



# Jordan International Bank Plc

*Report & Accounts*  
*2005*

## *Contents*

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## *Shareholders & Directors*

### *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%
	<u>100.000%</u>

### *Directors*

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

H E Abdel Karim Kabariti  
Alternate: Mohamad Yaser Al-Asmar

H E Mohamad Jawad Hadid  
Alternate: Ayman Majali

Khaled Sabih Masri

David Gates

David Colvin

Information source: Capital Intelligence & Individual Bank websites.

### **Government of the Hashemite Kingdom of Jordan**

*The Government of the Hashemite Kingdom of Jordan is represented by the Governor of the Central Bank of Jordan as the Bank's Chairman, currently H E Dr Umayya Toukan. The Central Bank of Jordan was established in 1964 to maintain monetary stability in the Kingdom and to ensure the convertibility of the Jordanian Dinar, in addition to regulate the Jordanian financial sector and to promote a stronger banking system through close supervision and guidance.*

<b><i>The Housing Bank For Trade and Finance</i></b>	<b>2005</b>	<b>2004</b>
	<b>JD'M's</b>	<b>JD'M's</b>
Total assets	<u>3,196</u>	<u>2,500</u>
Capital and reserves	<u>395</u>	<u>331</u>

*The Housing Bank for Trade and Finance operates one of the largest branch networks in the country, with 101 branches, of which 96 in Jordan, four in Palestine and one in Bahrain. The Bank offers integrated banking services to retail and corporate customers and has a leading position in treasury and foreign exchange.*

<b><i>Jordan National Bank</i></b>	<b>2005</b>	<b>2004</b>
	<b>JD'M's</b>	<b>JD'M's</b>
Total assets	<u>1,672</u>	<u>1,572</u>
Capital and reserves	<u>178</u>	<u>102</u>

*At the end of 2004 Jordan National Bank operated 49 branches and cash offices in Jordan, eight in Lebanon, five in Palestine and an international banking unit (IBC) in Cyprus.*

<b><i>Bank of Jordan</i></b>	<b>2005</b>	<b>2004</b>
	<b>JD'M's</b>	<b>JD'M's</b>
Total assets	<u>1,182</u>	<u>969</u>
Capital and reserves	<u>110</u>	<u>77</u>

*At the end of 2005 Bank of Jordan operated through an expanded branch network of 81 outlets, including 45 full branches in Jordan and seven full branches in Palestine. The Bank is active in corporate finance, retail banking and treasury management.*

<b><i>Jordan Kuwait Bank</i></b> (financial data available in US\$'s)	<b>2005</b>	<b>2004</b>
	<b>US\$M's</b>	<b>US\$M's</b>
Total assets	<u>1,988</u>	<u>1,251</u>
Capital and reserves	<u>153</u>	<u>123</u>

*At the end of 2005, Jordan Kuwait Bank operated a domestic network of 43 branches, a branch in Palestine and an international banking unit (IBU) in Cyprus. A commercial bank in nature, the Bank is also active in corporate finance, treasury and consumer lending and was one of the first banks in Jordan to launch internet banking.*

## Shareholder Highlights

<i>Cairo Amman Bank</i>	2005 JD'M's	2004 JD'M's
Total assets	1,227	980
Capital and reserves	163	87

*At the end of 2005 Cairo Amman Bank operated a network of 51 branches and offices in Jordan and 16 branches in Palestine.*

<i>Jordan Commercial Bank</i>	2005 JD'M's	2004 JD'M's
Total assets	363	220
Capital and reserves	67	45

*At the end of 2004 Jordan Commercial Bank operated a network of 28 branches.*

<i>Arab Jordan Investment Bank</i>	2005 JD'M's	2004 JD'M's
Total assets	478	403
Capital and reserves	54	45

*At October 2005 Arab Jordan Investment Bank operated a network of eight branches, six exchange offices and an international banking unit (IBU) in Cyprus.*

<i>Jordan Investment and Finance Bank</i>	2005 JD'M's	2004 JD'M's
Total assets	555	394
Capital and reserves	69	41

*In addition to arranging syndicated loans, the Bank offers retail banking services including VISA credit cards on a selective basis. In addition it also participates in the underwriting of most bond issues in Jordan as manager and co-manager. The Bank was the first institution to provide stockbrokerage services to local and international institutional investors. The branch comprises seven branches in addition to a brokerage office.*

<i>Arab Banking Corporation (Jordan)</i>	2005 JD'M's	2004 JD'M's
Total assets	411	374
Capital and reserves	53	42

*A commercial bank in nature, ABC (Jordan) currently operates through 20 outlets and is active in retail banking, primary capital markets, mergers and acquisitions, securities trading, loan syndications and project finance. The Bank also has a domestic-based subsidiary, the Arab Co-operation Financial Investment Company Limited, whose services include commission brokerage, underwriting new stock issues and proprietary stock trading.*

*Executives & Professional Advisers*

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, Private Banking

George A Shihata

Assistant General Manager, Corporate and Institutional Banking

Stephen Gulson

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

I have pleasure in reporting that the Bank achieved a satisfactory performance in 2005 with a pre-tax profit of £1,296,252. Bearing in mind that for the Bank to continue to develop and expand its business, its capital resources would need to be improved, the Board decided to retain all profit for the year within the Bank and therefore no dividend was declared. Following a review it was determined that there had been no significant deterioration in quality in the Bank's portfolio and that there was no requirement for further provisions to be made at the year end.

The strong marketing effort started in 2004 continued throughout 2005. The main focus has been on developing business opportunities in countries which form part of the MENA region but where the Bank has previously had little or no contact. Besides successfully expanding business volumes in its traditional products such as L/Cs, bill discounting, foreign exchange and money market operations, a strategy to introduce Islamic Banking products was drawn up and again successfully marketed with the first Islamic transaction undertaken towards the end of the year. However, due to the need to remain compliant with the existing regulatory ratios, which due to the Bank's size are fairly restrictive, the volume of potential business could not be fully realised.

With the success the Bank has achieved over the last two years in increasing the volume of off-balance sheet income, and following a decision taken at the Board meeting at the beginning of 2006, a business strategy for the next five years is now to be drawn up by the Bank's senior management. This will entail a review of the existing areas of JIB's business and also explore other products where there can be potential growth for the Bank. However, there will be no move away from the traditional role of the Bank which is to provide services to assist in the development of trade and business between the UK and the MENA region, in particular Jordan. The continuing economic growth in the region holds out excellent opportunities for JIB to expand.

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.

H E Dr Umayya Toukan  
Chairman

22 March 2006

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.

## *Directors' Report*

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The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

### *Principal activities and business review*

The Bank continues to provide a range of wholesale banking services. The Chairman's Statement on page 5 reports on the Bank's business during the year. The directors aim to maintain and develop the policies which have resulted in the Bank's successful performance in recent years. The Bank's principal activities comprise:

#### *Investment and Treasury related services*

With comprehensive access to all the major financial markets, the Bank offers bond and foreign exchange dealing services.

#### *Corporate & Institutional Banking services*

European corporate clients are supported in respect of their business activities in the MENA region. Services offered include Corporate advisory services, Correspondent Banking, Property Finance, Syndications, Project Finance and Islamic Banking.

#### *Trade Finance services*

Specialist trade services are provided to businesses exporting to the MENA region including forfaiting.

#### *Private Banking services*

Personalised banking services are offered to high net worth clients both resident in the UK and overseas.

The Bank is Authorised and Regulated by The Financial Services Authority.

### *Results and dividends*

The profit for the year after taxation amounted to £901,000 (2004 ~ £918,000). The directors recommend that no dividend be paid (2004 ~ £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) 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 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 or 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 and their interests*

The directors of the Bank are shown on page 3 and all served as directors or alternate directors throughout the year except the following who were appointed on the dates shown.

David Colvin	1 March 2005
H E Abdel Karim Kabariti	17 May 2005
Mohamad Yaser Al-Asmar	17 May 2005
H E Mohamad Jawad Hadid	17 May 2005
Ayman Majali	17 May 2005
Khaled Sabih Masri	17 May 2005

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

H E Dr Ziad Fariz	17 May 2005
Abdul Kader Al-Qadi	17 May 2005
Hani Al-Qadi	17 May 2005
Shaker Fakhouri	17 May 2005
Walid Fakhouri	17 May 2005

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 2005, the Bank's trade creditors had been outstanding for an average of 20 days (2004 ~ 28 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

22 March 2006

## *Independent Auditors' Report*

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We have audited the financial statements of Jordan International Bank plc ('the Bank') for the year ended 31 December 2005 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework 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 and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above period 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Bank's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors

22 March 2006

## *Profit & Loss*

### *Profit & Loss account for the year ended 31 December 2005*

	Notes	2005 £'000	2004 £'000
<i>Interest receivable</i>			
Interest receivable and similar income arising from debt securities and treasury bills		4,240	4,272
Other interest receivable and similar income		5,209	2,654
		<u>9,449</u>	<u>6,926</u>
Interest payable		(5,761)	(3,430)
<i>Net interest income</i>		<u>3,688</u>	<u>3,496</u>
Fees and commissions receivable		673	383
Dealing profits		229	134
Other operating income		17	18
Securities revaluation	3	98	~
<i>Total operating income</i>		<u>4,705</u>	<u>4,031</u>
Administrative expenses	4	(1,996)	(1,671)
Depreciation	6, 15	(90)	(83)
Other operating charges		(1,374)	(1,075)
Provisions	11	~	~
Profit on sale of debt securities		51	107
<i>Operating profit and profit on ordinary activities before taxation</i>	6	1,296	1,309
Tax on profit on ordinary activities	7	(395)	(391)
<i>Profit on ordinary activities after taxation and profit for the financial year</i>		901	918
<i>Proposed dividend (2004 ~ 4 pence per ordinary share)</i>		~	(800)
<i>Retained profit for the financial year</i>		<u>901</u>	<u>118</u>
<i>Profit and loss account</i>			
Brought forward at 1 January		5,121	5,003
Retained profit for the financial year		901	118
<i>Carried forward at 31 December</i>		<u>6,022</u>	<u>5,121</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 at 31 December 2005*

	Notes	2005 £'000	2004 £'000
<i>Assets</i>			
Cash		185	147
Collections on other banks		1,042	1,249
Loans and advances to shareholder banks	8	13,090	15,686
Loans and advances to other banks	9	73,617	49,223
Loans and advances to customers	10	43,466	33,601
Debt securities	13	73,796	87,418
Tangible fixed assets	15	438	468
Other assets	16	100	542
Prepayments and accrued income		2,076	1,945
<i>Total assets</i>		<u>207,810</u>	<u>190,279</u>
<i>Liabilities</i>			
Deposits by shareholder banks	17	128,871	117,113
Deposits by other banks	18	28,394	19,065
Customer accounts	19	20,625	24,696
Other liabilities	20	724	1,856
Accruals and deferred income		2,858	2,112
		<u>181,472</u>	<u>164,842</u>
Called-up share capital	21	20,000	20,000
Share premium	22	316	316
Profit and loss account		6,022	5,121
<i>Shareholders' funds ~ equity interests</i>	23	<u>26,338</u>	<u>25,437</u>
<i>Total liabilities</i>		<u>207,810</u>	<u>190,279</u>

## *Balance Sheet*

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### *Balance Sheet at 31 December 2005 (continued)*

	Notes	2005 £'000	2004 £'000
<i>Memorandum items</i>			
<i>Contingent liabilities</i>			
Acceptances		1,761	1,080
Guarantees and irrevocable letters of credit		<u>10,275</u>	<u>5,383</u>
		<u>12,036</u>	<u>6,463</u>

*These financial statements were approved by the Board of Directors on 22 March 2006.*

*Signed on behalf of the Board of Directors*

*Dr Umayya Toukan* }  
*Dr Michel Marto* } Directors  
*Dr Rajai Muasher* }

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

*Statement of cash flows for the year ended 31 December 2005*

	Notes	2005 £'000	2004 £'000
<i>Net cash inflow/(outflow) from operating activities</i>	24	<u>6,848</u>	<u>(15,981)</u>
<i>Returns on investments and servicing of finance</i>			
Interest received		<u>4,298</u>	<u>4,204</u>
<i>Net cash inflow from returns on investments and servicing of finance</i>		<u>4,298</u>	<u>4,204</u>
<i>Taxation</i>			
Corporation tax paid		<u>(391)</u>	<u>(763)</u>
<i>Tax paid</i>		<u>(391)</u>	<u>(763)</u>
<i>Capital expenditure and financial investment</i>			
Purchase of investments		<u>(58,785)</u>	<u>(131,736)</u>
Investments sold and matured		<u>78,230</u>	<u>115,297</u>
Purchase of tangible fixed assets		<u>(60)</u>	<u>(49)</u>
<i>Net cash inflow/(outflow) from capital expenditure and financial investment</i>		<u>19,385</u>	<u>(16,488)</u>
<i>Equity dividend paid</i>		<u>(800)</u>	<u>(1,000)</u>
<i>Increase/(decrease) in cash</i>	25	<u>29,340</u>	<u>(30,028)</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.

#### *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 such as forward rate contracts, interest rate swaps and other derivatives are valued at market prices ruling at the balance sheet date and the resultant profits and losses are included in income, except for where they are held for hedging purposes where they are valued on a basis consistent with that applied to the underlying transactions.

**1 Accounting policies (continued)**

*i) Depreciation*

Fixed assets are stated at cost net of depreciation and impairment in value. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life from the date it is brought into use, as follows:

Leasehold property and improvements	over period of the lease
All other tangible assets	5 years

Tangible fixed assets are reviewed for any impairment on an annual basis.

*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 2005, the Bank received the final distribution monies from Magnus Funding amounting to £78,164, which represents the majority of the £98,627.

## Notes to Financial Statements

### 4 Administrative expenses

	2005 £'000	2004 £'000
Staff costs including directors:		
Salaries	1,487	1,253
Social security costs	174	144
Other pension costs (note 33)	196	174
	<u>1,857</u>	<u>1,571</u>
Other administrative expenses	139	100
	<u>1,996</u>	<u>1,671</u>

The average number of persons employed by the Bank in 2005 was 33 (2004 ~ 30), made up as follows:

	2005 No.s	2004 No.s
Retail banking	5	5
Corporate banking	7	4
Treasury and dealing activities	8	8
Support staff	13	13
	<u>33</u>	<u>30</u>

**5 Directors' emoluments**

The aggregate amount of emoluments paid to directors consisted of:

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Fees	<b>30</b>	30
Salaries	<b>88</b>	26
	<b>118</b>	56

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

**6 Profit on ordinary activities before taxation**

Profit is stated after charging:

	<b>2005</b>	2004
	<b>£'000</b>	£'000
(i) Income:		
Profits from securities dealing ~ foreign exchange	<b>229</b>	134
Profits on disposal of investment securities	<b>51</b>	107
(ii) Charges:		
Depreciation on owned assets	<b>90</b>	83
Auditors' remuneration		
~ audit services	<b>60</b>	40
~ non-audit services	<b>~</b>	27
Rental on land and buildings	<b>212</b>	205

## Notes to Financial Statements

### 7 Tax on profit on ordinary activities

Based on profit for the year:

	2005 £'000	2004 £'000
United Kingdom corporation tax	(395)	(391)
Adjustments in respect of prior year periods	~	~
	<u>(395)</u>	<u>(391)</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:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	<u>1,296</u>	<u>1,309</u>
Tax on profit on ordinary activities at standard UK corporation tax of 30% (2004 ~ 30%)	(389)	(393)
Effects of:		
Expenses not deductible for tax purposes	(12)	(12)
Capital allowances in excess of depreciation	~	8
Movement in short-term timing differences	1	1
Marginal relief	5	5
Prior-period adjustments	~	~
	<u>(395)</u>	<u>(391)</u>

A deferred tax asset of £41,479 (2004 ~ £42,115) in respect of various timing differences has not been recognised.

### 8 Loans and advances to shareholder banks

	2005 £'000	2004 £'000
Repayable		
~ on demand	3,738	11,262
~ within three months	3,981	1,671
~ between three months and one year	1,522	163
~ between one and five years	2,248	1,531
~ more than five years	1,601	1,059
	<u>13,090</u>	<u>15,686</u>

*9 Loans and advances to other banks*

2005	Non performing loans £'000	Performing loans £'000	2005 Total £'000
Repayable			
~ on demand	~	43,482	43,482
~ within three months	~	22,089	22,089
~ between three months and one year	1,425	5,250	6,675
~ between one and five years	~	2,440	2,440
	<u>1,425</u>	<u>73,261</u>	<u>74,686</u>
Provision for bad and doubtful debts (note 11)	(1,069)	~	(1,069)
	<u>356</u>	<u>73,261</u>	<u>73,617</u>
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>

## Notes to Financial Statements

### 10 Loans and advances to customers

	2005 £'000	2004 £'000
Repayable		
~ on demand	8,373	11,691
~ within three months	4,791	1,069
~ between three months and one year	11,326	5,106
~ between one and five years	18,978	15,459
~ over five years	~	278
Provisions (note 11)	(2)	(2)
	<u>43,466</u>	<u>33,601</u>

### 11 Provisions for bad and doubtful debts

	2005			2004		
	Specific £'000	General £'000	Total £'000	Specific £'000	General £'000	Total £'000
At 1 January	971	2	973	1,050	2	1,052
Charge against profits	~	~	~	~	~	~
Amounts written back	~	~	~	~	~	~
Recoveries/other movements	98	~	98	(79)	~	(79)
At 31 December	<u>1,069</u>	<u>2</u>	<u>1,071</u>	<u>971</u>	<u>2</u>	<u>973</u>
Loans and advances to banks (note 9)			1,069			971
Loans and advances to customers (note 10)			2			2
			<u>1,071</u>			<u>973</u>

*12 Concentrations of exposure*

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

	<b>2005</b> <b>£'000</b>	2004 £'000
OECD	<b>107,825</b>	97,394
Jordan	<b>45,993</b>	39,471
Arab/Middle East	<b>37,341</b>	38,580
Asia	<b>3,984</b>	7,767
Other	<b>12,653</b>	7,067
	<b><u>207,796</u></b>	<u>190,279</u>

The following industry concentrations are considered significant:

	<b>2005</b> <b>£'000</b>	2004 £'000
Government/Quasi-Government	<b>35,691</b>	36,555
Banks	<b>89,337</b>	72,702
Investment and Finance	<b>16,429</b>	14,578
Other	<b>66,339</b>	66,444
	<b><u>207,796</u></b>	<u>190,279</u>

## Notes to Financial Statements

### 13 Debt securities

	2005		2004	
	Balance sheet £'000	Market value £'000	Balance sheet £'000	Market value £'000
Issued by public bodies				
~ government securities				
~ fixed	24,296	24,559	24,667	25,175
~ other public sector securities	1,452	1,455	3,883	3,739
Issued by other issuers				
Investment securities				
~ other debt securities				
~ fixed assets	46,201	46,474	58,162	58,618
~ current trading book (note 14)	1,847	1,845	706	706
	<u>73,796</u>	<u>74,333</u>	<u>87,418</u>	<u>88,238</u>
Analysed by maturity:				
Due within one year	19,454	19,554	19,606	19,763
Due after one year	54,342	54,779	67,812	68,475
	<u>73,796</u>	<u>74,333</u>	<u>87,418</u>	<u>88,238</u>

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

	£'000
<i>Cost</i>	
At 1 January 2005	86,712
Amortisation of debt securities	(2,264)
Additions	7,645
Disposals	(25,844)
Exchange adjustment	5,764
Amortisation of discounts and premiums	(64)
At 31 December 2005	<u>71,949</u>
Unamortised discounts and premiums at 31 December 2005	<u>2,539</u>

*13 Debt securities (continued)*

	2005		2004	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
Investment Securities				
~ listed	25,748	26,014	28,550	28,914
~ unlisted	~	~	~	~
	<u>25,748</u>	<u>26,014</u>	<u>28,550</u>	<u>28,914</u>
Other debt securities				
~ listed	48,048	48,319	58,138	58,594
~ unlisted	~	~	730	730
	<u>48,048</u>	<u>48,319</u>	<u>58,868</u>	<u>59,324</u>

*14 Trading book*

	2005 £'000	2004 £'000
Net gain from trading in debt securities	13	33
Period-end fair value of financial assets held for trading (note 13)	<u>1,845</u>	<u>706</u>

## Notes to Financial Statements

### 15 Tangible fixed assets

	Furniture, fittings & office equipment £'000	Improvements to leasehold premises £'000	Total £'000
<i>Cost</i>			
At 1 January 2005	881	418	1,299
Additions	60	~	60
Disposals	(163)	~	(163)
At 31 December 2005	<u>778</u>	<u>418</u>	<u>1,196</u>
<i>Depreciation</i>			
At 1 January 2005	730	101	831
Charge for the year	61	29	90
Disposals	(163)	~	(163)
At 31 December 2005	<u>628</u>	<u>130</u>	<u>758</u>
<i>Net book value</i>			
At 31 December 2005	<u>150</u>	<u>288</u>	<u>438</u>
At 31 December 2004	<u>151</u>	<u>317</u>	<u>468</u>

### 16 Other assets

	2005 £'000	2004 £'000
Sundry loan receivables	100	542
	<u>100</u>	<u>542</u>

### 17 Deposits by shareholder banks

	2005 £'000	2004 £'000
Repayable		
~ on demand	14,858	29,763
~ within three months	113,839	84,244
~ between three months and one year	174	3,106
	<u>128,871</u>	<u>117,113</u>

**18 Deposits by other banks**

	2005 £'000	2004 £'000
Repayable		
~ on demand	3,999	7,761
~ within three months	24,395	11,304
	<u>28,394</u>	<u>19,065</u>

**19 Customer accounts**

	2005 £'000	2004 £'000
Repayable		
~ on demand	9,139	16,411
~ within three months	7,222	7,507
~ between three months and one year	1,589	778
~ between one and five years	2,675	~
	<u>20,625</u>	<u>24,696</u>

**20 Other liabilities**

	2005 £'000	2004 £'000
Current UK corporation tax	395	391
Other liabilities	329	1,465
	<u>724</u>	<u>1,856</u>

**21 Called-up share capital**

	2005 £'000	2004 £'000
Authorised:		
25,000 (2004 ~ 25,000) ordinary shares of £1 each	25,000	25,000
Called-up, allotted and fully paid:		
20,000 (2004 ~ 20,000) ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

## Notes to Financial Statements

### 22 Share premium

	2005 £'000	2004 £'000
At 31 December	<u>316</u>	<u>316</u>

### 23 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	901	118
Opening shareholders' funds	<u>25,437</u>	<u>25,319</u>
Closing shareholders' funds	<u>26,338</u>	<u>25,437</u>

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

	2005 £'000	2004 £'000
Operating profit	1,296	1,309
Interest received on investments	(4,298)	(4,204)
Increase in prepayments and accrued income	(131)	(277)
Increase in accruals and deferred income	746	656
Profit on sale of investments	(149)	(107)
Amortisation	64	120
Depreciation	90	83
Exchange adjustment	<u>(5,771)</u>	<u>3,085</u>
Net cash (outflow)/inflow from trading activities	(8,153)	665
Net increase in loans and advances	(20,788)	(16,767)
Net increase in deposits	35,683	185
Net increase/(decrease) in other assets and liabilities	<u>106</u>	<u>(64)</u>
Net cash inflow/(outflow) from operating activities	<u>6,848</u>	<u>(15,981)</u>

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

	2005 £'000	2004 £'000	Change in year £'000
Cash	185	147	38
Collections on other banks	1,042	1,249	(207)
Loans and advances to shareholder banks	3,738	11,262	(7,524)
Loans and advances to other banks	43,482	25,116	18,366
Deposits by shareholder banks	(14,858)	(29,763)	14,905
Deposits by other banks	(3,999)	(7,761)	3,762
	<u>29,590</u>	<u>250</u>	<u>29,340</u>

*26 Forward foreign exchange contracts and other off-balance sheet instruments*

The normal activities of the Bank expose it to a variety of risk, the most significant being market risk, liquidity risk and credit risk. Market risk is the potential adverse change in the Bank's net assets or income arising from movements in interest rates, foreign exchange rates or other market prices. Credit risk is the risk of financial loss as counterparties and borrowers are unable to meet their obligations as they fall due. Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due owing to insufficient financial resources.

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior staff in developing risk policy and in monitoring its application. Market, credit and liquidity risks are inherent in the Bank's core business. The evaluation of these risks and the setting of policies is carried out either through the Board, Credit Committee, Assets and Liabilities Committee, senior management or internal audit.

## Notes to Financial Statements

### 27 Forward contracts

	2005 £'000	2004 £'000
Exchange rate contracts:		
Contract or underlying principal amount		
~ for dealing purposes	22,177	15,420
~ for hedging purposes	<u>1,742</u>	<u>4,194</u>
Interest rate contracts:		
Contract or underlying principal amount		
~ for hedging purposes	<u>44,540</u>	<u>28,727</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:

	2005 £'000	2004 £'000
Assets	142,947	150,837
Liabilities	<u>142,654</u>	<u>134,500</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 2005. 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	~	~	~	~	~	1,227	1,227
Loans and advances to shareholder banks	7,719	604	918	2,248	1,601	~	13,090
Loans and advances to other banks	67,313	5,968	336	~	~	~	73,617
Loans and advances to customers	39,571	1,862	2,033	~	~	~	43,466
Debt securities and equity shares ~ strategic investments	21,648	15,936	10,896	~	~	~	48,480
Debt securities ~ strategic investments available for sale (trading book)	976	~	871	~	~	~	1,847
Asset swaps	14,740	8,729	~	~	~	~	23,469
Other assets	~	~	~	~	~	2,614	2,614
<b>Total assets</b>	<b>151,967</b>	<b>33,099</b>	<b>15,054</b>	<b>2,248</b>	<b>1,601</b>	<b>3,841</b>	<b>207,810</b>
<i>Liabilities</i>							
Deposits by shareholder banks	128,697	174	~	~	~	~	128,871
Deposits by other banks	28,394	~	~	~	~	~	28,394
Customer accounts	16,905	2,970	750	~	~	~	20,625
Other liabilities	~	~	~	~	~	3,582	3,582
Shareholder funds	~	~	~	~	~	26,338	26,338
<b>Total liabilities</b>	<b>173,996</b>	<b>3,144</b>	<b>750</b>	<b>~</b>	<b>~</b>	<b>29,920</b>	<b>207,810</b>
Interest rate sensitivity gap	(22,029)	29,955	14,304	2,248	1,601	(26,079)	~
Cumulative gap	(22,029)	7,926	22,230	24,478	26,079	~	~

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 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
<i>Assets</i>							
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	<u>129,321</u>	<u>39,910</u>	<u>14,071</u>	<u>1,567</u>	<u>1,059</u>	<u>4,351</u>	<u>190,279</u>

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	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	<u>156,990</u>	<u>3,364</u>	<u>520</u>	<u>~</u>	<u>~</u>	<u>29,405</u>	<u>190,279</u>
Interest rate sensitivity gap	(27,669)	36,546	13,551	1,567	1,059	(25,054)	~
Cumulative gap	<u>(27,669)</u>	<u>8,877</u>	<u>22,428</u>	<u>23,995</u>	<u>25,054</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 or losses on financial instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The unrecognised gains or losses are as follows:

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Expected to be recognised within one year	175	2,678
Expected to be recognised in greater than one year	<b>1,063</b>	~
	<b><u>1,238</u></b>	<u>2,678</u>

**31 Currency risk**

	Trading		Non-trading	
	Net currency position		Net currency position	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
<i>Currency of denomination</i>				
US Dollar	~	~	33	(481)
Canadian Dollar	~	~	30	2
Japanese Yen	~	~	(16)	5
Swiss Franc	~	~	~	(11)
Euro	~	~	2	18
Jordanian Dinar	~	~	7	499
Other currencies	~	~	~	3
Total	<u>~</u>	<u>~</u>	<b><u>56</u></b>	<u>35</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 2, 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 instruments

Set out below is a 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 2005

	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	~	~	130,173	130,173
Debt securities	1,847	1,845	71,949	72,488
<i>Liabilities</i>				
Deposits by banks and customers	~	~	177,890	177,890
<i>Off-balance sheet</i>				
Interest rate contracts ~ hedging	~	~	44,540	(931)
Exchange rate contracts ~ dealing	~	~	22,177	(11)
Exchange rate contracts ~ hedging	~	~	1,742	124

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
<i>Off-balance sheet</i>				
Interest rate contracts ~ hedging	~	~	28,727	(1,712)
Exchange rate contracts ~ dealing	~	~	15,420	5
Exchange rate contracts ~ hedging	~	~	4,194	(58)

### 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 2005 were £60,082 (2004: £51,831).

### 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	
	2005	2004
	£'000	£'000
Leases which expire after five years or more	<u>233</u>	<u>205</u>
	<u>233</u>	<u>205</u>