Jordan International Bank Plc

Report & Accounts
2007

Contents

Shareholders

Shareholders	Percentage
Government of the Hashemite Kingdom of Jordan	15.000%
The Housing Bank for Trade and Finance	22.100%
Jordan Ahli Bank	18.900%
Arab Jordan Investment Bank	16.900%
Bank of Jordan	7.825%
Jordan Kuwait Bank	7.450%
Jordan Commercial Bank	6.700%
Jordan Investment and Finance Bank	5.125%
	100.000%

Directors

H E Dr Umayya Toukan (Chairman)

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

H.E Dr Rajai Muasher
Khalil Nasr (Alternate)

H E Abdel Karim Kabariti
Mohamad Yaser Al-Asmar (Alternate)

H E Mohamad Jawad Hadid
Ayman Majali (Alternate)

Abdulkader Abdullah Al-Qadi
Hani Abdulkader Al-Qadi (Alternate)

David Gates

David Colvin

Executives & Professional Advisers

Acting 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
Assistant General Manager, Credit	Paul Van Dang
Secretary	James Story

Registered Office

103 Mount Street
London
W1K 2AP

Bankers

HSBC Bank Plc
London

Solicitors

Thomas Cooper
London

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Internet

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

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.

The Housing Bank For Trade and Finance	**2007 JD'M's**	2006 JD'M's
Total assets	**5,020**	**4,096**
Capital and reserves	**890**	835

The Housing Bank for Trade and Finance operates one of the largest branch networks in the country, with 108 branches, of which 97 in Jordan, 10 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.

Jordan Ahli Bank	**2007 JD'M's**	2006 JD'M's
Total assets	**1,976**	1,741
Capital and reserves	**197**	213

At the end of 2007 the Bank operated through 45 branches in Jordan, 6 in Palestine, 1 in Cyprus and 8 in Lebanon.

Bank of Jordan	**2007 JD'M's**	2006 JD'M's
Total assets	**1,455**	1,376
Capital and reserves	**161**	140

At the end of 2007 Bank of Jordan operated through an expanded branch network of 86 outlets, including 49 full branches in Jordan and 11 full branches in Palestine. The Bank is active in corporate finance, retail banking and treasury management.

Jordan Kuwait Bank (financial data available in US$'s)	**2007** **US$M's**	2006 US$M's
Total assets	**2,844**	2,327
Capital and reserves	**318**	276

At the end of 2007, Jordan Kuwait Bank operated a domestic network of 48 branches, 2 branches in Palestine and a branch in Cyprus. A commercial bank in nature, the Bank is also active in corporate finance, treasury, consumer lending and private banking and was one of the first banks in Jordan to launch internet banking.

Jordan Commercial Bank	**2007** **JD'M's**	2006 JD'M's
Total assets	**549**	513
Capital and reserves	**81**	76

At the end of 2007 Jordan Commercial Bank operated a network of 28 branches.

Arab Jordan Investment Bank	**2007** **JD'M's**	2006 JD'M's
Total assets	**637**	549
Capital and reserves	**118**	70

At the end of 2007 Arab Jordan Investment Bank operated through a domestic network of 9 branches.

Jordan Investment and Finance Bank	**2007** **JD'M's**	2006 JD'M's
Total assets	**699**	672
Capital and reserves	**79**	74

Founded in 1982 as a public shareholding company, Jordan Investment and Finance Bank (Investbank) is one of the leading banks in Jordan supported by a management with the extensive experience in commercial and investment banking services. The Bank offers a comprehensive range of financial products and services to its wide customer base, both locally and internationally. With its headquarters in Shmesani-Amman, the Bank has a broad experience and knowledge in the Jordan Capital Market being ranked among the top five brokerage firms (as of February 2005) at the Amman Stock Exchange (ASE). Furthermore the Bank has the expertise and resources to provide its clients with innovative international financial products.

I have to report that the Bank's financial performance for the past year ending 31st December 2007 did not meet expectations and resulted in a pre-tax loss of £515,000. During the year under review, the Bank experienced difficulties with three accounts where the collateral available fell short of the amounts due. The Board of Directors have decided to take a prudent view and make adequate provisions for these impaired accounts. The Bank will continue its efforts to recover the amounts of these provisions and trust that these endeavours will be as successful as they have been in years past. In view of the above mentioned disappointing financial result for the year 2007, the Board have decided not to pay a dividend to shareholders out of accumulated reserves.

The Bank's primary business focus continues to be the development of opportunities in the Middle East North Africa (MENA) region where the Bank, together with its shareholder banks, continues to make excellent progress. A significant portion of this activity is trade related, servicing corporate customers in both Europe and the MENA region as well as offering currency and investment facilities to high net worth customers.

During 2007, the shareholder Arab Jordan Investment Bank acquired, through private negotiation, the equity in the Bank of both Cairo Amman Bank and Arab Bank Corporation, Jordan to raise their investment in the Bank to a total of 16.9%, at which level they are entitled to a permanent seat on the Board of Directors. I would like to thank both Cairo Amman Bank and Arab Bank Corporation, Jordan for their past contribution to the success of the Bank and officially to welcome Arab Jordan Investment Bank as a permanent member of the Board of Directors.

With regard to the Capital Requirements Directive (CRD), the Bank has drafted Senior Management Arrangements Systems and Controls and is in the process of introducing these, together with associated policies and underlying processes. In particular, we are putting in place arrangements, built around a risk register, for identifying, assessing, managing and monitoring all categories of risk arising from current and planned business. The Bank has developed a capital model and a Capital Adequacy Assessment Process (ICAAP) under the authority of the Executive Committee (EXCO).

For 2007 reporting purposes, the Bank has adopted Financial Reporting Standard (FRS) 29 (IFRS 7) 'Financial Instruments: Disclosures'. The effect of this has been to expand the disclosures provided on the Bank's financial instruments and on the management of capital.

I would like to take this opportunity to thank all shareholders for their continued support to the Bank, customers and counterparties for their business and loyalty and all staff for their continued efforts.

Dr Umayya Toukan
Chairman

15 May 2008

The Directors are responsible for preparing the Annual Report including the Financial Statements. The Directors have chosen to prepare the Financial Statements for the Bank in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

United Kingdom Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view in accordance with UK GAAP 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 and comply with UK GAAP and the Companies Act 1985. 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 UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping 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 are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007.

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 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. Deposits are accepted in all major currencies. The Bank's Treasury department also executes orders on behalf of customers in precious metals.

Corporate and Institutional Banking services

European corporate clients are supported in respect of their business activities in the Middle East and North Africa (MENA) region. Services offered include Corporate Advisory Services, Correspondent Banking, Syndications, Project Finance and Islamic Banking.

Trade Finance services

Specialist trade services are provided to businesses exporting to, or importing from, the MENA region, including letters of credit advising, confirmation, negotiating and discounting, documentary collections and forfaiting.

Private Banking services

Personalised banking services are offered to high net worth clients both resident in the UK and overseas. Products offered include current, deposit and savings accounts, money transfer services, foreign exchange and precious metals dealing and property finance.

Business review summary ~ Results for 2007

Total revenues from ordinary activities for the year amounted to £4.885 million (2006: £4.819 million) and total operating expenses including administration expenses, depreciation and other operating charges amounted to £3.799 million (2006: £3.705 million) resulting in a profit before provisions and taxation of £1.167 million (2006: £1.184 million).

Following the release of recoveries against prior years specific provisions totalling £1.351 million (2006: nil) and having made new provisions during the year for recently impaired customers loans and portfolio investments of £3.033 million (2006: £0.914 million), the net loss for the year before taxation amounted to £0.515 million (net profit 2006: £0.270 million).

Net interest revenues for the year totalled £3.74 million (2006: £3.718 million) compared to a budgeted forecast of £4.11 million representing a shortfall of 9%. Net interest income was adversely affected by the reversal of interest from non-performing loans as well as a much reduced yield from a single investment in a structured investment vehicle against which the Bank has recently made provisions. Net interest income was affected by the adverse movement in interest rates.

Non-interest income (fees, commissions and trading profits) were also lower than expected due primarily to lower profitability from foreign exchange trading, securities sales and trade finance. During 2007 the Bank has witnessed a reduction in margins available on assets emanating from MENA region borrowers, particular those from the Gulf. The high price level of oil throughout the year has increased liquidity within the region resulting in many corporate and other borrowers refinancing their liabilities at lower spreads.

The continuing weakness of the US Dollar relative to UK Sterling (and the Euro) in the currency markets has also had a detrimental effect on the Bank's earning capability as a majority of the Bank's assets are denominated in US Dollars, and interest earned on these dollar assets had produced lower sterling equivalents. The Bank has also been adversely affected by the impact of the US sub-prime mortgage difficulties, which can be witnessed in the interbank deposit market where premiums are continuing to be paid for day to day financings.

Although the Bank has made what it considers to be adequate provisions for its impaired loans and advances, the collateral supporting these loans have yet to be realised in the open market. Whilst the Bank believes in the adequacy of the provisions set aside, uncertainty will persist until sales are finalised.

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

Results and dividends
The loss for the year after taxation amounted to £386,000 (2006 : profit £133,000).
The Directors recommend that no dividend be paid (2006 : £nil).

Disclosure of objectives, policies and strategies relating to derivatives and other financial instruments
The Bank invests in securities, comprising Floating Rate Notes (FRNs) and Fixed Rate Eurobonds, issued by sovereign, quasi-sovereign and major financial institutions. Interest rate and cross currency swaps are used, where appropriate, to eliminate interest rate risk and foreign exchange 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 have exposure, in the normal course of business, to any significant foreign exchange risk or interest rate risk. 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 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.

Details of the Bank's governance framework and the major risks faced by the Bank are found in note 27 to the Accounts.

Directors' Report (continued)

Directors and their interests

The Directors of the Bank are shown on page 1 and all served as directors or alternate directors throughout the year, except the following who were appointed on the dates shown:

Mr David Gates	1 September 2007
Mr Abdulkader Abdullah Al-Qadi	1 October 2007
Mr Hani Abdulkader Al-Qadi	1 October 2007

The following served during the year until retiring on the date shown:

Mr Khaled Sabih Masri	30 August 2007

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 2007, the Bank's trade creditors had been outstanding for an average of 25 days (2006: 36 days).

Charitable donations

During the year, the Bank made no charitable donations to UK registered charities and a £100 donation to a non-UK registered charity.

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.

Disclosure of information to auditors

Each of the persons who is a director at the date of the approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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
15 May 2008

We have audited the financial statements of Jordan International Bank Plc for the year ended 31 December 2007 which comprise the Profit & Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains & Losses 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

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report and Chairman's Statement is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Independent Auditors' Report (continued)

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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Bank's affairs as at 31 December 2007 and of its loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report and Chairman's Statement is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

15 May 2008

Profit & Loss Account for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Interest receivable			
Interest receivable and similar income arising from debt securities		**4,098**	3,942
Other interest receivable and similar income		**10,383**	9,116
Interest from impaired financial assets		**144**	~
		14,625	13,058
Interest payable		**(10,877)**	(9,340)
Net interest income		**3,748**	3,718
Fees and commissions earned on financial assets not held at fair value through profit and loss		**763**	666
Dealing profits	5	**112**	182
Other operating income		**12**	17
Gain on disposal of securities		**42**	22
Other financial assets revaluation	5	**(40)**	(368)
Derivatives revaluation	5	**248**	582
Total operating income		**4,885**	4,819
Administrative expenses	3	**(2,275)**	(2,208)
Depreciation	5, 14	**(100)**	(94)
Other operating charges		**(1,424)**	(1,403)
Impairment of loans and advances	10	**(1,682)**	(914)
Profit on sale of debt securities	5	**81**	70
Operating (loss)/profit and profit on ordinary activities before taxation	5	**(515)**	270
Tax on profit on ordinary activities	6	**129**	(137)
(Loss)/profit on ordinary activities after taxation and profit for the financial year		**(386)**	133
Retained (loss)/profit for the financial year		**(386)**	133

The accompanying notes are an integral part of this 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 2007

	Notes	2007 £'000	2006 £'000
Assets			
Cash		**223**	282
Collections on other banks		**2,067**	1,089
Loans and advances to shareholder banks	7	**6,022**	23,290
Loans and advances to other banks	8	**87,639**	100,307
Loans and advances to customers	9	**44,523**	49,207
Debt securities	12	**77,912**	60,920
Tangible fixed assets	14	**427**	449
Other assets	15	**217**	121
Deferred tax	6	**177**	120
Prepayments and accrued income		**1,091**	1,217
Total assets		**220,298**	237,002
Liabilities			
Deposits by shareholder banks	16	**129,389**	150,205
Deposits by other banks	17	**43,532**	28,624
Customer accounts	18	**19,662**	29,259
Other liabilities	19	**620**	817
Accruals and deferred income		**1,434**	2,050
		194,637	210,955
Called-up share capital	21	**20,000**	20,000
Share premium	22	**316**	316
Profit and loss account		**5,345**	5,731
Shareholders' funds ~ equity interests		**25,661**	26,047
Total liabilities		**220,298**	237,002

Balance Sheet at 31 December 2007 (continued)

	Notes	**2007 £'000**	2006 £'000
Memorandum items			
Contingent liabilities	34		
Acceptances		**705**	1,391
Guarantees and irrevocable letters of credit		**10,759**	13,090
		11,464	14,481

These financial statements were approved by the Board of Directors and authorised for issue on 15 May 2008.

Signed on behalf of the Board of Directors

Dr Umayya Toukan	
Dr Michel Marto	Directors
Mr Abdulkader Al-Qadi	

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

Statement of cash flows for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow from operating activities	23	**3,089**	2,915
Returns on investments and servicing of finance			
Interest received		**3,240**	4,086
Net cash inflow from returns on investments and servicing of finance		**3,240**	4,086
Taxation			
Corporation tax paid		**(47)**	(390)
Tax paid		**(47)**	(390)
Capital expenditure and financial investment			
Purchase of investments		**(80,307)**	(50,391)
Investments sold and matured		**63,788**	58,604
Purchase of tangible fixed assets	14	**(78)**	(105)
Net cash (outflow)/inflow from capital expenditure and financial investment		**(16,597)**	8,108
Equity dividend paid		**~**	~
(Decrease)/increase in cash	24	**(10,315)**	14,719

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

Statement of Total Recognised Gains & Losses

	Share Capital £'000	Share Premium £'000	Reserves £'000	Total £'000
Balance at 1 January 2007	**20,000**	**316**	**5,731**	**26,047**
Retained loss for 2007	~	~	(386)	(386)
Balance at 31 December 2007	**20,000**	**316**	**5,345**	**25,661**

1 *Accounting policies*

a) Accounting convention

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom, under the historical cost convention basis except for derivatives and financial assets designated at fair value through profit and loss. The policies have been consistently applied except as noted in b) below.

b) Change in accounting policy

The Bank is required to present its 2007 accounts in accordance with Financial Reporting Standards ('FRS') issued under UK GAAP, and has therefore, in the current period adopted FRS 29 (IFRS 7) 'Financial Instruments: Disclosures'. The effect of the adoption of FRS 29 has been to expand the disclosures provided in these financial statements regarding the Bank's financial instruments and management of capital.

c) Income recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities, other than those at fair value through profit and loss, are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition and early redemption fees. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets and financial liabilities held-for-trading or designated as at fair value through profit and loss are recorded at fair value. Changes in fair value are recognised in profit and loss together with dividends and interest receivable and payable.

d) Commissions and fees

Commissions and fees receivable which represent a return for services provided are credited to income when the related service is performed or where considered appropriate, taken to the profit and loss over the life of the facility.

e) 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.
The Bank's functional currency is sterling (note 29).

1 *Accounting policies (continued)*

f) Financial assets

Financial assets are classified as loans and receivables, held-to-maturity or designated as fair value through profit and loss.

Loans and receivables ~ non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment losses.

Held-to-maturity investments ~ financial instruments with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method.

Fair value through profit and loss

a) *Held-for-trading* ~ a financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the near term or forms part of portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking or it is a derivative. Held-for-trading financial assets are measured at fair value with gains and losses recognised in profit and loss as they arise.

b) *Fair value through profit and loss* ~ any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes accounted for in profit and loss.

Available for sale ~ those non-derivative financial assets that are not classified as loans and receivables, held to maturity, or not held for trading and are not designated as at fair value through profit and loss on initial recognition. Available for sale financial assets are measured at fair value with fair value gains or losses recognised directly in equity through the statement of total recognised gains and losses. Interest is calculated using the effective interest method and is recognised in profit and loss along with impairment losses.

On implementation of FRS 26, no financial assets were designated as available for sale.

g) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset classified as either held-to-maturity or as loans and receivables is impaired. A financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost ~ if there is objective evidence that an impairment loss on a financial asset classified as loans and receivables or as held-to-maturity investments has been incurred, the Bank measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant.

Impairment losses are recognised in profit and loss and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

1 Accounting policies (continued)

h) Financial liabilities
A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities are measured at amortised cost using the effective interest method (see income recognition note) or at fair value.

i) Derivatives and hedging
The Bank uses derivative financial instruments to hedge their exposures to foreign exchange risk and interest rate risk. The Bank does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are measured at fair value with gains and losses arising from changes in their fair value being recognised in profit and loss. Derivative fair values are determined using market data. Where there is no quoted price in an active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing and valuation models.

An embedded derivative in a host contract is accounted for as a stand-alone derivative if its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract and the embedded derivative meets the definition of a derivative in terms of FRS 26, unless the entire contract is carried at fair value through profit and loss.

j) Equity
Equity is represented by ordinary paid up share capital, share premium and retained reserves adjusted to reflect the revaluation to fair values of the Bank's financial assets and their associated derivatives.

k) 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.

1 *Accounting policies (continued)*

l) 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 the 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.

m) Pension costs

The Bank operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year (note 3). Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

n) Operating leases

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

o) Cash and cash equivalents

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

2. *Segmental information*

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

3 *Administrative expenses*

	2007	2006
	£'000	£'000
Staff costs including Directors:		
Salaries	**1,711**	1,672
Social security costs	**203**	193
Other pension costs (note 31)	**228**	219
	2,142	2,084
Other administrative expenses	**133**	124
	2,275	2,208

The average number of persons employed by the Bank in 2007 was 35 (2006 ~ 35), made up as follows:

	2007	2006
Retail banking	**6**	6
Corporate banking	**6**	6
Treasury and dealing activities	**7**	7
Other support staff	**16**	16
	35	35

4 *Directors' emoluments*

The aggregate amount of emoluments paid to Directors consisted of:

	2007 £'000	2006 £'000
Fees	**30**	30
Salaries	**73**	88
	103	118

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

5 *Loss on ordinary activities before taxation*

Profit is stated after charging:

	2007 £'000	2006 £'000
(i) Income:		
Profits from securities dealing ~ foreign exchange	**112**	182
Profits on disposal of debt securities	**81**	70
Net loss on financial assets and liabilities designated at fair value through profit and loss	**(40)**	(368)
Net gain on derivatives designated at fair value through profit and loss	**248**	582
(ii) Charges:		
Impairment	**1,682**	914
Depreciation on owned assets	**100**	94
Auditors' remuneration		
~ audit services	**87**	60
~ non-audit services	**16**	16
Rental on land and buildings	**233**	233

6 *Tax on profit on ordinary activities*

Based on profit for the year:

	2007 £'000	2006 £'000
United Kingdom corporation tax	**~**	(87)
Adjustments in respect of prior year periods	**72**	(4)
	72	(91)
Deferred tax ~ current year	**57**	(1)
Deferred tax ~ prior year adjustment	**~**	(45)
	129	(137)

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:

	2007 £'000	2006 £'000
(Loss)/profit on ordinary activities before tax	**(515)**	270
Tax on profit on ordinary activities at standard UK corporation tax of 30% (2006: 30%)	**155**	(81)
Effects of:		
Expenses not deductible for tax purposes	**(10)**	(14)
Depreciation in excess of capital allowances	**(3)**	~
Movement in short-term timing differences	**(57)**	~
Marginal relief	**(27)**	8
Prior-period adjustments	**71**	(4)
Current tax credit/(charge) for the period	**129**	(91)

A deferred tax asset has not been recognised in respect of timing differences relating to capital losses carried forward and other short term timing differences as there is insufficient evidence that the asset will recover, The amount of the asset not recognised is £31,000 (2006: £34,000). The asset would be recovered if suitable taxable profits are generated in future periods.

The movement on deferred taxation balance in the period is:

	£'000
Opening balance	**120**
Charge to profit and loss account	**57**
Closing balance	**177**
Analysis of deferred tax balance;	
Depreciation in excess of capital allowances	**(44)**
Short-term timing differences	**221**
Deferred tax assets recognised	**177**

7 *Loans and advances to shareholder banks*

	2007 £'000	2006 £'000
Repayable		
~ on demand	**2,616**	10,537
~ within three months	**1,001**	9,945
~ between three months and one year	**343**	351
~ between one and five years	**1,375**	1,404
~ more than five years	**687**	1,053
	6,022	23,290

8 *Loans and advances to other banks*

2007	**Non-performing loans £'000**	**Performing loans £'000**	**2007 Total £'000**
Repayable			
~ on demand	**~**	**38,890**	**38,890**
~ within three months	**~**	**21,038**	**21,038**
~ between three months and one year	**~**	**12,664**	**12,664**
~ between one and five years	**~**	**15,047**	**15,047**
	~	**87,639**	**87,639**
Impairment	**~**	**~**	**~**
	~	**87,639**	**87,639**

8 Loans and advances to other banks (continued)

2006	**Non-performing loans £'000**	**Performing loans £'000**	**2006 Total £'000**
Repayable			
~ on demand	~	52,050	52,050
~ within three months	~	26,170	26,170
~ between three months and one year	1,162	7,245	8,407
~ between one and five years	~	14,635	14,635
	1,162	100,100	101,262
Impairment (note 10)	(955)	~	(955)
	207	100,100	100,307

9 Loans and advances to customers

	2007 £'000	2006 £'000
Repayable		
~ on demand	**6,880**	9,393
~ within three months	**5,608**	6,125
~ between three months and one year	**7,852**	8,932
~ between one and five years	**23,700**	22,887
~ over five years	**2,494**	2,784
Impairment	**(2,011)**	(914)
	44,523	49,207

10 Impairment losses on loans and advances

	2007	2006		
	Total £'000	Specific £'000	General £'000	Total £'000
At 1 January	**1,869**	1,069	2	1,071
Reversal of general provision due to adoption of FRS 26	**~**	~	(2)	(2)
Charge to profit and loss	**1,682**	914	~	914
Less: recoveries/writeoffs	**(518)**	(114)	~	(114)
At 31 December	**3,033**	1,869	~	1,869

See accounting policy note 1(g) 'impairment of financial assets'. The year end balance of £3,033k comprises an impairment of £2,011k on loans and advances to customers and £1,022k on debt securities.

11 Concentrations of credit risk

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

	2007 £'000	2006 £'000
OECD	**109,110**	105,750
Jordan	**31,182**	59,132
Arab/Middle East	**60,058**	58,201
Asia	**~**	33
Other	**19,948**	13,886
	220,298	237,002

The following industry concentrations are considered significant:

	2007 £'000	2006 £'000
Government/Quasi-Government	**21,965**	25,480
Banks	**106,500**	118,074
Investment and Finance	**25,224**	24,203
Other	**66,609**	69,245
	220,298	237,002

12 Debt securities

2007	**Issued by public bodies**	**Issued by other issuers**	
	Govt securities £'000	**Other debt securities £'000**	**Totals £'000's**
Designated at fair value through profit and loss	**16,435**	**9,933**	**26,368**
Held to maturity	~	**51,544**	**51,544**
At 31 December 2007	**16,435**	**61,477**	**77,912**

2006	Issued by public bodies	Issued by other issuers	
	Govt securities £'000	Other debt securities £'000	Totals £'000's
Designated at fair value through profit and loss	17,470	7,217	24,687
Held to maturity	1,619	34,614	36,233
At 31 December 2006	19,089	41,831	60,920

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

	£'000
At 1 January 2007	**60,920**
Additions	**34,282**
Disposals	**(15,779)**
Exchange adjustment	**(156)**
Fair value adjustment reversed	**(207)**
Fair value adjustment	**(126)**
Impairment	**(1,022)**
At 31 December 2007	77,912

13 Trading book

	2007 £'000	2006 £'000
Net gain from trading in debt securities	**24**	14

This represents the gain on securities disposed of from the trading book and is included within gain on disposal of securities in operating profit/(loss) for the year.

14 Tangible fixed assets

	Furniture, fittings & office equipment £'000	Improvements to leasehold premises £'000	Total £'000
Cost			
At 1 January 2007	883	418	1,301
Additions	78	~	78
Disposals	(121)	~	(121)
At 31 December 2007	840	418	1,258
Depreciation			
At 1 January 2007	692	160	852
Charge for the year	71	29	100
Disposals	(121)	~	(121)
At 31 December 2007	642	189	831
Net book value			
At 31 December 2007	198	229	427
At 1 January 2007	191	258	449

15 Other assets

	2007 £'000	2006 £'000
Corporation tax recoverable	47	~
Derivatives at fair value (note 25)	8	2
Sundry loan receivables	162	119
	217	121

16 Deposits by shareholder banks

	2007 £'000	2006 £'000
Repayable		
~ on demand	7,646	18,208
~ within three months	111,663	123,797
~ between three months and one year	10,080	8,200
	129,389	150,205

17 Deposits by other banks

	2007 **£'000**	2006 £'000
Repayable		
~ on demand	**2,156**	1,441
~ within three months	**37,685**	27,183
~ between three months and one year	**3,691**	~
	43,532	28,624

18 Customer accounts

	2007 **£'000**	2006 £'000
Repayable		
~ on demand	**6,266**	8,551
~ within three months	**12,527**	16,356
~ between three months and one year	**869**	4,352
	19,662	29,259

19 Other liabilities

	2007 **£'000**	2006 £'000
Current UK corporation tax	**~**	72
Derivatives at fair value (note 25)	**397**	606
Other liabilities	**223**	139
	620	817

20 Summary of financial assets and liabilities

2007

	FVTPL £'000's	Held to maturity £'000's	Loans & Receivables at amortised cost £'000's	Financial assets /liabilities at amortised cost £'000's	Total £'000's
Financial assets					
Cash	~	~	~	223	223
Collection on banks	~	~	~	2,067	2,067
Loans and advances to Shareholder banks	2,406	~	3,616	~	6,022
Loans and advances to other banks	3,837	~	83,802	~	87,639
Loans and advances to customers	2,374	~	42,149	~	44,523
Debt securities	26,368	51,544	~	~	77,912
Other financial assets	~	~	~	821	821
	34,985	51,544	129,567	3,111	219,207
Financial liabilities					
Deposits from Shareholder banks	~	~	~	129,389	129,389
Deposits from other banks	~	~	~	43,532	43,532
Deposits from customers	~	~	~	19,662	19,662
Other financial liabilities	~	~	~	620	620
	~	~	~	193,203	193,203

2006

	FVTPL £'000's	Held to maturity £'000's	Loans & Receivables at amortised cost £'000's	Financial assets /liabilities at amortised cost £'000's	Total £'000's
Financial assets					
Cash	~	~	~	282	282
Collection on banks	~	~	~	1,089	1,089
Loans and advances to Shareholder banks	2,808	~	20,482	~	23,290
Loans and advances to other banks	9,624	~	90,683	~	100,307
Loans and advances to customers	11,102	~	38,105	~	49,207
Debt securities	24,687	36,233	~	~	60,920
Other financial assets	~	~	~	690	690
	48,221	36,233	149,270	2,061	235,785

20 Summary of financial assets and liabilities (continued)

2006	FVTPL £'000's	Held to maturity £'000's	Loans & Receivables at amortised cost £'000's	Financial assets /liabilities at amortised cost £'000's	Total £'000's
Financial liabilities					
Deposits from Shareholder banks	~	~	~	150,205	150,205
Deposits from other banks	~	~	~	28,624	28,624
Deposits from customers	~	~	~	29,259	29,259
Other financial liabilities	~	~	~	817	817
	~	~	~	208,905	208,905

Management consider that changes in fair value attributable to credit risk are not material.

21 Called-up share capital

	2007 £'000	2006 £'000
Authorised:		
25,000,000 (2006: 25,000,000) ordinary shares of £1 each	**25,000**	25,000
Called-up, allotted and fully paid:		
20,000,000 (2006: 20,000,000) ordinary shares of £1 each	**20,000**	20,000

22 Share premium

	2007 £'000	2006 £'000
At 31 December	**316**	316

23 *Reconciliation of operating loss to net cash flow from operating activities*

	2007 £'000	2006 £'000
Operating (loss)/profit	**(515)**	270
Interest received on investments	**(3,240)**	(4,086)
Increase in prepayments and accrued income	**(605)**	(415)
(Decrease)/increase in accruals and deferred income	**(423)**	181
Profit on sale of investments	**(123)**	(92)
Amortisation of (discounts)/premiums	**(166)**	9
Depreciation	**100**	94
Other financial asset revaluation	**40**	368
Derivative revaluation	**(248)**	(582)
Impairment (net)	**(330)**	~
Exchange adjustment	**414**	6,047
Net cash (outflow)/inflow from trading activities	**(5,096)**	1,794
Net decrease/(increase) in loans and advances	**13,915**	(27,065)
Net (decrease)/increase in deposits	**(6,059)**	28,418
Net increase/(decrease) in other assets and liabilities	**329**	(232)
Net cash inflow from operating activities	**3,089**	2,915

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

	2007 £'000	2006 £'000	Change in year £'000
Cash	**223**	282	(59)
Collections on other banks	**2,067**	1,089	978
Loans and advances to shareholder banks	**2,616**	10,537	(7,921)
Loans and advances to other banks	**38,890**	52,050	(13,160)
Deposits by shareholder banks	**(7,646)**	(18,208)	10,562
Deposits by other banks	**(2,156)**	(1,441)	(715)
	33,994	44,309	(10,315)

25 Derivatives at fair value

2007	**Notional amounts £'000**	**Fair value assets £'000**	**Fair value liabilities £'000**
Exchange rate contracts:			
Contract or underlying principal amount			
~ for dealing purposes	**15,745**	**8**	**~**
~ for hedging purposes	**1,496**	**~**	**~**
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	**30,913**	**~**	**397**

2006	Notional amounts £'000	Fair value assets £'000	Fair value liabilities £'000
Exchange rate contracts:			
Contract or underlying principal amount			
~ for dealing purposes	35,503	2	~
~ for hedging purposes	1,328	~	~
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	46,720	~	606

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

26 Assets and liabilities in foreign currencies

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

	2007 £'000	2006 £'000
Assets	**170,917**	184,229
Liabilities	**170,955**	184,360

The above assets and liabilities denominated in foreign currencies do not indicate the Bank's exposure to foreign exchange risk.

27 *Risk management*

i) Governance Framework

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior staff in developing risk policies and in monitoring their 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 as appropriate through the Board, Executive Committee, Credit Committee, Assets and Liabilities Committee, senior management or internal audit.

The Board sets the overall risk appetite for the Bank. Various committees support these goals as follows:

Audit Committee is a non-executive committee that supports the Board in carrying out its responsibilities for financial reporting and in respect of internal audit and risk assessment. The Committee monitors the ongoing process of the identification, evaluation and management of all significant risks throughout the Bank. The Committee is supported by Internal Audit which provides an independent assessment of the adequacy and effectiveness of the Bank's internal controls. Internal audit has direct access to the Chairman of all committees.

The *Executive Committee* exercises operational authority and oversight for the Bank. It is responsible for implementing a risk management framework consistent with the Board's risk appetite. The Executive Committee, in turn, is supported by the following committees:

London Credit Committee is a credit approval committee which reviews all credit applications received by the Bank's credit department together with accompanying business proposals from departmental heads. Those applications outside of its delegated credit authority are recommended to the Bank's Executive Committee, who, in turn either approve or recommend these applications to the Board of Directors for final approval.

Asset and Liability Committee is an executive committee with no delegated authority, responsible for reviewing the Bank's balance sheet, funding, liquidity, structural foreign exchange, interest rate risk in the banking book, new products, regulatory limits including capital adequacy.

ii) Types of derivatives and their uses

Currency derivatives
The Bank uses foreign exchange swaps and cross currency swaps to eliminate currency risk on long or short currency requirements. In order to reflect the true economic impact to the Bank of the hedge, internal swaps are entered into in addition to the relevant swap with the counterparty. These derivatives are revalued daily and any change in their fair value is recognised immediately in profit and loss.

The Bank enters into foreign exchange forward contracts to cover customer's positions. Interest rate swaps are used to eliminate interest rate risk on the Bank's fixed rate exposures.

The total notional amount of outstanding exchange rate contracts to which the Bank is committed is disclosed in note 25.

Interest rate swaps
The Bank uses interest rate swaps to hedge the potential exposure to adverse interest rate movements on the funding of a bond or other fixed rate asset, by converting all the fixed rate receipts to floating rate.

The fair value of swaps entered into at 31 December 2007 is estimated at £379,453 on the contracts worth £34,019,066 (2006: £45,826,000). These amounts are based on market prices at the balance sheet date.

27 Risk management (continued)

iii) Risk management

The principal risks that the Bank manages are as follows:

Credit risk: is the risk arising from the possibility that the Bank will incur losses from the failure of customers to meet their obligations.

Liquidity risk: is the risk that the Bank is unable to meet its obligations as they fall due.

Market risk: the Bank is exposed to market risk because of its positions held in its banking and trading books, off and on-balance sheet.

~ *Interest rate risk:* is the possibility of a reduction in the value of an asset arising from a change in interest rates.

~ *Foreign Exchange risk:* is the risk that the value of the Bank's investments changing due to changes in currency exchange rates.

~ *Other price risk:* is the risk that the value of a Bank's investment or its investment portfolio will decline in the future due to risks outside those listed above.

Operational risk: is defined as the risks associated and arising from the Bank's people, processes, systems and assets.

Regulatory risk: is the risk arising from failing to meet the requirements and expectations of the Bank's regulators, or from a failure to address or implement any change in these requirements or expectations.

Credit risk

Key principles of credit risk management

~ Approval of all credit exposures must be granted prior to any advance or extension of credit.

~ An appropriate credit risk assessment of the customer and related credit facilities must be undertaken prior to approval of the credit exposure. This must include a review of, amongst other things, the purpose of the credit and sources of repayment, affordability, repayment history, ability to repay and sensitivity to economic and market developments.

~ The Board delegates credit authority to the Executive Committee and London Credit Committee.

~ All credit exposures, once approved, must be effectively monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment which may include the placement onto the Bank's credit watchlist.

~ Activities undertaken by the Bank that give rise to credit risk include granting loans to customers, placing deposits with other entities, providing financial guarantees and entering into derivative contracts (foreign exchange and interest rate).

27 *Risk management (continued)*

The maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements is represented as follows:

	2007 £000's	2006 £000's
On-balance sheet		
Loans and advances to shareholder banks	**6,022**	23,290
Loans and advances to other banks	**87,639**	100,307
Loans and advances to customers	**44,523**	49,207
Debt securities	**77,912**	60,920
Off-balance sheet		
Letters of Guarantee	**4,532**	2,863

To mitigate credit risk the Bank takes, as security, charges over land, real estate (freehold or leasehold) and investment securities. Other forms of security include bank or personal guarantees and assignment of benefits under documentary letter of credits.

Distribution of loans and advances by credit quality

	At 31 December 2007		At 31 December 2006	
	Loans and advances to customers £'000's	**Loans and advances to banks £'000's**	Loans and advances to customers £'000's	Loans and advances to banks £'000's
~ neither past due nor impaired	**33,396**	**93,661**	40,823	123,957
~ past due but not impaired loans and receivables at amortised cost;				
Less than 3 months	**949**	**~**	2,731	~
3 to 12 months	**418**	**~**	~	~
1 to 5 years	**5,414**	**~**	5,653	~
~ impaired	**6,356**	**~**	914	955
Less: provisions	**(2,010)**	**~**	(914)	(955)
	44,523	**93,661**	49,207	123,597

Past due but not impaired
These loans are secured by a combination of first charges held over residential and commercial property (maximum loan to value 70%), cash margins and personal and bank guarantees.

27 Risk management (continued)

Impaired assets
Provisions were approved by the Board of Directors against several corporate loans. Doubt was expressed over the recoverability of these loans on the basis of the non-receipt of monies due from these customers. It was also agreed that valuations on part of the Bank's security, namely first charges over land, were insufficient to retire the outstanding loans. Other security taken against these loans included personal and corporate guarantees. The value of the Bank's security at 31st December 2007 totalled Euro 5.86 million.

The credit quality of loans and advances that are neither past due nor impaired.

	At 31 December 2007		At 31 December 2006	
	Loans and advances to customers £'000's	**Loans and advances to banks £'000's**	Loans and advances to customers £'000's	Loans and advances to banks £'000's
Investment grade	**~**	**48,651**	~	74,827
Non-investment grade	**~**	**5,220**	~	8,567
Unrated	**33,396**	**39,790**	40,823	40,203
	33,396	**93,661**	40,823	123,597

The credit quality of debt securities that are neither past due nor impaired.

Debt securities by rating agency designation

	At 31 December 2007		At 31 December 2006	
(Fitch ratings)	**Govt securities £'000's**	**Other debt securities £'000's**	Govt securities £'000's	Other debt securities £'000's
AAA ~ AA+	**~**	**4,499**	~	~
AA– ~ A+	**2,401**	**14,726**	2,479	1,621
Lower than A	**4,059**	**17,383**	3,726	15,713
Unrated	**9,975**	**23,396**	12,884	24,497
	16,435	**60,004**	19,089	41,831
Impaired (see note 36)	**~**	**1,473**	~	~
	16,435	**61,477**	19,089	41,831

27 Risk management (continued)

Liquidity risk

Liquidity risk management within the Bank focuses on both the overall balance sheet structure and the day-to-day control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by the Board of Directors. Adherence to these parameters is monitored on a monthly basis by ALCO and subsequently by the Executive Committee. Compliance, in respect of internal policy, is monitored and co-ordinated daily under the control of the Chief Treasurer, with the regulatory requirements of the Financial Services Authority being co-ordinated by the Senior Manager, Financial Reporting.

Funding sources

Shareholder bank deposits and other bank deposits continue to represent the core of the Bank's funding, these short termed funds however decreased by 3% during 2007 to £172 million. Funding from customer accounts decreased by 31% during 2007 to £20 million.

Stress testing

As part of its stress testing of its access to sufficient liquidity, the Bank regularly evaluates the potential impact from a variety of scenarios. Contingency funding plans have been established in the event of a 'liquidity crisis' and management remain confident of the Bank's ability to manage its liquidity requirements effectively in all such circumstances.

Daily risk management

The Bank's day to day risk management activity is to ensure access to sufficient liquidity to meet its cash flow obligations within key time horizons out to one month ahead. The mainly short-term maturity structure of the Bank's liabilities is managed on a daily basis to ensure that all material cashflow obligations and potential cashflows arising from undrawn commitments and other contingent obligations, can be met as they arise from day to day, either from cashflows, from maturing assets, new borrowing or the sale of various debt securities held (after allowing for appropriate haircuts).

27 Risk management (continued)

Cash flows payable by Jordan International Bank under financial liabilities by remaining contractual maturities.

The table below summarises the Bank's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Bank is entitled and intends to repay the liability before its maturity.

	On demand £'000's	**Due within 3 months £'000's**	**Due between 3 and 12 months £'000's**	**Due between 1 and 5 years £'000's**	**Due after 5 years £'000's**	**Total £'000's**
At 31 December 2007						
Deposits by shareholder's	**8,822**	**108,334**	**14,048**	**~**	**~**	**131,204**
Deposits by other banks	**1,007**	**37,782**	**3,764**	**~**	**~**	**42,553**
Customer accounts	**6,291**	**12,348**	**1,126**	**~**	**~**	**19,765**
Other financial liabilities	**~**	**~**	**~**	**~**	**~**	**~**
	16,120	**158,464**	**18,938**	**~**	**~**	**193,522**

	On demand £'000's	Due within 3 months £'000's	Due between 3 and 12 months £'000's	Due between 1 and 5 years £'000's	Due after 5 years £'000's	Total £'000's
At 31 December 2006						
Deposits by shareholder's	18,382	124,214	8,373	~	~	150,969
Deposits by other banks	1,409	27,281	~	~	~	28,690
Customer accounts	8,585	15,657	5,174	~	~	29,416
Other financial liabilities	~	~	~	~	~	~
	28,376	167,152	13,547	~	~	209,075

The balances in the above table will not agree directly to the balances in the balance sheet as the table incorporates all cash flows on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

27 Risk management (continued)

Assets available to meet these liabilities, and to cover outstanding commitments include, (in £'000's), cash, collections on other banks (2007 £2,290: 2006 £1,371): loans and advances to shareholder banks (2007 £6,022: 2006 £23,290) including £3,960 (2006 £20,833) repayable within one year: loans and advances to other banks (2007 £87,639: 2006 £100,307) including £72,592 (2006 £86,627) repayable within one year. In addition Jordan International Bank held debt securities marketable at a value of £77,912 (2006 £60,920). None of these assets were pledged to secure liabilities.

Undrawn commitments at 31 December 2007(in £'000's) stood at £7,768 (2006 £4,841).

Jordan International Bank would meet unexpected net cash outflows by primarily seeking additional funding from its shareholder funds, interbank market or disposing of debt securities or other liquid instruments.

Market risk

The Bank is exposed to market risk because of its banking and trading book positions. Market risk comprises three types of risk: currency, interest and other price risk.

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios. The management of market risk is principally undertaken by the Asset and Liability Committee (ALCO) using risk limits approved by the Executive Committee (EXCO) or the Board of Directors.

Sensitivity analysis of market risk

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

At 31 December 2007

US Dollars

			% change in US$/£ exchange rate			
			-10%	-20%	+10%	+20%
	US$000's	£000's	£000's	£000's	£000's	£000's
Total assets	260,122	129,737	117,942	108,114	144,152	162,171
Total liabilities	(279,058)	(139,181)	(126,528)	(115,984)	(154,646)	(173,976)
Forward contracts	18,897	9,425	8,568	7,854	10,472	11,781
Net	(39)	(19)	(18)	(16)	(22)	(24)
Movement			1	3	(3)	(5)

Euros

			% change in Euro/£ exchange rate			
			-10%	-20%	+10%	+20%
	Euro000's	£000's	£000's	£000's	£000's	£000's
Total assets	43,554	31,965	29,059	26,637	35,517	39,956
Total liabilities	(37,688)	(27,660)	(25,145)	(23,050)	(30,733)	(34,575)
Forward contracts	(5,697)	(4,181)	(3,801)	(3,484)	(4,646)	(5,226)
Net	169	124	113	103	138	155
Movement			(11)	(21)	14	31

27 Risk management (continued)

At 31 December 2006

US Dollars

			% change in US$/£ exchange rate			
			-10%	-20%	+10%	+20%
	US$000's	£000's	£000's	£000's	£000's	£000's
Total assets	288,388	146,897	133,543	122,414	163,219	183,621
Total liabilities	(320,987)	(163,502)	(148,638)	(136,252)	(181,669)	(204,377)
Forward contracts	32,660	16,636	15,124	13,863	18,485	20,795
Net	61	31	29	25	35	39
Movement			(2)	(6)	4	8

Euros

			% change in Euro/£ exchange rate			
			-10%	-20%	+10%	+20%
	Euro000's	£000's	£000's	£000's	£000's	£000's
Total assets	37,680	28,593	25,994	23,828	31,770	35,741
Total liabilities	(21,053)	(15,976)	(14,524)	(13,313)	(17,751)	(19,970)
Forward contracts	(16,565)	(12,570)	(11,427)	(10,475)	(13,967)	(15,713)
Net	62	47	43	40	52	58
Movement			(4)	(7)	5	11

Interest rate risk
Interest rate risk arises primarily from the Bank's non-trading portfolio and in particular its treasury activities and private, corporate and institutional banking businesses.

Treasury
The Bank's treasury activities include its money market business and the management of internal funds flow within the Bank's businesses.

Private, Corporate & Institutional banking
Structural interest rate risk arises in these activities where assets and liabilities have different repricing dates. It is the Bank's policy to minimise the sensitivity of net interest income to changes in interest rates. A maturity gap report is produced as at month-end for all the major currencies to which the Bank is exposed to.

Sensitivity of projected net interest income
The tables opposite set out the impact on future net interest income and economic values of assets of a 200 basis points upwards movement in yield curves at the reporting date in Sterling and US Dollars. A corresponding downwards movement would incur identical opposite results. Other currencies have been excluded from the table on the basis of non-materiality. The gaps shown represent the net of floating rate assets and liabilities up to 12 months.

27 Risk management (continued)

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

Pounds Sterling

	2007		2006	
	gap £M's	**£000's**	gap £M's	£000's
up to 15 days	**(0.58)**	**(11)**	10.37	203
15 days to 1 month	**(1.83)**	**(34)**	5.79	108
1-2 months	**4.51**	**78**	6.26	110
2-3 months	**2.58**	**40**	5.74	91
3-4 months	**(0.02)**	**~**	(1.53)	(22)
4-5 months	**(0.03)**	**~**	(0.03)	~
5-6 months	**~**	**~**	~	~
6-9 months	**~**	**~**	~	~
9-12 months	**1.94**	**5**	(0.73)	(2)
Total	**6.57**	**78**	25.87	488

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

US Dollars

	2007		2006	
	gap £M's	**£000's**	gap £M's	£000's
up to 15 days	**(0.48)**	**(9)**	82.06	1,607
15 days to 1 month	**(41.35)**	**(775)**	(133.37)	(2,501)
1-2 months	**20.32**	**356**	28.33	496
2-3 months	**6.80**	**108**	3.63	57
3-4 months	**(11.46)**	**(162)**	(5.35)	(76)
4-5 months	**11.69**	**146**	22.89	286
5-6 months	**20.00**	**217**	5.18	56
6-9 months	**(1.02)**	**(8)**	~	~
9-12 months	**0.52**	**1**	3.55	9
Total	**5.02**	**(126)**	6.92	(66)

Assuming no management actions, such an increase in the yield curve would result in a decrease in planned net interest income for 2007 in the currencies stated by £48,000 (2006 increase £422,000). These figures incorporate the impact of all financial derivatives attached to the underlying exposures.

27 Risk management (continued)

Operational risk
Operational risk is defined as the risk arising in an organisation from:
~ People ~ risks arising from inappropriate level of staff, inadequately skilled or managed.
~ Process ~ risk caused by inadequate of failed processes.
~ Systems ~ risks of inadequately designed or maintained systems.
~ Assets ~ risk of damage, misappropriation or theft of the Bank's assets.

This risk is mitigated through work performed via internal audit.

Regulatory risk
Regulatory risk is the risk arising from the failing to meet the requirements of our regulators. To mitigate this risk the Bank remains vigilant in keeping abreast of all regulatory developments affecting risk including capital, large exposures and liquidity management.

Capital management and allocation
Basel II
The Basel Committee on Banking Supervision has published a new framework for calculating minimum capital requirements. Known as 'Basel II' it replaces the 1988 Basel Capital Accord. Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

With respect to Pillar 1 minimum capital requirements, Basel II provides three approaches, of increasing sophistication, to the calculation of credit risk regulatory capital. The most basic, the standardised approach and the one that will be used by Jordan International Bank, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories. The other more advanced approaches are the internal ratings-based foundation approach and the internal ratings-based advanced approach.

Basel II also introduces capital requirements for operational risk and contains three levels of sophistication, of which Jordan International Bank will be adopting the simplest approach, the basic indicator approach (BIA). The capital required under the basic indicator approach will be a simple percentage of gross revenues.

The EU Capital Requirements Directive (CRD) recast the Banking Consolidation Directive and the Capital Adequacy Directive and will be the means by which Basel II will be implemented in the EU. In 2006, the FSA published the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'), which took effect from 1 January 2007 and implement the CRD in the EU. GENPRU introduced changes to the definition of capital and the methodology for calculating capital ratios.

BIPRU introduced the Basel II requirements for the calculation of capital requirements as well as changes to the consolidation regime, the trading book definition and various ancillary provisions. Transitional provisions have allowed firms to continue using existing capital requirement calculations until 1 January 2008.

27 ***Risk management (continued)***

Capital management
It is Jordan International Bank's policy to maintain a strong capital base to support the development of its business and to meet regulatory requirements at all times. The principal forms of capital are included in the following balances on the Bank's balance sheet: called-up share capital, share premium and retained earnings.

The Executive Committee (EXCO) is at the centre of our Internal Capital Adequacy Assessment Process (ICAAP). It receives from the Financial Reporting department calculations of the Bank's minimum capital requirements as defined under Pillar 1.

The Executive Committee then assesses the capital required over and above the Pillar 1 requirement to withstand all risks (Pillar 2 adjustment). In addition to risks identified by itself, the Committee considers risks submitted via other Board Committees e.g. the Credit Committee, the Asset and Liability Committee, or submitted to it directly. These risks will be lodged in the Bank's risk register which is maintained by the Company Secretary.

In arriving at the Pillar 2 assessment, the Committee will consider current and expected market conditions, the control environment and the risk appetite of the Bank.

Capital allocation and risk assessment will be carried out by the Committee once a quarter or more frequently if required by market conditions or other factors. The total capital required to withstand risks arising from current and planned business would then be subjected to stress testing and scenario analysis. Management consider the challenge to the Bank's ICAAP, both internally and externally, fundamental to the capital allocation process.

Capital measurement and allocation
The FSA supervises Jordan International Bank on a solo consolidated basis and as such receives information on the capital adequacy of the Bank. In implementing the EU's Banking Consolidation Directive, the FSA requires each bank to maintain an individually prescribed ratio of total capital to risk weighted assets taking into account both balance sheet assets and off-balance sheet transactions. Changes to the definition of capital came into force on 1 January 2007.

27 Risk management (continued)

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined accordingly. Banking book risk-weighted assets are measured by a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. Banking book off-balance sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible collateral or guarantees.

Source and application of tier 1 capital	**2007 £'000's**	2006 £'000's
Movement in tier 1 capital		
At 1 January	**26,342**	25,441
Losses/(profits)	**(292)**	901
At 31 December	**26,050**	26,342
Movement in risk-weighted assets		
At 1 January	**137,944**	130,056
Movement	**(2,389)**	7,888
At 31 December	**135,555**	137,944

Composition of regulatory capital	**2007 £'000's**	2006 £'000's
Tier 1 capital	**26,050**	26,340
Tier 2	**~**	2
Total regulatory capital	**26,050**	26,342

	2007 £'000's	2006 £'000's
Risk-weighted assets		
Banking Book	**135,555**	137,944
Trading Book	**~**	~
Total	**135,555**	137,944
Of which; Contingent liabilities	**7,580**	10,470

Capital Ratios	**%**	%
Tier 1 capital and total capital	**19.22**	19.10

Total risk-weighted assets decreased by £2,389,000 during 2007. The decrease reflects a decline in the Bank's loan book.

28 *Financial instruments*

Interest rate gap and sensitivity analysis

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 2007. Assets and liabilities are included at the earliest date at which the applicable interest rate can change. This analysis for 2007 reflects the Effective Interest Rate (E.I.R.) for each class of interest earning asset and liability.

	< 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	> 5 years £'000	Non-interest £'000	Total £'000	E.I.R. %
Assets								
Cash	~	~	~	~	~	**2,290**	**2,290**	~
Loans and advances to shareholder banks	**3,617**	**172**	**172**	**1,374**	**687**	~	**6,022**	**5.53**
Loans and advances to other banks	**78,064**	**7,487**	**2,088**	~	~	~	**87,639**	**5.41**
Loans and advances to customers	**42,754**	**1,628**	**141**	~	~	~	**44,523**	**7.53**
Debt securities and equity shares ~ strategic investments	**25,664**	**7,722**	**27,949**	~	~	~	**61,335**	**5.81**
Asset swaps	**10,621**	**5,956**	~	~	~	~	**16,577**	**7.01**
Other assets	~	~	~	~	~	**1,912**	**1,912**	~
Total assets	**160,720**	**22,965**	**30,350**	**1,374**	**687**	**4,202**	**220,298**	~
Liabilities								
Deposits by shareholder banks	115,363	14,026	~	~	~	~	129,389	5.10
Deposits by other banks	39,841	3,691	~	~	~	~	43,532	5.06
Customer accounts	18,919	183	560	~	~	~	19,662	4.04
Other liabilities	~	~	~	~	~	2,054	2,054	~
Shareholder funds	~	~	~	~	~	25,661	25,661	~
Total liabilities	174,123	17,900	560	~	~	27,715	220,298	
Interest rate sensitivity gap	(13,403)	5,065	29,790	1,374	687	(23,513)	~	
Cumulative gap	(13,403)	(8,338)	21,452	22,826	23,513	~	~	~

28 Financial instruments (continued)

The tables below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2006. 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	~	~	~	~	~	1,371	1,371
Loans and advances to shareholder banks	20,483	175	175	1,404	1,053	~	23,290
Loans and advances to other banks	86,838	10,152	2,848	469	~	~	100,307
Loans and advances to customers	48,756	451	~	~	~	~	49,207
Debt securities and equity shares ~ strategic investments	22,440	14,419	5,686	~	~	~	42,545
Asset swaps	9,558	8,817	~	~	~	~	18,375
Other assets	~	~	~	~	~	1,907	1,907
Total assets	188,075	34,014	8,709	1,873	1,053	3,278	237,002
Liabilities							
Deposits by shareholder banks	142,005	8,200	~	~	~	~	150,205
Deposits by other banks	28,624	~	~	~	~	~	28,624
Customer accounts	25,679	2,844	736	~	~	~	29,259
Other liabilities	~	~	~	~	~	2,867	2,867
Shareholder funds	~	~	~	~	~	26,047	26,047
Total liabilities	196,308	11,044	736	~	~	28,914	237,002
Interest rate sensitivity gap	(8,233)	22,970	7,973	1,873	1,053	(25,636)	~
Cumulative gap	(8,233)	14,737	22,710	24,583	25,636	~	~

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.

29 *Currency risk*

	Non-trading Net currency position	
	2007 £'000	2006 £'000
Currency of denomination		
US Dollar	**(19)**	31
Canadian Dollars	**(15)**	(12)
Japanese Yen	**2**	1
Euro	**124**	47
Jordanian Dinar	**3**	3
Other currencies	**(4)**	2
Total	**91**	72

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

The currency risk above relates to non-trading book position. 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. (2006: nil). 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 7, the majority of currency deposits are converted into US Dollars.

30 Fair values of financial instruments

Set out below is a year-end comparison of current fair values and book values of the Bank's financial instruments by category.

At 31 December 2007	**Non-trading book**	
	Book value £'000	**Fair value £'000**
Assets		
Loans and advances designated at fair value through profit and loss	8,617	8,617
Other loans and receivables at amortised cost	129,567	129,567
Debt securities designated at fair value through profit and loss	26,368	24,696
Debt securities held to maturity	51,544	53,315
Liabilities		
Deposits by banks and customers at amortised cost	192,583	191,193

At 31 December 2006	Non-trading book	
	Book value £'000	Fair value £'000
Assets		
Loans and advances designated at fair value through profit and loss	23,534	23,534
Other loans and receivables at amortised cost	129,567	129,567
Debt securities designated at fair value through profit and loss	24,687	24,687
Debt securities held to maturity	36,233	36,233
Liabilities		
Deposits by banks and customers at amortised cost	208,088	208,088

30 Fair values of financial instruments (continued)

Fair values of financial assets and financial liabilities are determined as follows;

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Non-derivative financial assets and liabilities with standard terms and conditions and traded on an active market are determined with reference to quoted market prices. Financial assets in this category include shares, listed redeemable notes, bills of exchange and debentures. Financial liabilities include bills of exchange and perpetual notes.

Financial guarantee contracts are measured using option pricing models where the main assumptions are the probability of default by the specified debtor extrapolated from market-based credit information and the amount of the loss, given the default.

Other non-derivative financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The comparison on the trading book is considered to be insignificant (2006: nil).

31 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.

32 Transactions with managers

The aggregate amounts outstanding from persons of managerial grade or above at 31 December 2007 were £76,806 (2006: £63,001)

33 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	
	2007	2006
	£'000	£'000
Leases which expire after five years or more	**233**	233
	233	233

34 Contingent liabilities

The Bank has contingent liabilities arising from opened and confirmed letters of credit, guarantees issued and acceptances.

35 Related party transactions

Other than for the transactions with the shareholder banks included in note 7 and 16 there had been no related parties' transactions during 2007. Emoluments paid to Directors of the Bank during 2007 totalled £103,000 (2006: £118,000) (note 4).

36 Post balance sheet events

Following an impairment review the Directors agreed that a provision of 41% (US$2,050,000) be made against the the Bank's exposure to 'Links Finance Corporation'. This has been incorporated in the financial statements as at 31 December 2007. In February 2008, the Fund's manager agreed to provide liquidity to the Fund to the extent that further disposals of fund assets would not be required. In light of this the Directors agreed that a more realistic provision would be 15% (US$ 750,000). This will result in a write back in provisions to Profit & Loss in 2008.

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