



Jordan International Bank Plc

Report & Accounts
2003

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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%

100.000%

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

Shaker Fakhouri

H.E. Dr Ziad Fariz

David Gates

General Manager

Roger Smithyes

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

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
www.jordanbank.co.uk



I take pleasure in being able to report that, in a challenging environment, the Bank achieved a record pre-tax profit in 2003 of £2,522,003, enabling the Board to announce the payment of a dividend of 5% for the year. This profit was achieved despite the further deterioration of one of the Bank's long held assets in respect of which the Board determined it prudent to make a further provision. The underlying performance remained very satisfactory despite the continuing adverse impact of low interest rates and the decline in value of the dollar vis-à-vis sterling and the euro, while the Bank benefited from the decision taken by the Government of the Hashemite Kingdom of Jordan during the year to call the outstanding Brady Par and Discount Bonds.

While the Jordanian economy continued to improve, business levels between Jordan and the United Kingdom were affected by the value of sterling, consequently our Trade Finance activities dropped below the levels of last year as did our securities sales and trading activities. On the other hand, foreign exchange activity increased significantly. In a difficult environment with the continuing low interest rate environment, and discounting the above mentioned calling of the Brady Bonds, net interest income rose by 3.0%.

During the year John Clouting resigned as General Manager of the Bank after three years in that position. John Clouting had been with the Bank almost since its foundation, with the exception of a couple of breaks, and I would like to place on record the Board's thanks and appreciation for his commitment to the Bank and his guidance in managing the Bank through a difficult period. The position of General Manager has been taken by Mr Roger Smithyes, who was previously Assistant General Manager in charge of credit at the Bank.

The coming year will continue to present challenges to the Bank as it operates in a climate of low interest rates and an adverse exchange rate environment. Jordan International Bank will continue to move forward under the cautious and conservative strategy adopted by the directors which I am certain will ensure the continued good progress of the Bank.

May I finally express on behalf of the Board our thanks to all our customers, correspondents and market counterparties for their continued support and confidence in the Bank and to the management and staff for their loyalty and vital contribution to the Bank's success.

Dr. Umayya Toukan
Chairman

23 March 2004

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; 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.

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 £1,795,000 (2002 - £39,000). The directors recommend that a dividend is to be paid of £1m (2002 - £nil).

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, 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 2002 for the proprietary trading book imposes no minimum rating requirements. Total trading positions may not exceed the lower of 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 utilise derivatives to assume credit and market risk. 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' Report (continued)

Directors and their interests

The directors of the company are shown on page 2 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.

Mohammad Al-Qasem 21 August 2003

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 2003 Jordan International Bank Plc's trade creditors had been outstanding for an average of 25 days (2002 - 26 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.

Auditors

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 11 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

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

Secretary

23 March 2004

We have audited the financial statements of Jordan International Bank Plc ('the Bank') for the year ended 31 December 2003 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 and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 Bank'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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

23 March 2004

Profit & Loss

Profit & Loss account for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
<i>Interest receivable</i>			
Interest receivable and similar income arising from debt securities and treasury bills		4,384	4,704
Other interest receivable and similar income		2,425	2,985
		6,809	7,689
Interest payable		(3,125)	(4,113)
<i>Net interest income</i>		3,684	3,576
Fees and commissions receivable		286	350
Dealing profits		116	85
Other operating income		16	76
Securities revaluation	3	1,434	(799)
		1,852	(288)
<i>Total operating income</i>		5,536	3,288
Administrative expenses	4	(1,699)	(1,411)
Depreciation	6, 16	(91)	(129)
Other operating charges		(1,136)	(1,253)
Provisions	11	(280)	(764)
Profit on sale of debt securities		192	282
<i>Profit on ordinary activities before tax</i>	6	2,522	13
Tax on profit on ordinary activities	7	(727)	26
<i>Profit for the financial year</i>		1,795	39
<i>Proposed dividend (2003 ~ 5 pence per ordinary share)</i>		(1,000)	~
<i>Profit retained for the financial year</i>		795	39
<i>Profit and loss</i>			
Brought forward at 1 January		4,208	4,169
Profit retained for the financial year		795	39
<i>Carried forward at 31 December</i>		5,003	4,208

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 at 31 December 2003

	Notes	2003 £'000	2002 £'000
Assets			
Cash		124	125
Collections on other banks		855	1,615
Loans and advances to shareholder banks	8	18,407	18,721
Loans and advances to other banks	9	48,618	51,497
Loans and advances to customers	10	26,340	17,637
Debt securities	13	74,077	81,774
Equities	15	-	72
Tangible fixed assets	16	502	557
Other assets	17	92	377
Prepayments and accrued income		1,668	1,831
Total assets		170,683	174,206
Liabilities			
Deposits by shareholder banks	18	108,544	118,186
Deposits by other banks	19	10,862	14,607
Customer accounts	20	22,460	15,187
Other liabilities	21	2,042	142
Accruals and deferred income		1,456	1,560
		145,364	149,682
Called-up share capital	22	20,000	20,000
Share premium	23	316	316
Profit and loss		5,003	4,208
Shareholders' funds ~ equity interests	24	25,319	24,524
Total liabilities		170,683	174,206

Balance Sheet (continued)

Balance Sheet at 31 December 2003 ~ continued

	2003 £'000	2002 £'000
<i>Memorandum items</i>		
<i>Contingent liabilities</i>		
Acceptances	349	585
Guarantees and irrevocable letters of credit	5,870	10,027
	<u>6,219</u>	<u>10,612</u>

These financial statements were approved by the Board of Directors on 23 March 2004

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.

Statement of cash flows for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
<i>Net cash inflow/(outflow) from operating activities</i>	25	(2,606)	419
<i>Returns on investments and servicing of finance</i>			
Interest received		4,460	4,852
<i>Net cash inflow from returns on investments and servicing of finance</i>		4,460	4,852
<i>Taxation</i>			
Corporation Tax repaid/(paid)		246	(436)
<i>Tax repaid/(paid)</i>		246	(436)
<i>Capital expenditure and financial investment</i>			
Purchase of investments		(178,831)	(176,414)
Investments sold and matured		183,995	179,921
Purchase of tangible fixed assets		(36)	(132)
<i>Net cash inflow from capital expenditure and financial investment</i>		5,128	3,375
<i>Increase in cash</i>	26	7,228	8,210

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

Fees receivable which represent a return for services provided are credited to income when the related service is performed.

d) Foreign currencies

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

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) 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.

g) Operating leases

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

h) 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.

1 Accounting policies (continued)

i) Depreciation

Fixed assets are stated at cost net of 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

j) Taxation

Current UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially 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.

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.

k) 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

During the latter part of 2003 the Bank benefited from the Kingdom of Jordan's decision to repay early its outstanding Par and Discount Bonds. Gains made in respect of this decision amounted to \$2.41m (£1.394m).

The Bank's debt securities investment portfolio includes Magnus Funding Inc, a Collateralised Bond Obligation for which a provision of 33% was made in 2002 (£763,000), which is currently in liquidation. The Bank has calculated the eventual recovery of this security with the aid of a purpose designed model and estimates of liquidation proceeds, and concluded a further provision is unnecessary. The book value at 31 December 2003 was \$457,000 (£255,922).

Notes to Financial Statements

4 Administrative expenses

	2003 £'000	2002 £'000
Staff costs:		
Salaries	1,276	1,051
Social security costs	143	114
Other pension costs (note 34)	165	144
	<u>1,584</u>	<u>1,309</u>
Other administrative expenses	115	102
	<u>1,699</u>	<u>1,411</u>

The average number of persons employed by the Bank in 2003 was 29 (2002 ~ 29). The average number of persons employed by the group during the year was made up as follows:

	2003 Nos.	2002 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:

	2003	2002
	£'000	£'000
Fees	30	30
Salaries	<u>21</u>	<u>34</u>
	<u>51</u>	<u>64</u>

No directors were members of the Bank's Pension Scheme in the current and prior year.

6 Profit on ordinary activities before tax

Profit is stated after charging:

	2003	2002
	£'000	£'000
(i) Income:		
Profits from securities dealing	116	85
Profits on disposal of investment securities	192	282
(ii) Charges		
Depreciation on owned assets	91	129
Auditors' remuneration		
~ audit services	39	36
~ non-audit services	7	6
Rental on land and buildings	<u>205</u>	<u>280</u>

Notes to Financial Statements

7 Tax on profit on ordinary activities

Based on profit for the year:

	2003 £'000	2002 £'000
United Kingdom Corporation Tax	(727)	~
Adjustments in respect of prior year periods	~	26
	<u>(727)</u>	<u>26</u>

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:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	2,522	13
Tax on profit on ordinary activities at standard UK Corporation Tax of 30% (2002 – 30%)	(757)	(4)
Effects of:		
Expenses not deductible for tax purposes	(11)	(12)
Utilisation of tax losses	~	(12)
Capital allowances in excess of depreciation	11	4
Movement in short term timing differences	30	24
Prior period adjustments	~	26
	<u>(727)</u>	<u>26</u>

A deferred tax asset of £50,650 (2002 - £40,918) in respect of various timing differences has not been recognised.

8 Loans and advances to shareholder banks

	2003 £'000	2002 £'000
Repayable		
~ on demand	7,132	3,785
~ within three months	4,891	5,757
~ between three months and one year	5,512	6,125
~ between one and five years	872	2,793
~ more than five years	~	261
	<u>18,407</u>	<u>18,721</u>

9 Loans and advances to other banks

2003	Non Performing Loans £'000	Performing Loans £'000	2003 Total £'000
Repayable			
~ on demand		40,868	40,868
~ within three months		2,314	2,314
~ between three months and one year	1,400	636	2,036
~ between one and five years		4,450	4,450
	<u>1,400</u>	<u>48,268</u>	<u>49,668</u>
Provision for bad and doubtful debts (note 11)	(1,050)	~	(1,050)
	<u>350</u>	<u>48,268</u>	<u>48,618</u>

2002	Non Performing Loans £'000	Performing Loans £'000	2002 Total £'000
Repayable			
~ on demand		29,618	29,618
~ within three months		16,775	16,775
~ between three months and one year	1,551	3,254	4,805
~ between one and five years		1,074	1,074
	<u>1,551</u>	<u>50,721</u>	<u>52,272</u>
Provision for bad and doubtful debts (note 11)	(775)	~	(775)
	<u>776</u>	<u>50,721</u>	<u>51,497</u>

10 Loans and advances to customers

	2003 £'000	2002 £'000
Repayable		
~ on demand	9,489	2,053
~ within three months	3,724	658
~ between three months and one year	2,116	6,068
~ between one and five years	10,501	7,984
~ over 5 years	512	999
Provisions (note 11)	(2)	(125)
	<u>26,340</u>	<u>17,637</u>

Notes to Financial Statements

11 Provisions for bad and doubtful debts

	2003			2002		
	Specific £,000	General £,000	Total £,000	Specific £,000	General £,000	Total £,000
At 1 January	802	98	900	27	98	125
Charge against profits	383	~	383	775	~	775
Amounts written off	(20)	~	(20)	~	~	~
Recoveries/other movements	(115)	(96)	(211)	~	~	~
At 31 December	<u>1,050</u>	<u>2</u>	<u>1,052</u>	<u>802</u>	<u>98</u>	<u>900</u>
Loans and advances to bank (note 9)			1,050			775
Loans and advances to customers (note 10)			<u>2</u>			<u>125</u>
			<u>1,052</u>			<u>900</u>

During the year an additional provision was made for a syndicated loan that was considered doubtful. Based on discussions with authoritative sources, the directors considered that a further 25% (2002 - 50%) or US\$625,000 (£383,000) (2002 - US\$1,250,000 (£775,000)) provision against this loan would be appropriate.

12 Concentrations of exposure

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

	2003 £'000	2002 £'000
OECD	92,959	56,329
Jordan	35,969	8,664
Arab/Middle East	29,671	25,583
Asia	9,128	10,769
Other	<u>2,956</u>	<u>72,861</u>
	<u>170,683</u>	<u>174,206</u>

The following industry concentrations are considered significant:

	2003 £'000	2002 £'000
Government/Quasi Government	29,495	30,350
Banks	79,918	18,827
Investment and Finance	14,224	13,546
Other	<u>47,046</u>	<u>111,483</u>
	<u>170,683</u>	<u>174,206</u>

13 Debt securities

	2003		2002	
	Balance sheet £'000	Market value £'000	Balance sheet £'000	Market value £'000
Issued by public bodies				
~ government securities				
~ fixed assets	15,463	15,775	20,591	20,838
~ current trading book (note 14)	~	~	35	35
~ other public sector securities	4,928	4,624	6,080	5,467
Issued by other issuers				
Investment securities				
~ other debt securities				
~ fixed assets	53,282	53,925	55,068	53,770
~ current trading book (note 14)	404	398	~	~
	<u>74,077</u>	<u>74,722</u>	<u>81,774</u>	<u>80,110</u>
Analysed by maturity:				
Due within one year	18,957	19,162	9,686	9,651
Due after one year	55,120	55,560	72,088	70,459
	<u>74,077</u>	<u>74,722</u>	<u>81,774</u>	<u>80,110</u>

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

	£'000
<i>Cost</i>	
At 1 January 2003	81,739
Amortisation of debt securities	(906)
Additions	18,776
Disposals	(21,868)
Exchange adjustment	(4,200)
Amortisation of discounts and premiums	132
At 31 December 2003	<u>73,673</u>
Unamortised discounts and premiums at 31 December 2003	<u>741</u>

Notes to Financial Statements

13 Debt securities (continued)

	2003		2002	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
Investment securities				
~ listed	20,391	20,399	26,706	26,340
~ unlisted	~	~	~	~
	<u>20,391</u>	<u>20,399</u>	<u>26,706</u>	<u>26,340</u>
Other debt securities				
~ listed	51,776	52,413	55,068	53,770
~ unlisted	1,910	1,910	~	~
	<u>53,686</u>	<u>54,323</u>	<u>55,068</u>	<u>53,770</u>

14 Trading book

	2003 £'000	2002 £'000
Net gain from trading in debt securities	29	58
Period end fair value of financial assets held for trading (note 13)	<u>398</u>	<u>35</u>

15 Equities

	2003		2002	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
Listed	~	~	72	72

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

	£'000
<i>Cost</i>	
At 1 January 2003	72
Disposals	(72)
At 31 December 2003	<u>~</u>

16 *Tangible fixed assets*

	Furniture, fittings & office equipment £'000	Improvements to leasehold premises £'000	Total £'000
<i>Cost</i>			
At 1 January 2003	801	418	1,219
Additions	36	~	36
Disposals	(5)	~	(5)
At 31 December 2003	<u>832</u>	<u>418</u>	<u>1,250</u>
<i>Depreciation</i>			
At 1 January 2003	619	43	662
Charge for year	62	29	91
Disposals	(5)	~	(5)
At 31 December 2003	<u>676</u>	<u>72</u>	<u>748</u>
<i>Net book value</i>			
At 31 December 2003	<u>156</u>	<u>346</u>	<u>502</u>
At 31 December 2002	<u>182</u>	<u>375</u>	<u>557</u>

17 *Other assets*

	2003 £'000	2002 £'000
Sundry loan receivables	58	66
Profit on revaluation of forward contracts	34	69
Corporation Tax	~	242
	<u>92</u>	<u>377</u>

18 *Deposits by shareholder banks*

	2003 £'000	2002 £'000
Repayable		
~ on demand	17,302	9,705
~ within three months	88,319	99,175
~ between three months and one year	2,923	9,306
	<u>108,544</u>	<u>118,186</u>

Notes to Financial Statements

19 Deposits by other banks

	2003 £'000	2002 £'000
Repayable		
~ on demand	1,399	2,388
~ within three months	9,463	12,219
	<u>10,862</u>	<u>14,607</u>

20 Customer accounts

	2003 £'000	2002 £'000
Repayable		
~ on demand	14,978	5,437
~ within three months	6,608	8,917
~ between three months and one year	874	833
	<u>22,460</u>	<u>15,187</u>

21 Other liabilities

	2003 £'000	2002 £'000
Current Corporation Tax	727	~
Other liabilities	1,315	142
	<u>2,042</u>	<u>142</u>

22 Called-up share capital

	2003 £'000	2002 £'000
Authorised		
Ordinary shares of £1 each	25,000	25,000
Called-up, allotted and fully paid		
Ordinary shares of £1 each	20,000	20,000

23 Share premium

	2003 £'000	2002 £'000
At 31 December	<u>316</u>	<u>316</u>

24 Reconciliation of movements in shareholders' funds

	2003	2002
	£'000	£'000
Profit for the financial year	795	39
Opening shareholders' funds	24,524	24,485
Closing shareholders' funds	25,319	24,524

25 Reconciliation of operating profit to net cash flow from operating activities

	2003	2002
	£'000	£'000
Profit on ordinary activities before tax	2,522	13
Interest received on investments	(4,460)	(4,852)
Decrease in prepayments and accrued income	163	343
(Decrease)/increase in accruals and deferred income	(104)	(448)
(Loss)/profit on sale of investments	(1,626)	517
Amortisation	(132)	(68)
Depreciation	91	129
Exchange adjustment	3,493	5,529
Net cash (outflow)/inflow from trading activities	(53)	1,163
Net decrease in loans and advances	9,862	7,379
Net (decrease) in deposits	(12,622)	(9,957)
Net decrease in other assets and liabilities	207	1,834
Net cash (outflow)/inflow from operating activities	(2,606)	419

26 Analysis of the balances of cash as shown in the balance sheet

	2003	2002	Change in
	£'000	£'000	year
			£'000
Cash	124	125	(1)
Collections on other banks	855	1,615	(760)
Loans and advances to shareholder banks	7,132	3,785	3,347
Loans and advances to other banks	40,868	29,618	11,250
Deposits by shareholder banks	(17,302)	(9,705)	(7,597)
Deposits by other banks	(1,399)	(2,388)	989
	30,278	23,050	7,228

27 *Analysis of changes in financing during the year*

	Share capital £'000
As at 1 January 2003	20,316
As at 31 December 2003	<u>20,316</u>

28 *Forward contracts*

	2003 £'000	2002 £'000
Exchange rate contracts:		
Contract or underlying principal amount		
~ for dealing purposes	30,061	33,817
~ for hedging purposes	<u>3,920</u>	<u>4,343</u>
Interest rate contracts:		
Contract or underlying principal amount		
~ for hedging purposes	<u>11,760</u>	<u>13,028</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.

29 *Assets and liabilities in foreign currencies*

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

	2003 £'000	2002 £'000
Assets	125,275	129,842
Liabilities	<u>125,330</u>	<u>131,869</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.

30 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 2003. 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
Assets							
Cash	~	~	~	~	~	979	979
Loans and advances to shareholder banks	14,992	182	2,362	871	~	~	18,407
Loans and advances to other banks	41,503	3,785	~	3,330	~	~	48,618
Loans and advances to customers	26,025	89	86	140	~	~	26,340
Debt securities and equity shares ~ strategic investments	22,067	13,145	14,014	~	~	~	49,226
Debt securities ~ strategic investments available for sale (trading book)	280	~	124	~	~	~	404
Asset swaps	22,742	1,705	~	~	~	~	24,447
Other assets	~	~	~	~	~	2,262	2,262
Total assets	127,609	18,906	16,586	4,341	~	3,241	170,683
Liabilities							
Deposits by shareholder banks	105,622	~	2,922	~	~	~	108,544
Deposits by other banks	10,862	~	~	~	~	~	10,862
Customer accounts	21,585	252	623	~	~	~	22,460
Other liabilities	~	~	~	~	~	3,498	3,498
Shareholder funds	~	~	~	~	~	25,319	25,319
Total liabilities	138,069	252	3,545	~	~	28,817	170,683
Interest rate sensitivity gap	(10,460)	18,654	13,041	4,341	~	(25,576)	~
Cumulative gap	(10,460)	8,194	21,235	25,576	25,576	~	~

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

Notes to Financial Statements

30 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	280	~	124	~	~	~	404
Total assets	280	~	124	~	~	~	404
<i>Liabilities</i>							
Interest rate sensitivity gap	(124)	~	124	~	~	~	~
Cumulative gap	(124)	(124)	~	~	~	~	~

The tables below reflect 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	121,395	21,835	22,077	4,061	261	4,577	174,206

30 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
Liabilities							
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
Total liabilities	137,841	232	9,907	~	~	26,226	174,206
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
Trading book							
Assets							
Debt securities ~ strategic investments available for sale	35	~	~	~	~	~	35
Total assets	35	~	~	~	~	~	35
Liabilities							
Interest rate sensitivity gap	~	~	~	~	~	~	~
Cumulative gap	~	~	~	~	~	~	~

The tables above reflect 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.

The tables above provide only an indication of the sensitivity of the Bank's earnings to movement 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 £1,600.

31 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:

	2003	2002
	£'000	£'000
Expected to be recognised within one year	3,143	3,495
Expected to be recognised in greater than one year	~	~
	<u>3,143</u>	<u>3,495</u>

32 Currency Risk

	Trading		Non~trading	
	Net currency position		Net currency position	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
<i>Currency of denomination</i>				
US Dollar	(1)	~	(287)	(30)
Japanese Yen	~	~	(11)	(14)
Swiss Franc	~	~	51	2
Euro	~	~	45	~
Hong Kong Dollar	~	~	~	74
Jordanian Dinar	~	~	447	~
Other currencies	~	~	(8)	48
Total	<u>(1)</u>	<u>~</u>	<u>237</u>	<u>80</u>

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 trading and non~trading book positions. 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 6, 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.

33 Fair values of financial statements

Set out below is year-end comparison of current and book values of the company's financial instruments ('instruments') by category. Market values are used to determine fair values.

At 31 December 2003

	Trading book		Non~trading book	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<i>Assets</i>				
Loans and advances to banks	~	~	93,365	93,365
Debt securities	404	398	73,673	74,324
<i>Liabilities</i>				
Deposits by banks and customers	~	~	141,866	141,866

At 31 December 2002

	Trading book		Non~trading book	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<i>Assets</i>				
Loans and advances to banks	~	~	87,855	87,855
Debt securities	35	35	81,739	80,075
<i>Liabilities</i>				
Deposits by banks and customers	~	~	147,980	147,980

Notes to Financial Statements

34 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.

35 Transactions with managers

The aggregate amounts outstanding from persons who were managers of the Bank at 31 December 2003 were as follows:

	Aggregate amount outstanding £'000	Number of persons
Loans	42	8

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	
	2003 £'000	2002 £'000
Leases which expire within one year	~	~
Leases which expire after five years or more	205	205
	<u>205</u>	<u>205</u>