



# Jordan International Bank Plc

*Report & Accounts*  
*2002*

## *Contents*

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## Shareholders

	Percentage
Government of the Hashemite Kingdom of Jordan	15.000%
The Housing Bank for Trade and Finance	22.100%
Jordan National Bank	18.900%
Bank of Jordan	7.825%
Jordan Kuwait Bank	7.450%
Cairo Amman Bank	6.700%
Jordan Gulf Bank	6.700%
Arab Jordan Investment Bank	5.200%
Jordan Investment and Finance Bank	5.125%
Arab Banking Corporation - Jordan	5.000%
	<u>100.000%</u>

H.E. Dr Umayya Toukan (Chairman)

Zuhair Khouri (Deputy Chairman)  
Alternate: Abdel Kader Dweik

H.E. Dr Rajai Muasher  
Alternate: Khalil Nasr

Abdul Kader Al-Qadi  
Alternate: Hani Al-Qadi

Mohammad Al-Qassim  
Alternate: Shaker Fakhouri

H.E. Dr Ziad Fariz

David Gates

## *Executives*

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**General Manager**

**John Clouting**

**Deputy General Manager**

**Kevin Qualters**

**Senior Assistant General Manager and Treasurer**

**Bassel A Kekhia**

**Chief Dealer and Head of Investment Sales**

**Fayez Al-Momani**

**Assistant General Manager, Commercial and Private Banking**

**George A Shihata**

**Assistant General Manager, Credit**

**Roger Smithyes**

**Secretary**

**James Story**

### **Registered Office**

103 Mount Street  
London  
W1K 2AP

### **Bankers**

HSBC Bank Plc  
London

### **Solicitors**

Denton Wilde Sapte  
London

### **Auditors**

Deloitte & Touche  
London

### **Internet**

The Bank's website is at  
<http://www.jordan-ldn.com>



2002 was a difficult year for the international banking community and Jordan International Bank was not immune from its problems. In particular, the crisis of confidence in corporate America led to an impairment of two of the Bank's long-held assets, such that the Board of Directors deemed it prudent to mark down the value of one and create a provision for possible loss for the other. This has had the effect of reducing the net pre-tax profit for the year to £13,000.

Despite this, however, there were more positive than negative points when considering the Bank's overall performance. Commissions from Trade Finance activities increased by 28% (following on from the previous year's 33% increase) again on the back of the improving Jordanian economy. Additionally, whilst unable to repeat the exceptional success of 2001, profits from security sales and trading activities were again a vital constituent of the Bank's off-balance sheet earnings. Finally, in an exceptionally low interest rate environment, the Bank was able to increase its net interest income by over 10% to £3.576 million.

In my statement last year, I mentioned that it was the Bank's intention to further enhance its IT and communication systems. I am pleased to report that the planned improvements were successfully implemented. No further major infrastructure investments are planned for the near future. 2002 also saw the departure of one of our UK based directors, Mr Jon Norton. I would like to thank him for his support and advice during the two years of his service.

I opened my statement by commenting on the difficult year the international banking community had experienced. I do not anticipate any easing of these difficulties; indeed, they may become more marked. However, I remain confident that the conservative strategy adopted by the directors will continue to ensure that Jordan International Bank is well placed to take advantage of the inevitable upturn as and when it occurs.

Finally, I would like to express the appreciation of the Board to all our valued customers and correspondents for their continued support and confidence and to our management and staff for their loyalty and commitment.

Dr. Umayya Toukan  
Chairman

27 March 2003

## *Directors' Report*

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The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2002.

### *Principal activity and business review*

The Bank continues to provide a full range of banking services. The Chairman's Statement on page 4 reports on the Bank's business during the year. The directors aim to maintain the policies which have resulted in the Bank's successful performance in recent years.

### *Results and dividends*

The profit for the year after taxation amounted to £39,000 (2001 - £1,143,000). The directors recommend that no dividend is to be paid (2001 - £800,000).

### *Disclosure of objectives, policies and strategies relating to derivatives and other financial instruments*

The Bank maintains a proprietary long term investment portfolio of securities, comprising Floating Rate Notes (FRNs), Fixed Rate Eurobonds and Brady bonds, issued by sovereign, quasi-sovereign and major financial institutions. Interest rate and currency swaps are used where appropriate to eliminate interest rate risk, and convert the obligations from other currencies into US Dollars. Capital funds are invested in high rated sterling Eurobonds with a minimum rating of A. The Bank also maintains a trading book where it is the intention of the directors to benefit from short term price and interest rate movements. The securities investment criteria established in 2001 for the proprietary trading book imposes no minimum rating requirements. Total trading positions may not exceed Euro 15 million or 5% of total Bank positions with any individual position not exceeding US\$1.5 million or its equivalent. Positions within the proprietary trading book may not be held for longer than 30 days without the specific approval of the Executive Management Committee (EXCO). Strict adherence to stop loss, regulatory and market risk control limits is maintained at all times.

The Bank does not assume in the normal course of business any significant foreign exchange or interest rate exposures. Short-term foreign exchange swaps are utilised where cost efficient as a funding mechanism, principally to convert currency deposits to US Dollars. The Bank does not utilise derivatives to assume any form of credit or market risk, and long term interest rate and currency swaps are utilised purely for hedging purposes.

The Directors of the Bank have established policies relating to Large Exposures, Interest Rate Gapping, Liquidity Management and Credit Provisioning. In addition, the Bank operates within limits set by the directors relating to country exposure, credit exposures, risk asset maturities, and product sector exposure. These policies and limits are reviewed on a regular basis, and any amendment to these policies and limits requires the consent of the Board of Directors.

***Directors and their interests***

The directors of the company are shown on page 1 and all served as directors or alternate directors throughout the year except the following who served during the year until he retired on the date shown.

Jon Norton      19 April 2002

No director has any beneficial interest in the shares of the Bank.

***Payment policy***

It is the Bank's policy to pay suppliers as they fall due. At 31 December 2002 Jordan International Bank Plc's trade creditors had been outstanding for an average of 26 days (2001 - 19 days).

***Directors' and officers' liability insurance***

During the year the Bank has purchased and maintained cover for directors and officers under directors' and officers' liability insurance policies as permitted by section 310(3) of the Companies Act 1985.

***Substantial shareholders***

Details of shareholders of the Bank are shown on page 1.

***Statement of directors' responsibilities***

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

***Auditors***

Deloitte & Touche have expressed their willingness to continue in office as auditors 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

Secretary

27 March 2003

## *Independent Auditors' Report*

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To the Shareholders of Jordan International Bank Plc:

We have audited the financial statements of Jordan International Bank Plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, cash flow statement and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

### *Respective responsibilities of directors and auditors*

As described in the statement of directors' responsibilities, the Bank's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Bank is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### *Basis of audit opinion*

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### *Opinion*

In our opinion the financial statements give a true and fair view of the state of the Bank's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche  
Chartered Accountants and Registered Auditors  
London

27 March 2003

*Profit & Loss account for the year ended 31 December 2002*

	Notes	2002 £'000	2001 £'000
<i>Interest receivable</i>			
Interest receivable and similar income arising from debt securities and treasury bills		4,704	5,759
Other interest receivable and similar income		2,985	4,327
		<u>7,689</u>	<u>10,086</u>
Interest payable		(4,113)	(6,841)
<i>Net interest income</i>		<u>3,576</u>	<u>3,245</u>
Fees and commissions receivable		350	317
Dealing profits		85	120
Other operating income		76	81
Securities revaluation	3	(799)	616
		<u>(288)</u>	<u>1,134</u>
<i>Total operating income</i>		<u>3,288</u>	<u>4,379</u>
Administrative expenses	4	(1,411)	(1,206)
Depreciation	7, 17	(129)	(122)
Other operating charges		(1,253)	(1,272)
Provisions	6	(764)	(483)
Profit on sale of debt securities		282	335
<i>Profit on ordinary activities before tax</i>	7	<u>13</u>	<u>1,631</u>
Tax on profit on ordinary activities	8	26	(488)
<i>Profit for the financial year</i>		<u>39</u>	<u>1,143</u>
<i>Proposed dividend (2001 ~ 4 pence per ordinary share)</i>		~	(800)
<i>Profit retained for the financial year</i>		<u>39</u>	<u>343</u>
<i>Profit and loss</i>			
Brought forward at 1 January		4,169	3,826
Profit retained for the financial year		39	343
<i>Carried forward at 31 December</i>		<u>4,208</u>	<u>4,169</u>

*The accompanying notes are an integral part of this profit and loss account.*

*There were no gains realised in the prior or current year, other than those included in the profit and loss account.*

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

## *Balance Sheet*

### *Balance Sheet at 31 December 2002*

		2002 £'000	2001 £'000
<i>Assets</i>			
Cash		125	79
Collections on other banks		1,615	1,765
Loans and advances to shareholder banks	9	18,721	19,310
Loans and advances to other banks	10	51,497	52,907
Loans and advances to customers	11	17,637	18,805
Debt securities	14	81,774	92,053
Equities	16	72	63
Tangible fixed assets	17	557	554
Other assets	18	377	2,031
Prepayments and accrued income		1,831	2,174
<i>Total assets</i>		<u>174,206</u>	<u>189,741</u>
<i>Liabilities</i>			
Deposits by shareholder banks	19	118,186	123,240
Deposits by other banks	20	14,607	19,644
Customer accounts	21	15,187	19,155
Other liabilities	22	142	1,209
Accruals and deferred income		1,560	2,008
		<u>149,682</u>	<u>165,256</u>
Called-up share capital	23	20,000	20,000
Share premium	24	316	316
Profit and loss		4,208	4,169
<i>Shareholders' funds ~ equity interests</i>	25	<u>24,524</u>	<u>24,485</u>
<i>Total liabilities</i>		<u>174,206</u>	<u>189,741</u>

*Balance Sheet at 31 December 2002 ~ continued*

	2002 £'000	2001 £'000
<i>Memorandum items</i>		
<i>Contingent liabilities</i>		
Acceptances	585	364
Guarantees and irrevocable letters of credit	10,027	7,154
	<u>10,612</u>	<u>7,518</u>

*These financial statements were approved by the Board of Directors on 27 March 2003*

*Signed on behalf of the Board of Directors*

Dr. Umayya Toukan	}	Directors
Mr. Zuhair Khouri		
Dr. Rajai Muasher		

*The accompanying notes are an integral part of this balance sheet.*

## Cash Flow Statement

### Statement of cash flows for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
<i>Net cash inflow from operating activities</i>	26	<u>419</u>	<u>7,159</u>
<i>Returns on investments and servicing of finance</i>			
Interest received		4,852	5,725
Interest paid on subordinated loan		~	(250)
<i>Net cash inflow from returns on investments and servicing of finance</i>		<u>4,852</u>	<u>5,475</u>
<i>Taxation</i>			
Corporation Tax paid		(436)	(553)
<i>Tax paid</i>		<u>(436)</u>	<u>(553)</u>
<i>Capital expenditure and financial investment</i>			
Purchase of investments		(176,414)	(153,488)
Investments sold and matured		179,921	147,437
Purchase of tangible fixed assets		(132)	(467)
<i>Net cash inflow/(outflow) from capital expenditure and financial investment</i>		<u>3,375</u>	<u>(6,518)</u>
<i>Net cash inflow before financing</i>		8,210	5,563
<i>Financing</i>			
Repayment of subordinated loan		~	(3,536)
<i>Increase in cash</i>	27	<u>8,210</u>	<u>2,027</u>

The accompanying notes are an integral part of this cash flow statement.

*1 Accounting policies*

*a) Accounting convention*

The financial statements have been prepared under the historical cost convention, modified by the inclusion of certain securities at valuation, and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups, applicable accounting standards and Statements of Recommended Accounting Practice issued by the British Bankers' Association and Irish Bankers' Federation.

*b) Income recognition*

Interest income is recognised in the profit and loss account as it accrues other than interest of doubtful collectability which is credited to a suspense account and excluded from interest income. The closing balance on the suspense account is netted in the balance sheet against accrued interest receivable or, as the case may be, the amount debited to the borrower. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

*c) Commissions and fees*

Commissions and fees are credited to income at the time they are received at which point they are deemed to have been substantially earned.

*d) Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at market rates of exchange ruling at the balance sheet date. Premiums and discounts arising on foreign exchange swap contracts entered into are apportioned over the periods of the transactions and included in interest in the profit and loss account.

*e) Debt securities*

Fixed and variable rate interest investments with fixed redemption dates, purchased for the long term, at a premium or discount, are stated in the balance sheet on the basis of cost adjusted to give effect to the amortisation of the premium or discount on purchase over the periods to maturity. Provisions for impairment of debt securities held for investment purposes are not made unless the impairment is of a permanent nature. Profits and losses on realisation are taken to the profit and loss account in the year in which they arise. Debt securities held for short term purposes are stated in the balance sheet at market value.

*f) Equities*

Equity shares purchased for the long term are stated in the balance sheet at market value.

*g) Provisions for bad and doubtful debts*

Specific provisions are made against advances for which recovery is considered to be doubtful. General provision is made in respect of losses, which although not yet specifically identified, are known from experience to be present in any portfolio of bank advances. Loans and advances are written off when there is no realistic prospect of recovery.

*h) Operating leases*

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

### 1 Accounting policies (continued)

#### i) Forward foreign exchange contracts and other off-balance sheet instruments

Off-balance sheet instruments are valued at market prices and the resultant profits and losses are included in income, except for transactions designated as hedges, which are treated in accordance with the accounting treatment of the items being hedged.

#### j) Depreciation

Fixed assets are stated at cost less provision for depreciation. Depreciation is provided on a straight-line basis at the following rates:

Leasehold property and improvements	over the period of the lease
All other assets	20% per annum

#### k) Taxation

Current UK Corporation Tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

#### l) Pension costs

For defined contribution schemes 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. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## 2 Segmental information

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

## 3 Securities Revaluation

The Bank's debt securities investment portfolio includes two Collateralised Bond Obligations issued by special purpose vehicles, Magnus Funding Inc. and SCM Communications Inc.. The book values and market prices of these securities are £2,309,726 and £1,040,270 for Magnus Funding Inc. and £1,164,820 and £594,826 for SCM Communications Inc. respectively.

Given the illiquid nature of the securities, the Board of Directors does not feel that the market prices are a true reflection of the values of these securities. Using a purpose designed model, values have been calculated after allowing for likely future defaults in the underlying portfolio and the likely eventual recovery of those securities in the underlying portfolio which are already in default. These calculations lead the Board of Directors to believe that a specific provision of £763,000 is appropriate for Magnus Funding Inc., whilst no provision is deemed necessary for SCM Communications Inc.. The total charge to the profit and loss account of £799,000 is made up of the above explained specific provision and a loss of £36,000 incurred on the disposal of certain securities during the year.

4 *Administrative expenses*

	2002 £'000	2001 £'000
Staff costs:		
Salaries	1,051	900
Social security costs	114	98
Other pension costs (note 34)	144	118
	<u>1,309</u>	<u>1,116</u>
Other administrative expenses	102	90
	<u>1,411</u>	<u>1,206</u>

The average number of persons employed by the Bank in 2002 was 29 (2001 ~ 29). The average number of persons employed by the group during the year was made up as follows:

	2002 Nos.	2001 Nos.
Retail Banking	5	5
Corporate Banking	4	4
Treasury & Dealing Activities	8	8
Support Staff	12	12
	<u>29</u>	<u>29</u>

5 *Directors' emoluments*

The aggregate amount of emoluments paid to directors consisted of:

	2002 £'000	2001 £'000
Fees	30	30
Salaries	34	42
	<u>64</u>	<u>72</u>

6 *Provisions*

	2002 £'000	2001 £'000
Recovery on contingent liabilities and commitments	11	13
Bad debt written off	~	(496)
Charge for the year	(775)	~
	<u>(764)</u>	<u>(483)</u>

During the year a provision was made for a syndicated loan that was considered doubtful. Based on discussions with authoritative sources, it is considered that a 50% or US\$1,250,000 (£775,000) provision against this loan would be appropriate.

## Notes to Financial Statements

### 7 Profit on ordinary activities before tax

Profit is stated after charging:

	2002 £'000	2001 £'000
Depreciation on owned assets	129	122
Auditors' remuneration		
~ audit services	36	30
~ non-audit services	6	47
Rental on land and buildings	280	280
	<hr/>	<hr/>

### 8 Tax on profit on ordinary activities

Based on profit for the year:

	2002 £'000	2001 £'000
United Kingdom Corporation Tax	~	(493)
Prior year adjustment	26	5
	<hr/>	<hr/>
	26	(488)

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 is as follows:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	13	1,631
Tax on profit on ordinary activities at standard UK Corporation Tax of 30% (2001 – 30%)	(4)	(493)
Effects of:		
Expenses not deductible for tax purposes	(12)	~
Utilisation of tax losses	(12)	~
Capital allowances in excess of depreciation	4	~
Movement in short term timing differences	24	~
Prior period adjustments	26	5
	<hr/>	<hr/>
	26	(488)

A deferred tax asset of £40,918 in respect of various timing differences has not been recognised.

**9** *Loans and advances to shareholder banks*

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Repayable		
~ on demand	<b>3,785</b>	4,532
~ within three months	<b>5,757</b>	2,896
~ between three months and one year	<b>6,125</b>	5,989
~ between one and five years	<b>2,793</b>	5,403
~ more than five years	<b>261</b>	490
	<b>18,721</b>	19,310

**10** *Loans and advances to other banks*

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Repayable		
~ on demand	<b>29,618</b>	24,659
~ within three months	<b>16,775</b>	21,000
~ between three months and one year	<b>4,030</b>	4,374
~ between one and five years	<b>1,074</b>	2,874
	<b>51,497</b>	52,907

**11** *Loans and advances to customers*

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Repayable		
~ on demand	<b>2,053</b>	3,153
~ within three months	<b>658</b>	607
~ between three months and one year	<b>6,068</b>	4,291
~ between one and five years	<b>7,984</b>	9,533
~ over 5 years	<b>999</b>	1,346
Provisions	<b>(125)</b>	(125)
	<b>17,637</b>	18,805

## Notes to Financial Statements

### 12 Provisions for bad and doubtful debts

	2002			2001		
	Specific £,000	General £,000	Total £,000	Specific £,000	General £,000	Total £,000
Beginning of year	27	98	125	27	98	125
Charge against profits	~	~	~	~	~	~
Amounts written off	~	~	~	~	~	~
End of year	<u>27</u>	<u>98</u>	<u>125</u>	<u>27</u>	<u>98</u>	<u>125</u>

### 13 Concentrations of exposure

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

	2002 £'000	2001 £'000
OECD	56,329	54,469
Jordan	8,664	14,588
Arab/Middle East	25,583	30,121
Asia	10,769	15,381
Other	72,861	75,182
	<u>174,206</u>	<u>189,741</u>

The following industry concentrations are considered significant:

	2002 £'000	2001 £'000
Government/Quasi Government	30,350	29,524
Banks	18,827	23,738
Investment and Finance	13,546	11,424
Other	111,483	125,055
	<u>174,206</u>	<u>189,741</u>

14 Debt securities

	2002		2001	
	Balance sheet £'000	Market value £'000	Balance sheet £'000	Market value £'000
Issued by public bodies				
~ government securities				
~ fixed assets	20,591	20,838	20,015	19,955
~ current trading book (note 15)	35	35	~	~
~ other public sector securities	6,080	5,467	6,761	5,954
Issued by other issuers				
~ bank certificates of deposit	~	~	1,034	1,034
Investment securities				
~ other debt securities				
~ fixed assets	55,068	53,770	62,356	61,684
~ current trading book (note 15)	~	~	1,887	1,887
	<u>81,774</u>	<u>80,110</u>	<u>92,053</u>	<u>90,514</u>
Analysed by maturity:				
Due within one year	9,686	9,651	9,113	9,117
Due after one year	72,088	70,459	82,940	81,397
	<u>81,774</u>	<u>80,110</u>	<u>92,053</u>	<u>90,514</u>

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

	£'000
<i>Cost</i>	
At 1 January 2002	90,167
Amortisation of debt securities	(686)
Additions	21,153
Disposals	(21,869)
Write down (note 3)	(763)
Exchange adjustment	(6,331)
Amortisation of discounts and premiums	68
At 31 December 2002	<u>81,739</u>
Unamortised discounts and premiums at 31 December 2002	<u>1,412</u>

## Notes to Financial Statements

### 15 Trading book

	2002 £'000	2001 £'000
Net gain from trading in debt securities	58	66
Period end fair value of financial assets held for trading (note 14)	<u>35</u>	<u>1,887</u>

### 16 Equities

	2002		2001	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
Listed	<u>72</u>	<u>72</u>	<u>63</u>	<u>63</u>

### 17 Tangible fixed assets

	Furniture, fittings & office equipment £'000	Improvements to leasehold premises £'000	Total £'000
<i>Cost</i>			
At 1 January 2002	673	413	1,086
Additions	<u>127</u>	<u>5</u>	<u>132</u>
At 31 December 2002	<u>800</u>	<u>418</u>	<u>1,218</u>
<i>Depreciation</i>			
At 1 January 2002	519	13	532
Charge for year	<u>100</u>	<u>29</u>	<u>129</u>
At 31 December 2002	<u>619</u>	<u>42</u>	<u>661</u>
<i>Net book value</i>			
At 31 December 2002	<u>181</u>	<u>376</u>	<u>557</u>
At 31 December 2001	<u>154</u>	<u>400</u>	<u>554</u>

### 18 Other assets

	2002 £'000	2001 £'000
Sundry loan receivables	66	87
Other receivables	~	1,902
Profit on revaluation of forward contracts	69	42
Corporation Tax	<u>242</u>	<u>~</u>
	<u>377</u>	<u>2,031</u>

*19 Deposits by shareholder banks*

	2002 £'000	2001 £'000
Repayable		
~ on demand	9,705	15,692
~ within three months	99,175	102,721
~ between three months and one year	9,306	4,827
	<u>118,186</u>	<u>123,240</u>

*20 Deposits by other banks*

	2002 £'000	2001 £'000
Repayable		
~ on demand	2,388	503
~ within three months	12,219	19,141
	<u>14,607</u>	<u>19,644</u>

*21 Customer accounts*

	2002 £'000	2001 £'000
Repayable		
~ on demand	5,437	6,720
~ within three months	8,917	11,066
~ between three months and one year	833	1,369
	<u>15,187</u>	<u>19,155</u>

*22 Other liabilities*

	2002 £'000	2001 £'000
Current Corporation Tax	~	219
Other liabilities	142	990
	<u>142</u>	<u>1,209</u>

## Notes to Financial Statements

### 23 Called-up share capital

	2002 £'000	2001 £'000
Authorised		
25,000 ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>
Called-up, allotted and fully paid		
20,000 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

### 24 Share premium

	2002 £'000	2001 £'000
At 31 December	<u>316</u>	<u>316</u>

### 25 Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Profit for the financial year	39	343
Opening shareholders' funds	<u>24,485</u>	<u>24,142</u>
Closing shareholders' funds	<u>24,524</u>	<u>24,485</u>

### 26 Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	13	1,631
Interest received on investments	(4,852)	(5,725)
Interest paid on subordinated loan	~	250
Decrease in prepayments and accrued income	343	75
(Decrease)/increase in accruals and deferred income	(448)	226
Loss/(profit) on sale of investments	517	(925)
Amortisation	(68)	(83)
Depreciation	129	122
Exchange adjustment	<u>5,529</u>	<u>(610)</u>
Net cash inflow/(outflow) from trading activities	1,163	(5,039)
Net decrease/(increase) in loans and advances	7,379	(9,582)
Net (decrease)/increase in deposits	(9,957)	22,930
Net decrease/(increase) in other assets and liabilities	<u>1,834</u>	<u>(1,150)</u>
Net cash inflow from operating activities	<u>419</u>	<u>7,159</u>

*27 Analysis of the balances of cash as shown in the balance sheet*

	2002 £'000	2001 £'000	Change in year £'000
Cash	125	79	46
Collections on other banks	1,615	1,765	(150)
Loans and advances to shareholder banks	3,785	4,532	(747)
Loans and advances to other banks	29,618	24,659	4,959
Deposits by shareholder banks	(9,705)	(15,692)	5,987
Deposits by other banks	(2,388)	(503)	(1,885)
	<u>23,050</u>	<u>14,840</u>	<u>8,210</u>

*28 Analysis of changes in financing during the year*

	Share capital £'000
As at 1 January 2002	<u>20,316</u>
As at 31 December 2002	<u>20,316</u>

*29 Forward contracts*

	2002 £'000	2001 £'000
Exchange rate contracts:		
Contract or underlying principal amount		
~ for dealing purposes	33,817	34,817
~ for hedging purposes	<u>4,343</u>	<u>4,827</u>
Interest rate contracts:		
Contract or underlying principal amount		
~ for hedging purposes	<u>13,028</u>	<u>14,482</u>

The Bank enters into derivative instruments solely for hedging purposes for managing interest rate and foreign exchange exposures.

The Bank, on behalf of its clients, buys and sells foreign exchange contracts. All such instruments are traded on a matched basis. The Bank does not hold any significant open positions.

## Notes to Financial Statements

### 30 Assets and liabilities in foreign currencies

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

	2002 £'000	2001 £'000
Assets	129,842	140,038
Liabilities	<u>131,869</u>	<u>139,844</u>

The above assets and liabilities denominated in foreign currencies do not indicate the Bank's exposure to foreign exchange risk. The company's foreign currency positions are substantially hedged by off-balance sheet hedging instruments.

### 31 Interest rate risk

Exposure to interest rate movements arises where there is an imbalance between rate and non-rate sensitive assets and liabilities. The table below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2002. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

	<3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	>5 years £'000	Non-interest £'000	Total £'000
<i>Assets</i>							
Cash	~	~	~	~	~	1,740	1,740
Loans and advances to shareholder banks	12,830	289	2,548	2,793	261	~	18,721
Loans and advances to other banks	47,169	814	2,440	1,074	~	~	51,497
Loans and advances to customers	17,236	105	102	194	~	~	17,637
Debt securities and equity shares ~ strategic investments	19,792	18,699	16,987	~	~	72	55,550
Debt securities ~ strategic investments available for sale (trading book)	~	35	~	~	~	~	35
Asset swaps	24,368	1,893	~	~	~	~	26,261
Other assets	~	~	~	~	~	2,765	2,765
Total assets	<u>121,395</u>	<u>21,835</u>	<u>22,077</u>	<u>4,061</u>	<u>261</u>	<u>4,577</u>	<u>174,206</u>

31 Interest rate risk (continued)

	<3 months £'000	3~6 months £'000	6~12 months £'000	1~5 years £'000	>5 years £'000	Non~interest £'000	Total £'000
<b>Liabilities</b>							
Deposits by shareholder banks	108,880	~	9,306	~	~	~	118,186
Deposits by other banks	14,607	~	~	~	~	~	14,607
Customer accounts	14,354	232	601	~	~	~	15,187
Other liabilities	~	~	~	~	~	1,702	1,702
Shareholder funds	~	~	~	~	~	24,524	24,524
<b>Total liabilities</b>	<b>137,841</b>	<b>232</b>	<b>9,907</b>	<b>~</b>	<b>~</b>	<b>26,226</b>	<b>174,206</b>
Interest rate sensitivity gap	(16,446)	21,603	12,170	4,061	261	(21,649)	~
Cumulative gap	(16,446)	5,157	17,327	21,388	21,649	~	~

The directors are of the opinion that the above position is representative of the Bank throughout the year.

	<3 months £'000	3~6 months £'000	6~12 months £'000	1~5 years £'000	>5 years £'000	Non~interest £'000	Total £'000
<b>Trading book</b>							
<b>Assets</b>							
Debt securities ~ strategic investments available for sale	35	~	~	~	~	~	35
<b>Total assets</b>	<b>35</b>	<b>~</b>	<b>~</b>	<b>~</b>	<b>~</b>	<b>~</b>	<b>35</b>
<b>Liabilities</b>							
Interest rate sensitivity gap	~	~	~	~	~	~	~
Cumulative gap	~	~	~	~	~	~	~

The tables overleaf reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2001. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

## Notes to Financial Statements

### 31 Interest rate risk (continued)

	<3 months £'000	3~6 months £'000	6~12 months £'000	1~5 years £'000	>5 years £'000	Non-interest £'000	Total £'000
<b>Assets</b>							
Cash	~	~	~	~	~	1,843	1,843
Loans and advances to shareholder banks	11,083	144	6,357	1,236	490	~	19,310
Loans and advances to other banks	47,383	~	4,375	1,149	~	~	52,907
Loans and advances to customers	16,381	1,858	120	446	~	~	18,805
Debt securities and equity shares ~ strategic investments	11,886	30,043	21,700	~	~	63	63,692
Debt securities ~ strategic investments available for sale (trading book)	609	~	1,278	~	~	~	1,887
Asset swaps	23,403	2,100	~	~	~	~	25,503
Certificates of deposit	1,034	~	~	~	~	~	1,034
Other assets	~	~	~	~	~	4,760	4,760
<b>Total assets</b>	<b>111,779</b>	<b>34,145</b>	<b>33,830</b>	<b>2,831</b>	<b>490</b>	<b>6,666</b>	<b>189,741</b>
<b>Liabilities</b>							
Deposits by shareholder banks	101,862	~	21,378	~	~	~	123,240
Deposits by other banks	19,644	~	~	~	~	~	19,644
Customer accounts	17,786	793	576	~	~	~	19,155
Other liabilities	~	~	~	~	~	3,217	3,217
Shareholder funds	~	~	~	~	~	24,485	24,485
<b>Total liabilities</b>	<b>139,292</b>	<b>793</b>	<b>21,954</b>	<b>~</b>	<b>~</b>	<b>27,702</b>	<b>189,741</b>
Interest rate sensitivity gap	(27,513)	33,352	11,876	2,831	490	(21,036)	~
Cumulative gap	(27,513)	5,839	17,715	20,546	21,036	~	~

31 Interest rate risk (continued)

	<3 months £'000	3~6 months £'000	6~12 months £'000	1~5 years £'000	>5 years £'000	Non~interest £'000	Total £'000
<i>Trading book</i>							
<i>Assets</i>							
Debt securities ~ strategic investments available for sale	609	~	1,278	~	~	~	1,887
Total assets	609	~	1,278	~	~	~	1,887
<i>Liabilities</i>							
Interest rate sensitivity gap	(1,278)	~	1,278	~	~	~	~
Cumulative gap	(1,278)	(1,278)	~	~	~	~	~

The tables above provide only an indication of the sensitivity of the Bank's earnings to movements in interest rates.

A liability (or negative) gap position exists when liabilities reprice more quickly than assets during a given period and tends to benefit from net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment.

The Bank's off balance sheet items carry no interest rate repricing risk.

Loans and advances to customers have been shown net of provisions totalling £125,000.

32 Unrecognised gains and losses on financial assets resulting from hedge accounting

Gains and losses on financial instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The unrecognised gains and losses are as follows:

	2002 £'000	2001 £'000
Expected to be recognised within one year	3,495	1,151
Expected to be recognised in greater than one year	~	~
	<u>3,495</u>	<u>1,151</u>

33 Pension scheme

The Bank operates a defined contribution scheme. The assets of the scheme are held separately from those of the Bank in an independently administered fund. The pension cost charge represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

**34 Currency Risk**

<i>Currency of denomination</i>	Trading		Non~trading	
	Net currency position		Net currency position	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
US Dollar	~	(1)	(30)	(116)
Japanese Yen	~	~	(14)	1
Swiss Franc	~	~	2	99
Euro	~	10	~	62
Hong Kong Dollar	~	~	74	~
Other currencies	~	~	48	117
Total	~	9	80	163

The amounts shown in the table take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

The currency risk above relates to the non~trading book. The currency risk on the trading book is considered to be insignificant as the trading book positions are funded by liabilities in the same currency. The disclosure includes all monetary assets and liabilities including short term debtors and creditors. Those assets and liabilities denominated in sterling have been excluded. As stated in the disclosure note on derivatives and other financial instruments within the directors' report on page 5, the majority of currency deposits are converted into US Dollars. For the purposes of the net currency disclosure above, sterling has been used as the Bank's functional currency.

**35 Transactions with managers**

The aggregate amounts outstanding from persons who were managers of the Bank at 31 December 2002 were as follows:

	Aggregate amount outstanding £'000	Number of persons
Loans	34	6

**36 Operating lease commitments**

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

	Land and buildings	
	2002 £'000	2001 £'000
Leases which expire within one year	~	56
Leases which expire after five years or more	205	205
	205	261