



Jordan International Bank Plc

Report & Accounts
2004

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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 Commercial 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)

H E Dr Michel Marto (Deputy Chairman)
Alternate: Ahmed Abu Obeid

H E Dr Rajai Muasher
Alternate: Khalil Nasr

Abdul Kader Al-Qadi
Alternate: Hani Al-Qadi

Shaker Fakhouri
Alternate: Walid 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

Assistant General Manager

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 LLP
Chartered Accountants
London

Internet

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



I have pleasure in reporting that the Bank maintained a satisfactory performance in 2004 with a pre-tax profit of £1,309,632 and the Board was therefore pleased to be able to declare a dividend of 4% for the year. A thorough review of the Bank's portfolio was undertaken and it was determined that there had been no deterioration in quality and that therefore no provisions were necessary at the year end.

During the year, the Bank undertook a more determined marketing effort and combined a focused strategy with necessary resources which resulted in an increased flow of business. This was particularly evident in the areas of securities income, FX operations and commission, all of which produced income above forecasts for the year. Other areas, such as securities sales and securities trading, picked up in the second half of the year while trade finance business also benefited from an increased flow in transactions from both Jordan and contacts made in other areas of the Middle East and the UK, as market conditions improved and the Bank took advantage of this.

As part of the Bank's progression, it was determined that a new committee should be established, a Management committee to meet on an 'informal' basis each week. It was also agreed that the Bank's Treasury Committee be re-established as an Assets and Liabilities Committee (ALCO) to meet monthly. Precise terms of reference for these committees were agreed by the Bank's management and presented to the Board and approved by the year end; amended and revised terms of reference for the Bank's Credit Committee and Executive Committee were approved in early 2005. Thus, the Bank commenced operations in 2005 on an improved and sounder basis on which to develop and expand its operations in a developing and competitive market.

2005 will provide new challenges and opportunities for the Bank to progress and expand. Management has taken action to take advantage of these and already is looking to establish new areas of development for the Bank. With the significant improvement in the economic situation in Jordan, the expansion of economic growth in the region in general and the gradual move towards social and political change in the Middle East, there exist increased opportunities for the Bank to take a more prominent role in providing financial assistance and advice to help in this development.

On behalf of the Board, I would like to express our thanks to all our customers, market counterparties and correspondents for their support, and also to the management and staff for their continued loyalty and contribution to the Bank's success.

Dr Umayya Toukan
Chairman

23 March 2005

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 2004.

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 £918,000 (2003 ~ £1,795,000). The directors recommend that a dividend is to be paid of £800,000 (2003 ~ £1m).

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) and 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 money market instruments and 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. Individual positions not exceeding US\$1.5 million or equivalent may not be held for longer than 30 days and individual positions not exceeding US\$3 million or equivalent may not be held for more than 24 hours without the specific approval of the Executive Management Committee (EXCO).

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, Euros and Swiss Francs. The Bank may, where appropriate, 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 bank are shown on page 2 and all served as directors or alternate directors throughout the year except the following who were appointed on the dates shown.

Walid Fakhouri	3 March 2004
H E Dr Michel Marto	1 May 2004
Ahmed Abu Obeid	27 August 2004

The following served during the year until they retired on the dates shown:

Zuhair Khouri	1 May 2004
Abdul Kader Dweik	27 August 2004

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 2004, the bank's trade creditors had been outstanding for an average of 28 days (2003 ~ 25 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

Deloitte & Touche LLP 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

23 March 2005

We have audited the financial statements of Jordan International Bank plc ('the Bank') for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet, cash flow statement and the related notes 1 to 35. 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 2004 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 2005

Profit & Loss

Profit & Loss account for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
<i>Interest receivable</i>			
Interest receivable and similar income arising from debt securities and treasury bills		4,272	4,384
Other interest receivable and similar income		2,654	2,425
		6,926	6,809
Interest payable		(3,430)	(3,125)
<i>Net interest income</i>		3,496	3,684
Fees and commissions receivable		383	286
Dealing profits		134	116
Other operating income		18	16
Securities revaluation	3	~	1,434
<i>Total operating income</i>		4,031	5,536
Administrative expenses	4	(1,671)	(1,699)
Depreciation	6, 15	(83)	(91)
Other operating charges		(1,075)	(1,136)
Provisions	11	~	(280)
Profit on sale of debt securities		107	192
<i>Operating profit and profit on ordinary activities before taxation</i>	6	1,309	2,522
Tax on profit on ordinary activities	7	(391)	(727)
<i>Profit on ordinary activities after taxation and profit for the financial year</i>		918	1,795
<i>Proposed dividend of 4 pence per ordinary share (2003 ~ 5 pence)</i>		(800)	(1,000)
<i>Retained profit for the financial year</i>		118	795
<i>Profit and loss account</i>			
Brought forward at 1 January		5,003	4,208
Retained profit for the financial year		118	795
<i>Carried forward at 31 December</i>		5,121	5,003

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 2004

	Notes	2004 £'000	2003 £'000
<i>Assets</i>			
Cash		147	124
Collections on other banks		1,249	855
Loans and advances to shareholder banks	8	15,686	18,407
Loans and advances to other banks	9	49,223	48,618
Loans and advances to customers	10	33,601	26,340
Debt securities	13	87,418	74,077
Tangible fixed assets	15	468	502
Other assets	16	542	92
Prepayments and accrued income		1,945	1,668
<i>Total assets</i>		190,279	170,683
<i>Liabilities</i>			
Deposits by shareholder banks	17	117,113	108,544
Deposits by other banks	18	19,065	10,862
Customer accounts	19	24,696	22,460
Other liabilities	20	1,856	2,042
Accruals and deferred income		2,112	1,456
		164,842	145,364
Called-up share capital	21	20,000	20,000
Share premium	22	316	316
Profit and loss account		5,121	5,003
<i>Shareholders' funds ~ equity interests</i>	23	25,437	25,319
<i>Total liabilities</i>		190,279	170,683

Balance Sheet (continued)

Balance Sheet at 31 December 2004 ~ continued

	Notes	2004 £'000	2003 £'000
<i>Memorandum items</i>			
<i>Contingent liabilities</i>			
Acceptances		1,080	349
Guarantees and irrevocable letters of credit		5,383	5,870
		<u>6,463</u>	<u>6,219</u>

These financial statements were approved by the Board of Directors on 23 march 2005.

Signed on behalf of the Board of Directors

Dr Umayya Toukan
Dr Michel Marto
Dr Ziad Fariz

} Directors

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

Statement of cash flows for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
<i>Net cash (outflow) from operating activities</i>	24	(15,981)	(2,606)
<i>Returns on investments and servicing of finance</i>			
Interest received		4,204	4,460
<i>Net cash inflow from returns on investments and servicing of finance</i>		4,204	4,460
<i>Taxation</i>			
Corporation tax (paid)/repaid		(763)	246
<i>Tax (paid)/repaid</i>		(763)	246
<i>Capital expenditure and financial investment</i>			
Purchase of investments		(131,736)	(178,831)
Investments sold and matured		115,297	183,995
Purchase of tangible fixed assets		(49)	(36)
<i>Net cash (outflow)/inflow from capital expenditure and financial investment</i>		(16,488)	5,128
<i>Equity dividend paid</i>		(1,000)	~
<i>(Decrease)/increase in cash</i>	25	(30,028)	7,228

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 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 (£1.434m).

4 Administrative expenses

	2004	2003
	£'000	£'000
Staff costs:		
Salaries	1,253	1,276
Social security costs	144	143
Other pension costs (note 33)	174	165
	<u>1,571</u>	<u>1,584</u>
Other administrative expenses	100	115
	<u>1,671</u>	<u>1,699</u>

The average number of persons employed by the Bank in 2004 was 30 (2003 ~ 29), made up as follows:

	2004	2003
	No.s	No.s
Retail banking	5	5
Corporate banking	4	4
Treasury & dealing activities	8	8
Support staff	13	12
	<u>30</u>	<u>29</u>

5 Directors' emoluments

The aggregate amount of emoluments paid to directors consisted of:

	2004	2003
	£'000	£'000
Fees	30	30
Salaries	26	21
	<u>56</u>	<u>51</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:

	2004	2003
	£'000	£'000
(i) Income:		
Profits from securities dealing	134	116
Profits on disposal of investment securities	107	192
(ii) Charges:		
Depreciation on owned assets	83	91
Auditors' remuneration		
~ audit services	40	39
~ non-audit services	27	7
Rental on land and buildings	<u>205</u>	<u>205</u>

Notes to Financial Statements

7 Tax on profit on ordinary activities

Based on profit for the year:

	2004 £'000	2003 £'000
United Kingdom Corporation Tax	(391)	(727)
Adjustments in respect of prior year periods	~	~
	<u>(391)</u>	<u>(727)</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:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	<u>1,309</u>	<u>2,522</u>
Tax on profit on ordinary activities at standard UK Corporation Tax of 30% (2003 ~ 30%)	(393)	(757)
Effects of:		
Expenses not deductible for tax purposes	(12)	(11)
Utilisation of tax losses	~	~
Capital allowances in excess of depreciation	8	11
Movement in short term timing differences	1	30
Marginal relief	5	~
Prior period adjustments	~	~
	<u>(391)</u>	<u>(727)</u>

A deferred tax asset of £42,115 (2003 ~ £50,650) in respect of various timing differences has not been recognised.

8 Loans and advances to shareholder banks

	2004 £'000	2003 £'000
Repayable		
~ on demand	11,262	7,132
~ within three months	1,671	4,891
~ between three months and one year	163	5,512
~ between one and five years	1,531	872
~ more than five years	1,059	~
	<u>15,686</u>	<u>18,407</u>

9 *Loans and advances to other banks*

2004	Non Performing Loans £'000	Performing Loans £'000	2004 Total £'000
Repayable			
~ on demand	~	25,116	25,116
~ within three months	~	11,930	11,930
~ between three months and one year	1,294	9,954	11,248
~ between one and five years	~	1,900	1,900
	<u>1,294</u>	<u>48,900</u>	<u>50,194</u>
Provision for bad and doubtful debts (note 11)	(971)	~	(971)
	<u>323</u>	<u>48,900</u>	<u>49,223</u>
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>

10 *Loans and advances to customers*

	2004 £'000	2003 £'000
Repayable		
~ on demand	11,691	9,489
~ within three months	1,069	3,724
~ between three months and one year	5,106	2,116
~ between one and five years	15,459	10,501
~ over five years	278	512
Provisions (note 11)	(2)	(2)
	<u>33,601</u>	<u>26,340</u>

Notes to Financial Statements

11 Provisions for bad and doubtful debts

	2004			2003		
	Specific £'000	General £'000	Total £'000	Specific £'000	General £'000	Total £'000
At 1 January	1,050	2	1,052	802	98	900
Charge against profits	~	~	~	383	~	383
Amounts written back	~	~	~	(20)	~	(20)
Recoveries/other movements	(79)	~	(79)	(115)	(96)	(211)
At 31 December	<u>971</u>	<u>2</u>	<u>973</u>	<u>1,050</u>	<u>2</u>	<u>1,052</u>
Loans and advances to banks (note 9)			971			1,050
Loans and advances to customers (note 10)			<u>2</u>			<u>2</u>
			<u>973</u>			<u>1,052</u>

12 Concentrations of exposure

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

	2004 £'000	2003 £'000
OECD	97,394	92,959
Jordan	39,471	35,969
Arab/Middle East	38,580	29,671
Asia	7,767	9,128
Other	7,067	2,956
	<u>190,279</u>	<u>170,683</u>

The following industry concentrations are considered significant:

	2004 £'000	2003 £'000
Government/Quasi Government	36,555	29,495
Banks	72,702	79,918
Investment and Finance	14,578	14,224
Other	66,444	47,046
	<u>190,279</u>	<u>170,683</u>

13 Debt securities

	2004		2003	
	Balance sheet £'000	Market value £'000	Balance sheet £'000	Market value £'000
Issued by public bodies				
~ government securities				
~ fixed	24,667	25,175	15,463	15,775
~ other public sector securities	3,883	3,739	4,928	4,624
Issued by other issuers				
Investment securities				
~ other debt securities				
~ fixed assets	58,162	58,618	53,282	53,925
~ current trading book (note 14)	706	706	404	398
	<u>87,418</u>	<u>88,238</u>	<u>74,077</u>	<u>74,722</u>
Analysed by maturity:				
Due within one year	19,606	19,763	18,957	19,162
Due after one year	67,812	68,475	55,120	55,560
	<u>87,418</u>	<u>88,238</u>	<u>74,077</u>	<u>74,722</u>

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

	£'000
<i>Cost</i>	
At 1 January 2004	73,673
Amortisation of debt securities	(1,510)
Additions	43,460
Disposals	(25,743)
Exchange adjustment	(3,048)
Amortisation of discounts and premiums	(120)
At 31 December 2004	<u>86,712</u>
Unamortised discounts and premiums at 31 December 2004	<u>549</u>

Notes to Financial Statements

13 Debt securities (continued)

	2004		2003	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
Investment securities				
~ listed	28,550	28,914	20,391	20,399
~ unlisted	~	~	~	~
	<u>28,550</u>	<u>28,914</u>	<u>20,391</u>	<u>20,399</u>
Other debt securities				
~ listed	58,138	58,594	51,776	52,413
~ unlisted	730	730	1,910	1,910
	<u>58,868</u>	<u>59,324</u>	<u>53,686</u>	<u>54,323</u>

14 Trading book

	2004 £'000	2003 £'000
Net gain from trading in debt securities	33	29
Period end fair value of financial assets held for trading (note 13)	<u>706</u>	<u>398</u>

15 *Tangible fixed assets*

	Furniture, fittings & office equipment £'000	Improvements to leasehold premises £'000	Total £'000
<i>Cost</i>			
At 1 January 2004	832	418	1,250
Additions	49	~	49
At 31 December 2004	<u>881</u>	<u>418</u>	<u>1,299</u>
<i>Depreciation</i>			
At 1 January 2004	676	72	748
Charge for year	54	29	83
At 31 December 2004	<u>730</u>	<u>101</u>	<u>831</u>
<i>Net book value</i>			
At 31 December 2004	<u>151</u>	<u>317</u>	<u>468</u>
At 31 December 2003	<u>156</u>	<u>346</u>	<u>502</u>

16 *Other assets*

	2004 £'000	2003 £'000
Sundry loan receivables	74	58
Profit on revaluation of forward contracts	468	34
	<u>542</u>	<u>92</u>

17 *Deposits by shareholder banks*

	2004 £'000	2003 £'000
Repayable		
~ on demand	29,763	17,302
~ within three months	84,244	88,319
~ between three months and one year	3,106	2,923
	<u>117,113</u>	<u>108,544</u>

Notes to Financial Statements

18 Deposits by other banks

	2004 £'000	2003 £'000
Repayable		
~ on demand	7,761	1,399
~ within three months	11,304	9,463
	<u>19,065</u>	<u>10,862</u>

19 Customer accounts

	2004 £'000	2003 £'000
Repayable		
~ on demand	16,411	14,978
~ within three months	7,507	6,608
~ between three months and one year	778	874
	<u>24,696</u>	<u>22,460</u>

20 Other liabilities

	2004 £'000	2003 £'000
Current Corporation Tax	391	727
Other liabilities	982	1,315
Revaluation of forward contracts	483	~
	<u>1,856</u>	<u>2,042</u>

21 Called-up share capital

	2004 £'000	2003 £'000
Authorised 25,000 (2003 ~ 25,000) ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>
Called-up, allotted and fully paid 20,000 (2003 ~ 20,000) ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

22 Share premium

	2004 £'000	2003 £'000
At 31 December	<u>316</u>	<u>316</u>

23 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Profit for the financial year	118	795
Opening shareholders' funds	<u>25,319</u>	<u>24,524</u>
Closing shareholders' funds	<u>25,437</u>	<u>25,319</u>

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

	2004 £'000	2003 £'000
Operating profit	1,309	2,522
Interest received on investments	(4,204)	(4,460)
(Increase)/decrease in prepayments and accrued income	(277)	163
(Decrease)/increase in accruals and deferred income	656	(104)
Profit on sale of investments	(107)	(1,626)
Amortisation	120	(132)
Depreciation	83	91
Exchange adjustment	<u>3,085</u>	<u>3,493</u>
Net cash outflow from trading activities	665	(53)
Net decrease/(increase) in loans and advances	(16,767)	9,862
Net increase/(decrease) in deposits	185	(12,622)
Net decrease/(increase) in other assets and liabilities	<u>(64)</u>	<u>207</u>
Net cash outflow from operating activities	<u>(15,981)</u>	<u>(2,606)</u>

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

	2004 £'000	2003 £'000	Change in year £'000
Cash	147	124	23
Collections on other banks	1,249	855	394
Loans and advances to shareholder banks	11,262	7,132	4,130
Loans and advances to other banks	25,116	40,868	(15,752)
Deposits by shareholder banks	(29,763)	(17,302)	(12,461)
Deposits by other banks	<u>(7,761)</u>	<u>(1,399)</u>	<u>(6,362)</u>
	<u>250</u>	<u>30,278</u>	<u>(30,028)</u>

26 *Analysis of changes in financing during the year*

	Share capital £'000
As at 1 January 2004	20,316
As at 31 December 2004	<u>20,316</u>

27 *Forward contracts*

	2004 £'000	2003 £'000
Exchange rate contracts:		
Contract or underlying principal amount		
~ for dealing purposes	41,014	30,061
~ for hedging purposes	<u>4,194</u>	<u>3,920</u>
Interest rate contracts:		
Contract or underlying principal amount		
~ for hedging purposes	<u>19,158</u>	<u>11,760</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.

28 *Assets and liabilities in foreign currencies*

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

	2004 £'000	2003 £'000
Assets	150,837	125,275
Liabilities	<u>134,500</u>	<u>125,330</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.

29 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 2004. 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	~	~	~	~	~	1,396	1,396
Loans and advances to shareholder banks	12,933	~	163	1,531	1,059	~	15,686
Loans and advances to other banks	37,046	10,670	1,471	36	~	~	49,223
Loans and advances to customers	32,349	1,252	~	~	~	~	33,601
Debt securities and equity shares ~ strategic investments	24,150	19,167	12,437	~	~	~	55,754
Debt securities ~ strategic investments available for sale (trading book)	706	~	~	~	~	~	706
Asset swaps	22,137	8,821	~	~	~	~	30,958
Other assets	~	~	~	~	~	2,955	2,955
Total assets	129,321	39,910	14,071	1,567	1,059	4,351	190,279
Liabilities							
Deposits by shareholder banks	114,006	3,107	~	~	~	~	117,113
Deposits by other banks	19,065	~	~	~	~	~	19,065
Customer accounts	23,919	257	520	~	~	~	24,696
Other liabilities	~	~	~	~	~	3,968	3,968
Shareholder funds	~	~	~	~	~	25,437	25,437
Total liabilities	156,990	3,364	520	~	~	29,405	190,279
Interest rate sensitivity gap	(27,669)	36,546	13,551	1,567	1,059	(25,054)	~
Cumulative gap	(27,669)	8,877	22,428	23,995	25,054	~	~

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

Notes to Financial Statements

29 Interest rate risk (continued)

The tables below reflect 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
<i>Assets</i>							
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

29 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>Liabilities</i>							
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	<u>138,069</u>	<u>252</u>	<u>3,545</u>	<u>~</u>	<u>~</u>	<u>28,817</u>	<u>170,683</u>
Interest rate sensitivity gap	(10,460)	18,654	13,041	4,341	~	(25,576)	~
Cumulative gap	<u>(10,460)</u>	<u>8,194</u>	<u>21,235</u>	<u>25,576</u>	<u>25,576</u>	<u>~</u>	<u>~</u>

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

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 from 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.

30 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:

	2004	2003
	£'000	£'000
Expected to be recognised within one year	2,678	3,143
Expected to be recognised in greater than one year	~	~
	<u>2,678</u>	<u>3,143</u>

31 Currency Risk

	Trading		Non-trading	
	Net currency position		Net currency position	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
<i>Currency of denomination</i>				
US Dollar	~	(1)	(481)	(287)
Japanese Yen	~	~	5	(11)
Swiss Franc	~	~	(11)	51
Euro	~	~	18	45
Jordanian Dinar	~	~	499	447
Other currencies	~	~	5	(8)
Total	<u>~</u>	<u>(1)</u>	<u>35</u>	<u>237</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.

32 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 2004

	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	~	~	98,510	98,510
Debt securities	706	706	86,712	86,712
<i>Liabilities</i>				
Deposits by banks and customers	~	~	160,874	160,874

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

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 Transactions with managers

The aggregate amounts outstanding from persons who were managers of the Bank at 31 December 2004 were as follows:

	Aggregate amount outstanding £'000	Number of persons
Loans	<u>52</u>	<u>7</u>

35 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	
	2004 £'000	2003 £'000
Leases which expire after five years or more	<u>205</u>	<u>205</u>
	<u>205</u>	<u>205</u>