b>	<b>(2,476)</b>	<b>(15,682)</b>
Changes in operating assets and liabilities:		
– Net decrease in loans and advances - cost	12,283	9,641
– Net increase in deposits	(7,619)	(7,164)
– Net increase in prepayments and accrued income	(240)	(250)
– Net decrease/increase in other assets and liabilities	303	593
– Net decrease in accruals and deferred income	(139)	(1,071)
<b>CASH GENERATED FROM / (USED IN) FROM OPERATING ACTIVITIES</b>	<b>2,112</b>	<b>(13,933)</b>
Interest received on loans and advances	12,317	12,859
Corporation tax paid	(632)	(345)
Interest paid on deposits	(6,891)	(5,247)
<b>NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES</b>	<b>6,906</b>	<b>(6,666)</b>

\* The loans and advances to shareholders, loans and advances to other banks with less than three months of maturity at acquisition were reclassified from cash flow from operating activities to cash and cash equivalent. In addition, Deposits from shareholders and Deposits from other banks were reclassified to cash flow from operating activity as they fail to meet cash and cash equivalent criteria as laid down in FRS 102 requirement. Please refer Note 38 for details of changes made in the comparative.

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

	2019 £'000's	2018 £'000's (Restated)*	Change in year £'000's
Cash	69	83	(14)
Nostros	5,347	10,104	(4,757)
Loans and advances to shareholder banks (less than 3 months maturity)	58,781	39,927	18,854
Loans and advances to other banks (less than 3 months maturity)	21,990	22,073	(83)
Debt Securities (less than 3 months maturity)	7,563	8,782	(1,219)
	<b>93,750</b>	<b>80,969</b>	<b>12,781</b>

As at 31 December 2019 the Bank held assets totalling £88.33 million (2018: £70.78m) 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 an original maturity of three months or less.

\* The loans and advances to shareholders, loans and advances to other banks with less than three months of maturity at acquisition were reclassified from cash flow from operating activities to cash and cash equivalent. In addition, Deposits from shareholders and Deposits from other banks were reclassified to cash flow from operating activity as they fail to meet cash and cash equivalent criteria as laid down in FRS 102 requirement. Please refer Note 38 for details of changes made in the comparative.

## 28. DERIVATIVES AT FAIR VALUE

2019	Notional Amounts £'000's	Fair Value Assets £'000's	Fair Value Liabilities £'000's
Exchange rate contracts:			
Contract or underlying principal amount	14,535	1	292
	<b>Notional Amounts £'000's</b>	<b>Fair Value Assets £'000's</b>	<b>Fair Value Liabilities £'000's</b>
2018			
Exchange rate contracts:			
Contract or underlying principal amount	16,329	109	1

The Bank enters into derivative instruments for managing foreign exchange exposures. The fair value of derivatives is included within other assets and other liabilities in the balance sheet.

## 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 receipts.

## 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, the 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 61).
- The Bank maintains a robust Risk Appetite Framework, managed to a consistent appetite using an approved set of metrics.
- The Bank regularly undertakes stress tests to ensure that it remains sustainable.

**The Board** that determines the overall risk appetite for the Bank has two Board sub-committees that support the Board as follows:

**The 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 auditor. 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 an independent non-executive director.

**The 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 an independent non-executive director.

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

## 29. RISK MANAGEMENT (CONTINUED)

### Risk principles (continued)

**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 that 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 determines that 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;
- Supports the first line with embedding risk frameworks and policies;
- Owns the Bank's relationship with regulators;
- Co-ordinates the Bank's approach to setting and reporting on risk appetite; and
- Oversees the delivery of material risk management processes, such as the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), the Recovery Plan and Resolution Pack.

#### Third line of defence – Internal audit

- Provide independent assurance to the Board that the first and second line functions are properly discharging their risk management responsibilities;
- Validates the appropriateness of risk management controls and governance; and
- Tracks 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 enables 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. From the assessment on the impact of COVID-19, the Bank will continue to have adequate capital to meet regulatory requirements and to meet its business needs.

*Liquidity risk* – Insufficient funds to meet obligations and liabilities as they fall due. From the assessment on the impact of COVID-19 the Bank will continue to have sufficient liquidity to meet its future 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. The Bank has assessed the impact of COVID-19 on its property loan book, securities, trade finance exposures and its other exposures both in terms of capital and in terms of liquidity. The Bank recognises that losses on any individual property loan could have a material impact on annual profits and the Bank's capital position and therefore adopts a largely manual credit underwriting process, supported by models, employing experienced first and second line of defence personnel with each and every loan assessed by ExCo. The Bank is regularly calculating and reviewing the expected credit loss provision as it recognises that it could be impacted by a higher ECL provision.

*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.

## 29. RISK MANAGEMENT (CONTINUED)

### Principal risks (continued)

*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 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 such as COVID-19 pandemic.

*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

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 three internal grades to represent a significant increase in credit risk.



## 29. RISK MANAGEMENT (CONTINUED)

### Credit risk (continued)

The Bank's credit risk grading framework comprises 10 categories, which 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.

The Bank considers an increase of three internal credit grades to represent a significant increase in credit risk. However, the Bank recognises that this measure is not linear. For example, a three notch downgrade from an initial credit grade of 3 to 6 at the valuation date can be seen as a significant increase in credit risk, whilst a three notch downgrade from an initial credit grade of 1 to 4 at the valuation date could be interpreted that this is not a significant increase in credit risk as a credit grade of 4 at the valuation date is potentially of a higher enough credit grade to continue to consider this asset within a Stage 1 category. In addition, the Bank considers that if an account's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place.

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	Internal classification
1	Aaa-Aa3	High Grade	Performing
2	A1-A3	Upper medium grade	Performing
3	Baa1-Baa2	Medium grade	Performing
4	Baa3	Lower medium grade	Performing
5	Ba1-Ba3	Non-investment grade	Performing
6	B1-B3	Highly speculative	Performing - marginal
7	Caa1-Caa3	Substantial risks	Vulnerable
8	Ca	Extremely speculative	Sub-standard
9	Ca	Default imminent	Doubtful
10	C	In default	Impaired

## 29. RISK MANAGEMENT (CONTINUED)

### Credit risks (continued)

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.
- Market data.

### 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 is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, taking into account cash flows 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 £304m against total customer loans of £153m (2018: collateral £317m: loans £168m).

**29. RISK MANAGEMENT (CONTINUED)****Credit quality: Ageing analysis**

	At 31 December 2019		At 31 December 2018	
	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
<b>LOANS AND ADVANCES AT AMORTISED COST</b>				
Neither past due nor impaired	<b>152,725</b>	<b>98,684</b>	168,273	76,778
Past due but not impaired				
– less than 3 months	~	~	~	~
– 3 to 12 months	~	~	~	~
– 1 to 5 years	~	~	~	~
Impaired	~	~	~	~
Expected credit loss allowance	<b>(65)</b>	<b>(94)</b>	(52)	(58)
Carrying amount	<b>152,660</b>	<b>98,590</b>	168,221	76,720
	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>LOANS AND ADVANCES TO SHAREHOLDER BANKS AT AMORTISED COST 2019</b>				
Grades 1-5: Performing	<b>58,817</b>	~	~	<b>58,817</b>
	<b>58,817</b>	~	~	<b>58,817</b>
ECL allowance	<b>(14)</b>	~	~	<b>(14)</b>
Carrying amount	<b>58,803</b>	~	~	<b>58,803</b>
	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>LOANS AND ADVANCES TO SHAREHOLDER BANKS AT AMORTISED COST 2018</b>				
Grades 1-5: Performing	39,968	~	~	39,968
	39,968	~	~	39,968
ECL allowance	(14)	~	~	(14)
Carrying amount	39,954	~	~	39,954

## 29. RISK MANAGEMENT (CONTINUED)

### Credit quality: Ageing analysis (continued)

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>LOANS AND ADVANCES TO OTHER BANKS 2019</b>				
Grades 1-5: Performing	<b>39,867</b>	~	~	<b>39,867</b>
	<b>39,867</b>	~	~	<b>39,867</b>
ECL allowance	<b>(80)</b>	~	~	<b>(80)</b>
Carrying amount	<b>39,787</b>	~	~	<b>39,787</b>

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>LOANS AND ADVANCES TO OTHER BANKS 2018</b>				
Grades 1-5: Performing	36,810	~	~	36,810
	36,810	~	~	36,810
ECL allowance	(44)	~	~	(44)
Carrying amount	36,766	~	~	36,766

**29. RISK MANAGEMENT (CONTINUED)****Credit quality: Ageing analysis (continued)**

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST 2019</b>				
Grades 1-5: Performing	144,495	~	~	144,495
Grade 6: Performing-marginal	~	6,044	~	6,044
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	2,186	2,186
Grade 10: Impaired	~	~	~	~
	<b>144,495</b>	<b>6,044</b>	<b>2,186</b>	<b>152,725</b>
ECL allowance	(45)	(20)	~	(65)
Carrying amount	<b>144,450</b>	<b>6,024</b>	<b>2,186</b>	<b>152,660</b>

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST 2018</b>				
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
ECL allowance	(27)	(25)	~	(52)
Carrying amount	<b>159,925</b>	<b>6,110</b>	<b>2,186</b>	<b>168,221</b>

**29. RISK MANAGEMENT (CONTINUED)**
**Credit quality: Ageing analysis (continued)**

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>31 DECEMBER 2019</b>				
<b>DEBT SECURITIES AT AMORTISED COST</b>				
Grades 1-5: Performing	17,190	~	~	17,190
Grade 6: Performing-marginal	3,768	~	~	3,768
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	<b>20,958</b>	~	~	<b>20,958</b>
ECL allowance	(113)	~	~	(113)
Carrying amount	<b>20,845</b>	~	~	<b>20,845</b>
<b>31 DECEMBER 2018</b>				
<b>DEBT SECURITIES AT AMORTISED COST</b>				
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
ECL allowance	(86)	~	~	(86)
Carrying amount	8,599	~	~	8,599

**29. RISK MANAGEMENT (CONTINUED)****Credit quality: Ageing analysis (continued)**

	Stage 1 – 12 month ECL £'000's	Stage 2 – Lifetime ECL £'000's	Stage 3 – Lifetime ECL £'000's	Total ECL £'000's
<b>31 DECEMBER 2019</b>				
<b>DEBT SECURITIES AT FVOCI</b>				
Grades 1-5: Performing	90,635	~	~	90,635
Grade 6: Performing-marginal	6,208	3,475	~	9,683
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	<b>96,843</b>	<b>3,475</b>	<b>~</b>	<b>100,318</b>
ECL allowance	(210)	(36)	~	(246)
Carrying amount	<b>96,633</b>	<b>3,439</b>	<b>~</b>	<b>100,072</b>
<b>31 DECEMBER 2018</b>				
<b>DEBT SECURITIES AT FVOCI</b>				
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
ECL allowance	(175)	(120)	~	(295)
Carrying amount	<b>113,295</b>	<b>3,477</b>	<b>~</b>	<b>116,772</b>

## 29. RISK MANAGEMENT (CONTINUED)

### Credit Quality: Neither past due nor impaired

	At 31 December 2019		At 31 December 2018	
	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
<b>LOANS AND ADVANCES</b>				
Investment grade	~	<b>37,190</b>	~	15,755
Non-investment grade	~	<b>26,354</b>	~	48,874
Unrated	<b>152,660</b>	<b>35,046</b>	168,221	12,091
Maximum credit exposure	<b>152,660</b>	<b>98,590</b>	168,221	76,720

### Debt securities by rating agency designation is summarised below:

	At 31 December 2019		At 31 December 2018	
	Government securities £'000's	Other debt securities £'000's	Government securities £'000's	Other debt securities £'000's
AAA to A+	<b>52,097</b>	<b>8,228</b>	63,233	10,249
A or lower	<b>29,079</b>	<b>31,513</b>	24,351	27,538
Unrated	~	~	~	~
	<b>81,176</b>	<b>39,741</b>	87,584	37,787
Impaired	~	~	~	~
Maximum credit exposure	<b>81,176</b>	<b>39,741</b>	87,584	37,787

### 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. The Executive Committee monitors adherence to internal policies. 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 the Bank's liquidity needs under stressed conditions. The liquidity buffer is monitored to ensure there is sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding, enabling the Bank to meet all financial obligations and to support anticipated asset growth.



## 29. RISK MANAGEMENT (CONTINUED)

### Liquidity risk (continued)

#### 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 2019, the Bank had sufficient highly liquid unencumbered LCR eligible assets. 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.

#### 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 2019 by 8% to £183 million (2018: £199 million). Funding from customer accounts increased by 8% during 2019 to £107 million (2018: £99 million).

#### Contingency Funding

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

Contingency funding plans have been established in the event of a "liquidity crisis" and management remains confident of the Bank's ability to manage its liquidity requirements effectively in all such circumstances. With the current situation at the time of writing with respect to the COVID-19 pandemic, the Bank has done an assessment on its funding to the end of June 2021. The Bank is confident that it has sufficient liquidity and contingency funding. Please refer to the Going Concern section under the Directors' Report. 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 cash flow 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, whether 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
<b>AT 31 DECEMBER 2019</b>						
<b>Non-derivative financial instruments</b>						
Deposits by shareholder banks	8,941	38,025	68,102	~	~	115,068
Deposits by other banks	11,162	57,015	~	~	~	68,177
Customer accounts	16,819	14,439	72,621	3,488	~	107,367
<b>Derivative instruments</b>	~	6	~	~	~	6
	<b>36,922</b>	<b>109,485</b>	<b>140,723</b>	<b>3,488</b>	<b>~</b>	<b>290,618</b>

	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
<b>AT 31 DECEMBER 2018</b>						
<b>Non-derivative financial instruments</b>						
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
<b>Derivative instruments</b>	~	5	35	~	~	40
	<b>53,943</b>	<b>113,104</b>	<b>122,196</b>	<b>7,427</b>	<b>~</b>	<b>296,670</b>

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 interest coupon payments.

**29. RISK MANAGEMENT (CONTINUED)**

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

	At 31 December 2019		At 31 December 2018	
	£'000's	Repayable within 1 year £'000's	£'000's	Repayable within 1 year £'000's
Cash and nostros	<b>5,416</b>	<b>5,416</b>	10,187	10,187
Loans and advances to shareholder banks	<b>58,803</b>	<b>58,803</b>	39,954	39,954
Loans and advances to other banks	<b>39,787</b>	<b>39,787</b>	36,766	36,766
		<b>Of which HQLA £'000's</b>		<b>Of which HQLA £'000's</b>
Debt securities	<b>120,917</b>	<b>82,249</b>	125,371	91,679

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

Undrawn loan commitments at 31 December 2019 stood at £39,183k (2018: £31,002k).

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.

Please refer to the Going Concern section under the Directors' Report for the impact assessment of the COVID-19 pandemic

## 29. RISK MANAGEMENT (CONTINUED)

### 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 foreign exchange risk

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

			% change in US\$/£ exchange rate			
	US\$'000's	£'000's	-10% £'000's	-20% £'000's	+10% £'000's	+20% £'000's
<b>US DOLLARS</b>						
<b>AT 31 DECEMBER 2019</b>						
Total assets	227,358	172,215	191,350	215,269	156,559	143,512
Total liabilities	(262,088)	(198,522)	(220,580)	(248,152)	(180,474)	(165,435)
Forward contracts	5,481	4,152	4,613	5,190	3,774	3,460
Net	(29,249)	(22,155)	(24,617)	(27,693)	(20,141)	(18,463)
Movement	~	~	(2,462)	(5,538)	2,014	3,692
		% change in Euro/£ exchange rate				
	Eur'000's	£'000's	-10% £'000's	-20% £'000's	+10% £'000's	+20% £'000's
<b>EUROS</b>						
<b>AT 31 DECEMBER 2019</b>						
Total assets	8,248	6,996	7,773	8,745	6,360	5,830
Total liabilities	(11,401)	(9,670)	(10,744)	(12,087)	(8,791)	(8,058)
Forward contracts	3,200	2,714	3,015	3,392	2,467	2,262
Net	47	40	44	50	36	34
Movement	~	~	4	10	(4)	(6)

**29. RISK MANAGEMENT (CONTINUED)**

US DOLLARS	US\$'000's	£'000's	% change in US\$/£ exchange rate			
			-10% £'000's	-20% £'000's	+10% £'000's	+20% £'000's
<b>AT 31 DECEMBER 2018</b>						
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

EUROS	Eur'000's	£'000's	% change in Euro/£ exchange rate			
			-10% £'000's	-20% £'000's	+10% £'000's	+20% £'000's
<b>AT 31 DECEMBER 2018</b>						
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)

**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 tables below set out the impact on future net interest income and the 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:

	2019		2018	
	Gap £'000's	Net interest £'000's	Gap £'000's	Net interest £'000's
<b>POUNDS STERLING</b>				
Up to 15 days	83,501	1,438	75,782	1,282
15 days to 1 month	13,236	248	16,846	316
1 – 2 months	9,599	168	22,265	390
2 – 3 months	26,417	418	20,884	331
3 – 4 months	(22,696)	(321)	(20,816)	(295)
4 – 5 months	(2,419)	(30)	(3,071)	(38)
5 – 6 months	(5,828)	(63)	(2,271)	(25)
6 – 9 months	(6,637)	(50)	(10,146)	(76)
9 – 12 months	(6,692)	(17)	(10,161)	(25)
<b>TOTAL</b>	<b>88,481</b>	<b>1,791</b>	<b>89,312</b>	<b>1,860</b>

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

	2019		2018	
	Gap US\$ 000's	Net interest US\$ 000's	Gap US\$ 000's	Net interest US\$ 000's
<b>US DOLLARS</b>				
Up to 15 days	(9,595)	(188)	(792)	(16)
15 days to 1 month	(21,621)	(405)	(24,739)	(464)
1 – 2 months	(5,359)	(94)	(34,778)	(609)
2 – 3 months	(6,650)	(105)	1,149	18
3 – 4 months	(65,531)	(928)	(70,191)	(994)
4 – 5 months	3,819	47	4,899	61
5 – 6 months	16,807	182	12,487	135
6 – 9 months	(651)	(5)	16,354	123
9 – 12 months	(14,205)	(35)	(2,914)	(7)
<b>TOTAL</b>	<b>(102,986)</b>	<b>(1,531)</b>	<b>(98,525)</b>	<b>(1,753)</b>

## 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 and those 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 Bank'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 per cent 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 Bank is not subject to any externally imposed capital requirements.

Details of the Bank's capital buffers (including its countercyclical capital buffer) are contained within the Bank's Pillar 3 document, which is available on its website ([www.jordanbank.co.uk](http://www.jordanbank.co.uk)).

## 29. RISK MANAGEMENT (CONTINUED)

### Capital risk (continued)

#### 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.

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	
	Book value £'000's	Fair value £'000's
<b>AT 31 DECEMBER 2019</b>		
<b>ASSETS</b>		
Loans and receivables at amortised cost	251,250	244,941
Debt securities at amortised cost	20,845	20,845
Debt securities at FVOCI	100,072	99,050
<b>LIABILITIES</b>		
Deposits by banks and customers at amortised cost	290,612	298,467

	Non-trading book	
	Book value £'000's	Fair value £'000's
<b>AT 31 DECEMBER 2018</b>		
<b>ASSETS</b>		
Loans and receivables at amortised cost	244,941	244,941
Debt securities at amortised cost	8,599	8,599
Debt securities at FVOCI	117,298	116,772
<b>LIABILITIES</b>		
Deposits by banks and customers at amortised cost	298,467	298,467

### 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.

	2019			
	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
<b>31 DECEMBER 2019</b>				
<b>FINANCIAL ASSETS AT FVTPL</b>				
Exchange rate contracts	1	~	~	1
<b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>				
Debt securities	100,072	~	~	100,072
<b>FINANCIAL LIABILITIES AT FVTPL</b>				
Exchange rate contracts	(292)	~	~	(292)
	<b>99,781</b>	~	~	<b>99,781</b>

**30. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)****Fair value measurements recognised in the balance sheet (continued)**

31 DECEMBER 2018	2018			
	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
<b>FINANCIAL ASSETS AT FVTPL</b>				
Debt securities	~	~	~	~
Exchange rate contracts	109	~	~	109
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>				
Debt securities	116,703	~	69	116,772
<b>FINANCIAL LIABILITIES AT FVTPL</b>				
Exchange rate contracts	(1)	~	~	(1)
	<u>116,811</u>	<u>~</u>	<u>69</u>	<u>116,880</u>

**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 £491,270 (2018: £456,585) represents contributions payable by the Bank to the fund and associated group life insurance premiums. All pension liabilities were fully satisfied at the year-end.

**32. 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	
	2019 £'000's	2018 £'000's
Leases which expire not later than one year	~	~
Leases which expire between one and five years	~	~
Leases which expire later than five years	<u>717</u>	<u>604</u>

### 33. CONTINGENT LIABILITIES

The Bank has contingent liabilities arising from opened, 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.

<b>OFF BALANCE SHEET ITEMS</b>	<b>2019</b> <b>£'000's</b>	<b>2018</b> <b>£'000's</b>
Acceptances	<b>63</b>	~
Guarantees and irrevocable letters of credit	<b>7,020</b>	7,670
Undrawn commitments	<b>39,183</b>	31,002
	<b>46,266</b>	38,672

The Bank has acceptances of £63k (2018: nil), letters of guarantee and letters of credit totalling £7,020k (2018: £7,670k). 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 (2018: £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 £39,183k (2018: £31,002k) 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 facilities will be drawn before the facilities mature. The exact timing of drawdowns cannot be ascertained as this is determined by the cash flow requirements of each project. The total contingent liability is composed of £14,495k (2018: £8,048k) relating to facilities expiring in less than 1 year and £24,687k (2018: £22,918k) 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.

**33. CONTINGENT LIABILITIES (CONTINUED)**

<b>31 DECEMBER 2019</b>	<b>Stage 1 – 12 month ECL £'000's</b>	<b>Stage 2 – Lifetime ECL £'000's</b>	<b>Stage 3 – Lifetime ECL £'000's</b>	<b>Total ECL £'000's</b>
<b>CONTINGENT LIABILITIES – BANKS &amp; CUSTOMERS</b>				
Grades 1-5: Performing	<b>45,961</b>	<b>305</b>	~	<b>46,266</b>
Grade 6: Performing-marginal	~	~	~	~
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	<b>45,961</b>	<b>305</b>	~	<b>46,266</b>
ECL allowance (see note 11)	<b>(63)</b>	<b>(1)</b>	<b>(900)</b>	<b>(964)</b>
Carrying amount	<b>45,898</b>	<b>304</b>	<b>(900)</b>	<b>45,302</b>
<b>31 DECEMBER 2018</b>				
<b>CONTINGENT LIABILITIES – BANKS &amp; CUSTOMERS</b>				
Grades 1-5: Performing	38,672	~	~	38,672
Grade 6: Performing-marginal	~	~	~	~
Grade 7: Vulnerable	~	~	~	~
Grade 8: Substandard	~	~	~	~
Grade 9: Doubtful	~	~	~	~
Grade 10: Impaired	~	~	~	~
	38,672	~	~	38,672
ECL allowance (see note 11)	(36)	~	(1,000)	(1,036)
Carrying amount	38,637	~	(1,000)	37,637

\* The expected credit loss allowance has been restated to include the provision of £1.0 million on an off balance sheet customer exposure previously classified in other liabilities balance.

### **34. RELATED PARTY TRANSACTIONS**

Other than for the transactions with the shareholder banks included in Note 8 (Loans to Shareholder Banks - 2019: £58,803k; 2018 £39,954k) and 18 (Deposits by Shareholder Banks – 2019: £115,068k; 2018: £118,252k) there have been no related party transactions during 2019. 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 2019 totalled £762,558 (2018: £650,751) (Note 5).

Included within net interest income is £1,304,404 (2018: £1,185,205) in interest income from the Bank's shareholders and £1,782,842 (2018: £1,893,114) in interest expense paid to the Bank's shareholders.

During the year the Bank paid £200k (2018: £250k) 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%).

### **35. 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. It is the only parent company preparing group consolidated financial statements. Its registered address is:

Al-Shumaysani-Prince Shelter Bin Zaid Street  
Amman  
Jordan

PO Box: (7693), Postal code (11118) - Jordan

Copies of their accounts are available from their website at [www.hbtf.com](http://www.hbtf.com)

### 36. 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. The Bank falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2019 are set out below:

Entity name/activity	Jordan International bank - Classified as a commercial bank	
	UK	Total
<b>2019</b>		
a) Operating income	£11,759,000	£11,759,000
b) Average number of employees	43	43
c) Profit before tax	£3,059,000	£3,059,000
d) Corporation tax paid	£632,000	£632,000
e) Public subsidies received	nil	nil
<b>2018</b>		
a) Operating income	£12,569,000	£12,569,000
b) Average number of employees	39	39
c) Profit before tax	£4,006,000	£4,006,000
d) Corporation tax paid	£345,000	£345,000
e) Public subsidies received	nil	nil

### 37. POST BALANCE SHEET EVENTS

#### COVID-19:

In early March, the World Health Organisation declared COVID-19 a pandemic and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The pandemic has had and will likely continue to have implications for the Bank across a range of areas, chiefly its operational continuity, finance exposures, expected credit loss and impact to customers and staff working arrangements.

The Bank seek to serve its customer and keep contributing to the UK economy in these hard times. Although the overall financial impact of COVID-19 cannot be estimated reliably at this time, the Bank has reassessed the extent of its existing assessment to incorporate the impact of COVID-19 and noted the following:

**Financial Forecast:** the Bank has revised its profitability forecast for year 2021 through reduction in net interest margin from all revenue streams, changes in credit premium, decline in the market prices of the debt securities, and expected credit loss as the ability of customers to repay their credit obligations falls.

**Expected credit loss on financial assets:** Management has performed stress testing on the credit portfolio by applying a range of scenarios with varying degree of severity to assess expected credit losses and its impact on the Bank's capital and liquidity resources. The stress test involved fluctuating the contractual cash flows and collateral valuation from the structured property lending portfolio. The assessment was performed at a granular level depending on the stage of completion of the development site. The stress rates used on a development site were significantly higher on than an investment property.

**Liquidity assessment:** Management performed reverse stress test on its cash flows profile to challenge the adequacy of existing liquidity resources. The stress test involved assessing the Bank's ability to repay its supplier and financial obligations under a worst case scenario involving significant decline in Bank's deposit base. The result of stress testing demonstrated the Bank's strong liquidity profile and ability to implement effective corrective actions to sustain the severity of a worst case scenario.

**Capital assessment:** Management has performed reverse stress test on its capital reserve to assess the adequacy of the capital resources. The stress test involved assessing the Bank's ability to absorb potential losses in a severe downside scenario. The result of stress testing demonstrate Bank's strong capital and ability to implement effective corrective actions to sustain worst case scenario.

**Operational Resilience:** There has been limited impact to the Bank's operations from COVID-19. The distributed presence of the Bank's offices and limited workforce has allowed the Bank's management to adopt remote working reducing the impact to its ability to transact. The senior management team will continue monitoring the Bank's operations in line with the preparedness plan.



**37. POST BALANCE SHEET EVENTS (CONTINUED)****Change in corporation tax rate**

The March 2016 Budget Statement included an announcement that the standard rate of corporation tax in the UK would be reduced to 17% from 1 April 2020. Subsequently, at the March 2020 Budget Statement, the Chancellor announced that this reduction to 17% would no longer take place, with the standard rate of corporation tax instead being maintained at 19%. However, at the reporting date the 17% rate continued to be the substantively enacted rate and is therefore the standard rate of corporation tax applied in calculating the deferred taxation balances reflected in these financial statements.

**38. RESTATEMENT OF COMPARATIVE INFORMATION PRESENTED****Restatement in cash flow statement**

The Bank noted inconsistencies in the application of cash and cash equivalent definition in the current and prior periods. Loans and advances to shareholders, Loans and advances to other banks with less than three months of maturity at origination were reclassified as cash and cash equivalent. Similarly, Deposits from shareholders and Deposits from other banks were reclassified to cash flow from operating activity as they fail to meet cash and cash equivalent criteria as laid down in FRS 102 requirement. In addition, the balance in Customer accounts was reclassified from cash flow from financing activities to cash flow from operating activities during the year.

### 38. RESTATEMENT OF COMPARATIVE INFORMATION PRESENTED (CONTINUED)

The impact of adjusting the prior year reported balances is shown in the table below:

AT 31 DECEMBER 2018	Reported £'000's	Adjustment £'000's	Restated £'000's
<b>Cashflow statement</b>			
<b>Net cash generated/(used) in operating activities</b>	(60,350)	53,684	(6,666)
(Decrease) /Increase in long-term customer deposits	7,428	(7,428)	~
Cash and cash equivalents at beginning of the year	65,625	23,656	89,281
Movement in cash and cash equivalents	(56,556)	45,813	(10,743)
Effect of foreign exchange rate changes	1,988	443	2,431
Cash and cash equivalents at end of year	11,057	69,912	80,969
<b>NOTE 26: RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW FROM OPERATING ACTIVITIES</b>			
Interest income on loans and advances	~	(12,872)	(12,872)
Interest expense on deposits	~	6,045	6,045
Effect of foreign exchange rate changes	(7,082)	(2,693)	(9,775)
Operating cash flow before movement in working capital			
– Net decrease/(increase) in loans and advances	(34,336)	43,977	9,641
– Net increase/(decrease) in deposits	(18,517)	11,353	(7,164)
Interest received on loans and advances	~	12,859	12,859
Interest paid on deposits	~	(5,247)	(5,247)
<b>NOTE 27: ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET</b>			
Loans and advances to shareholder banks (less than 3 months maturity)	2,260	37,667	39,927
Loans and advances to other banks (less than 3 months maturity)	15,704	6,369	22,073
Deposits by shareholder banks	(15,219)	15,219	~
Deposits by other banks	(10,657)	10,657	~
<b>Total</b>	(7,912)	69,912	62,000

### **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](http://www.jordanbank.co.uk).





