Jordan International Bank Plc

Report & Accounts
2008

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
H E Marwan Awad (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

Secretary

James Story

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, Correspondent and Private Banking	George A Shihata
Assistant General Manager, Corporate and Institutional Banking	Stephen Gulson
Assistant General Manager, Credit	Paul Van Dang

Registered Office

103 Mount Street
London
W1K 2AP

Bankers

HSBC Bank Plc
London

Solicitors

Thomas Cooper
London

Auditors

Deloitte LLP
Chartered Accountants and Registered Auditors
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	**2008 JD'M's**	2007 JD'M's
Total assets	**5,431**	5,020
Capital and reserves	**911**	890

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 1 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	**2008 JD'M's**	2007 JD'M's
Total assets	**2,106**	1,976
Capital and reserves	**203**	197

At the end of 2008 the Bank operated through 45 branches in Jordan, 6 in Palestine, 1 in Cyprus and 8 in Lebanon.

Bank of Jordan	**2008 JD'M's**	2007 JD'M's
Total assets	**1,686**	1,455
Capital and reserves	**180**	161

At the end of 2008 Bank of Jordan operated through an expanded branch network of 87 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$'s)	**2008 US$M's**	2007 US$M's
Total assets	**2,909**	2,844
Capital and reserves	**353**	318

At the end of 2008, Jordan Kuwait Bank operated a domestic network of 47 branches, 2 branches in Palestine and 1 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	**2008 JD'M's**	2007 JD'M's
Total assets	**628**	549
Capital and reserves	**88**	81

At the end of 2008 Jordan Commercial Bank operated a network of 30 branches.

Arab Jordan Investment Bank	**2008 JD'M's**	2007 JD'M's
Total assets	**697**	637
Capital and reserves	**124**	118

At the end of 2008 Arab Jordan Investment Bank operated through a domestic network of 10 branches.

Jordan Investment and Finance Bank	**2008 JD'M's**	2007 JD'M's
Total assets	**683**	699
Capital and reserves	**86**	79

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 am able to report that the Bank's financial performance from its on-going activities for the year ending 31 December 2008 resulted in an operating profit, before impairments and fair value accounting, of £1.348 million. In light of the recent crisis in the global financial markets and the difficult environment that banks now operate in, this was a satisfactory performance.

During 2008 the Bank witnessed growth in both its interest and non-interest earning activities. Overall earnings from off-balance sheet earnings exceeded budget expectations. However, the Bank's performance was overshadowed by two factors. Firstly, in accordance with Financial Reporting Standards issued under UK GAAP, the Bank was required to reflect fair value changes in its financial assets and derivatives designated as 'fair value through profit and loss'. Due to the deterioration in the credit markets and the dramatic fall in interest rates the Bank was required to record a decline in these values of £5.486 million through the Bank's profit and loss account.

Secondly, further impairment charges were required to cover potential losses in the debt securities portfolio. These impairment charges relating to the Bank's investments in Lehman Brothers senior debt, as well as Sigma Finance and Links Finance, two structured investment vehicles (SIV's) in aggregate totalled £6.365 million. With recoveries from prior years amounting to £1.616 million, a net impairment charge of £4.749 million was reflected in the Bank's 2008 results. As a result of this, the Bank posted a net loss for the year, before tax, of £8.887 million.

In view of the difficult conditions prevailing in the interbank money markets throughout 2008 together with the need to take a negative 'fair value' charge and make further provisions against impaired assets, the Bank's shareholders elected to provide the Bank with an additional funding source through a US$15 million 5 year subordinated loan. This subordinated loan had the dual effect of improving the Bank's liquidity position and restoring the Bank's capital resources. The strengthening of the Bank's capital base will enhance the Bank's ability to deal with the impact of an uncertain economic environment and to respond to unforeseen events. Importantly, it will give the Bank options with respect to opportunities that will present themselves in the future.

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

Dr Umayya Toukan
Chairman

06 April 2009

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; 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 2008.

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, Loan Syndications 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 2008

From a financial results perspective, the year 2008 was once again a somewhat disappointing year, with operating profitability before taxes and provisions considerably below budgeted expectations.

Total revenues from ordinary activities for the year, excluding fair value adjustments, amounted to £5.315 million (2007: £4.758 million) and total operating expenses including administration expenses, depreciation and other operating charges amounted to £3.967 million (2007: £3.799 million). Including negative fair value revaluatons totalling £5.486 million (2007: positive £208,000) the Bank made a loss before provisions and taxation of £4.138 million (2007: profit £1.167 million).

Following recoveries against prior years specific provisions totalling £1.616 million (2007: £1.351 million) and having made new provisions during the year for recently impaired portfolio investments of £6.365 million (2007: £3.033 million), the net loss for the year before taxation amounted to £8.887 million (net loss 2007: £0.515 million).

Net interest revenues for the year totalled £3.97 million (2007: £3.74 million) compared to a budgeted forecast of £4.25 million representing a shortfall of 7%. Net interest income was adversely affected by the reversal of interest from non-performing debt securities, although this was more than offset by the write back to profit of interest on loans previously considered impaired. Net interest revenues suffered as a result of continuing difficulties in the international money markets where the cost of funds, for most of the year, remained at a premium over LIBOR and the availability of liquidity remained extremely tight. Towards the latter stages of 2008, the Bank, as a result of these tight conditions, experienced some liquidity shortages and had to look to its shareholder banks for assistance. This adverse liquidity situation was aggravated by corporate bond market prices deteriorating further and some previously marketable assets becoming unmarketable.

Non-interest income (fees, commissions and trading profits) was higher than expected due primarily to higher profitability from foreign exchange trading, securities sales, trade finance, Corporate & Institutional Banking and Private Banking. Total non-interest income was 15% higher than budgeted at £1.394 million (2007: £0.968 million).

The strengthening of the US Dollar relative to UK Sterling in the currency markets has also had a beneficial effect on the Bank's balance sheet and consequently its earning capability. A majority of the Bank's assets are denominated in US Dollars, and interest earned on these dollar assets have produced higher sterling equivalents.

Although all departments in the Bank performed extremely well in their respective core business sectors, unfortunately the net financial results for the year were negatively impacted by two major factors. Firstly, as mentioned above, provisions made on some of its impaired assets held within its debt securities portfolio, and secondly, a negative fair value revaluation on a number of the Bank's financial assets and derivatives classified at fair value through profit and loss (FVTPL).

Management consider it highly likely that the taxable losses created for 2008 will be utilised in eliminating corporation taxation liabilities against future profits. Consequently, a deferred tax asset of £2.494 million (2007: £177,000) has been recognised.

Principal risks and uncertainties

Current economic and market conditions

The global economy is witnessing the most severe downturn in recent times. The shortage of liquidity, lack of funding, pressure on capital and the unpredictability of prices across a wide range of asset classes are putting banks under considerable pressure. Jordan International Bank's earnings are affected by global and local market conditions. This has been evidenced by the necessity to make further provisions against potential losses on its debt securities portfolio and recognise a decline in values of its financial assets and derivatives designated as 'fair value through profit and loss' (FVTPL) (see Chairman's Statement). In anticipation, the Bank's Board of Directors took the proactive step of putting in place a US$15 million subordinated loan to bolster the Bank's liquidity and capital (see note 20).

Liquidity and funding in current global market conditions

Jordan International Bank seeks to maintain a stable and diverse funding base comprising of shareholder and non-shareholder bank deposits and retail deposits. This funding is enhanced by an element of its debt securities portfolio being in the form of highly liquid assets, and as a consequence is able to respond to unforeseen liquidity requirements.

Other risks

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.

Directors' Report (continued)

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 29 to the Accounts.

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

Going concern
The Bank's business activities together with the factors likely to affect its future development are set out above. In addition, note 29 to the financial statements includes the Bank's objectives, policies and procedures for managing its capital; its financial risk management objectives; details of financial instruments and its exposure to credit and liquidity risk. With the current challenging economic environment and the Bank posting a loss for 2008, the directors have instigated measures to preserve cash and secure additional finance and capital. With the aim of stabilising the Bank's deposit levels, shareholders, with the guidance of the Central Bank of Jordan arranged both a subordinated loan and an additional liquidity funding facility. These measures have greatly assisted the Bank's liquidity and capital regulatory ratios.

The drawdown of the US$15 million subordinated loan, arranged by the Bank's shareholders maintained the level of the Bank's Capital Resources for 2008. After posting a net loss for the year, after taxation, of £6.57 million (2007: £386,000) which had been assisted by net impairment charges of £4.749 million (2007: £1.682 million) and negative fair value adjustments of £5.486 million (2007: positive £208,000), the Bank's Capital Resources was £28.6 million at 31 December 2008. As a result the Bank produced a capital surplus of £14.4 million, after deducting £14.23 million in variable capital requirements.

Through the direction of the Central Bank of Jordan, the Bank remains confident that shareholder deposit levels will remain at current levels for the foreseeable future. By maintaining shareholder deposit levels the directors are confident that there will be no deleveraging of the Bank's balance sheet with a resultant reduction in future earnings.

All shareholders recognise their moral responsibility to ensure that Jordan International Bank Plc will continue at all times to meet its obligations. As a consequence the directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries the directors have a reasonable expectation that the Bank will continue to operate at existing levels for the foreseeable future, and have therefore used the going concern basis in preparing the financial statements.

Results and dividends
The loss for the year after taxation amounted to £6.57 million (2007: loss £386,000).
The directors recommend that no dividend be paid (2007: £nil).

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 was appointed on the date shown:

H E Mr Marwan Awad	8 September 2008

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

Mr Khalil Nasr	8 September 2008

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 2008, the Bank's trade creditors had been outstanding for an average of 6 days (2007: 25 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 (2007: £nil).

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 should be 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 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
06 April 2009

We have audited the financial statements of Jordan International Bank Plc for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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 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.

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 2008 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 is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London

06 April 2009

Profit & Loss Account for the year ended 31 December 2008

	Notes	2008 £'000's	2007 £'000's
Interest income			
Interest receivable and similar income arising from debt securities		**4,414**	4,098
Other interest receivable and similar income		**7,534**	10,383
Interest from impaired financial assets		**124**	144
		12,072	14,625
Interest payable		**(8,099)**	(10,877)
Net interest income		**3,973**	3,748
Non-interest income			
Fees and commissions		**812**	763
Dealing profits	5	**150**	112
Other operating income		**12**	12
Gain on disposal of securities		**(52)**	42
Fair value changes in assets held at FVTPL	5	**(2,154)**	(40)
Fair value changes in derivatives held at FVTPL	5	**(3,332)**	248
Total operating income		**(591)**	4,885
Administrative expenses	3	**(2,281)**	(2,275)
Depreciation	5, 14	**(93)**	(100)
Other operating charges		**(1,593)**	(1,424)
Impairment of loans and advances	10	**(4,749)**	(1,682)
Profit on sale of debt securities	5	**420**	81
Operating loss and loss on ordinary activities before taxation	5	**(8,887)**	(515)
Tax credit on loss on ordinary activities	6	**2,317**	129
Loss for the financial year		**(6,570)**	(386)

As there are no other gains or losses to be recognised other than the reported loss for the year the Bank has elected not to produce a Statement of Total Recognised Gains and Losses.

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 2008

	Notes	2008 £'000's	2007 £'000's
Assets			
Cash		**226**	223
Nostros		**3,418**	2,067
Loans and advances to shareholder banks	7	**9,148**	6,022
Loans and advances to other banks	8	**57,654**	87,639
Loans and advances to customers	9	**61,186**	44,523
Investments in debt securities	12	**82,418**	77,912
Tangible fixed assets	14	**350**	427
Other assets	15	**730**	217
Deferred tax	6	**2,494**	177
Prepayments and accrued income		**1,562**	1,091
Total assets		**219,186**	220,298
Liabilities			
Deposits by shareholder banks	16	**129,253**	129,389
Deposits by other banks	17	**34,190**	43,532
Customer accounts	18	**21,589**	19,662
Other liabilities	19	**3,228**	620
Accruals and deferred income		**1,548**	1,434
Subordinated liabilities	20	**10,287**	~
Total liabilities		**200,095**	194,637
Called-up share capital	22	**20,000**	20,000
Share premium	23	**316**	316
Profit and loss account	24	**(1,225)**	5,345
Shareholders' funds ~ equity interests		**19,091**	25,661
Total liabilities and shareholder's funds		**219,186**	220,298

Balance Sheet at 31 December 2008 (continued)

	Notes	2008 £'000's	2007 £'000's
Memorandum items			
Contingent liabilities	34		
Acceptances		**508**	705
Guarantees and irrevocable letters of credit		**20,147**	10,759
		20,655	11,464

These financial statements were approved by the Board of Directors and authorised for issue on 06 April 2009.

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 2008

	Notes	2008 £'000's	2007 £'000's
Net cash (outflow)/inflow from operating activities	25	**(41,908)**	3,089
Returns on investments and servicing of finance			
Interest received		**4,538**	3,240
Net cash inflow from returns on investments and servicing of finance		**4,538**	3,240
Taxation			
Corporation tax paid		**~**	(47)
Tax paid		**~**	(47)
Capital expenditure and financial investment			
Purchase of investments		**(35,127)**	(80,307)
Investments sold and matured		**39,448**	63,788
Purchase of tangible fixed assets	14	**(16)**	(78)
Net cash inflow/(outflow) before management of liquid resources and financing		**4,305**	(16,597)
Financing			
Issue of subordinated debt		**10,287**	~
Decrease in cash in the year	26	**(22,778)**	(10,315)

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

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 the revaluation of derivatives and financial assets designated at fair value through profit and loss. The accounts have been prepared on a going concern basis as set out in the Director's Report on page 7.

The Bank presents its 2008 Accounts in accordance with Financial Reporting Standards (FRS) issued under UK GAAP. The Bank was unable to take advantage of the amendments to FRS 29 'Financial Instruments: Disclosures' – Reclassification of Financial Assets ('Reclassification amendment').

b) 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 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.

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 or where considered appropriate, taken to the profit and loss over the life of the facility.

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.
The Bank's functional currency is sterling.

1 Accounting policies (continued)

e) 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 a 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.

The Bank has no financial assets classified as ‘Available for sale’.

The Bank will derecognise a financial asset only when the contractual rights to the cashflows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

1 Accounting policies (continued)

f) 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.

g) 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).

The Bank will derecognise a financial liability when, and only when, the Bank's obligations are discharged, cancelled or they expire.

h) 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.

1 *Accounting policies (continued)*

i) 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.

j) 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.

k) 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.

l) 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). Any differences between contributions payable in the year and contributions actually paid would be shown as either accruals or prepayments in the balance sheet.

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

n) 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*

	2008 £'000's	2007 £'000's
Staff costs including directors:		
Salaries	**1,692**	1,711
Social security costs	**201**	203
Other pension costs (note 31)	**245**	228
	2,138	2,142
Other administrative expenses	**143**	133
	2,281	2,275

The average number of persons employed by the Bank in 2008 was 35 (2007 ~ 35), made up as follows:

	2008	2007
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:

	2008	2007
	£'000's	£'000's
Fees	**26**	30
Salaries	**115**	73
	141	103

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

5 Loss on ordinary activities before taxation

Loss is stated after (crediting) and charging:

	2008	2007
	£'000's	£'000's
(i) Income:		
Profits from securities dealing ~ foreign exchange	**150**	112
Profits on disposal of debt securities	**420**	81
Net loss on financial assets and liabilities designated at fair value through profit and loss	**(2,154)**	(40)
Net loss on derivatives designated at fair value through profit and loss	**(3,332)**	248
(ii) Charges:		
Impairment	**4,749**	1,682
Depreciation on owned assets	**93**	100
Auditors' remuneration		
~ statutory audit of annual accounts	**91**	87
Taxation services	**23**	6
Other services	**27**	10
Total non-audit fees	**50**	16
Rental on land and buildings	**233**	233

6 *Tax on loss on ordinary activities*

Based on loss for the year:

	2008 £'000's	2007 £'000's
United Kingdom corporation tax	**~**	~
Adjustments in respect of prior year periods	**~**	72
	~	72
Deferred tax ~ current year	**2,314**	57
Deferred tax ~ prior year adjustment	**3**	~
	2,317	129

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:

	2008 £'000's	2007 £'000's
Loss on ordinary activities before tax	**(8,887)**	(515)
Tax charge/(credit) on profit/(loss) on ordinary activities at 28.5% (2007: 30%)	**(2,533)**	155
Effects of:		
Expenses not deductible for tax purposes	**12**	(10)
Depreciation in excess of capital allowances	**10**	(3)
Movement in short-term timing differences	**~**	(57)
Marginal relief	**~**	(27)
Prior-period adjustments	**~**	71
Other timing differences	**(17)**	~
Current tax year losses	**2,528**	~
Current tax credit/(charge) for the period	**~**	129

The UK standard corporation tax rate changed from 30% to 28% with effect from 1 April 2008.

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 (2007: £31,000). The asset would be recovered if suitable taxable profits are generated in future periods.

6 *Tax on loss on ordinary activities (continued)*

The movement on deferred taxation balance in the period is:

	£'000's
Opening balance	**177**
(Charge)/Credit to profit and loss account	**2,317**
Closing balance	**2,494**
Analysis of deferred tax balance;	
Depreciation in excess of capital allowances	**38**
Tax losses	**2,576**
Short-term timing differences	**(120)**
Deferred tax assets recognised	**2,494**

7 *Loans and advances to shareholder banks*

	2008 **£'000's**	2007 £'000's
Repayable		
~ on demand	**3,135**	2,616
~ within three months	**3,138**	1,001
~ between three months and one year	**513**	343
~ between one and five years	**1,890**	1,375
~ more than five years	**472**	687
	9,148	6,022

8 *Loans and advances to other banks*

2008	**Performing loans £'000's**	**2008 Total £'000's**
Repayable		
~ on demand	**25,240**	**25,240**
~ within three months	**9,352**	**9,352**
~ between three months and one year	**6,687**	**6,687**
~ between one and five years	**16,375**	**16,375**
	57,654	**57,654**
Impairment	~	~
	57,654	**57,654**

8 *Loans and advances to other banks (continued)*

2007	Performing loans £'000's	2007 Total £'000's
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 (note 10)	~	~
	87,639	87,639

9 *Loans and advances to customers*

	2008 £'000's	2007 £'000's
Repayable		
~ on demand	**8,856**	6,880
~ within three months	**11,644**	5,608
~ between three months and one year	**13,567**	7,852
~ between one and five years	**24,839**	23,700
~ over five years	**3,311**	2,494
Impairment (note 10)	**(1,031)**	(2,011)
	61,186	44,523

10 Impairment losses on loans and advances

	2008 **£'000's**	2007 £'000's
At 1 January	**3,033**	1,869
Charge to profit and loss	**4,749**	1,682
Less: other movements	**(386)**	(518)
At 31 December	**7,396**	3,033

See accounting policy note 1(f) 'impairment of financial assets'. The year end balance of £7,396k comprises an impairment of £1,031k on loans and advances to customers and £6,365k 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:

	2008 **£'000's**	2007 £'000's
OECD	**81,245**	109,110
Jordan	**30,246**	31,182
Arab/Middle East	**90,857**	60,058
Other	**16,838**	19,948
	219,186	220,298

The following industry concentrations are considered significant:

	2008 **£'000's**	2007 £'000's
Government/Quasi-Government	**22,818**	21,965
Banks	**70,277**	106,500
Investment and Finance	**25,797**	25,224
Other	**100,294**	66,609
	219,186	220,298

12 Debt securities

2008	**Govt securities £'000's**	**Other debt securities £'000's**	**Total £'000's**
Designated at fair value through profit and loss	**19,690**	**18,335**	**38,025**
Held to maturity	**2,572**	**41,821**	**44,393**
At 31 December 2008	**22,262**	**60,156**	**82,418**

2007	Govt securities £'000's	Other debt securities £'000's	Total £'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

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

	HTM £'000's	**FVTPL £'000's**	**Total £'000's**
Cost			
At 1 January 2008	**51,544**	**26,368**	**77,912**
Additions	**4,048**	**13,203**	**17,251**
Disposals	**(15,111)**	**(6,068)**	**(21,179)**
Exchange adjustment	**12,752**	**7,455**	**20,207**
Fair value adjustment reversed	**(1,070)**	**126**	**(944)**
Fair value adjustment	**824**	**(5,288)**	**(4,464)**
Impairment (note 10)	**(6,365)**	**~**	**(6,365)**
At 31 December 2008	**46,622**	**35,796**	**82,418**

13 *Trading book*

	2008 £'000's	2007 £'000's
Net gain from trading in debt securities	**1**	24

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

14 *Tangible fixed assets*

	Furniture, fittings and office equipment £'000's	Improvements to leasehold premises £'000's	Total £'000's
Cost			
At 1 January 2008	**840**	**418**	**1,258**
Additions	**11**	**5**	**16**
Disposals	~	~	~
At 31 December 2008	**851**	**423**	**1,274**
Depreciation			
At 1 January 2008	**642**	**189**	**831**
Charge for the year	**63**	**30**	**93**
Disposals	~	~	~
At 31 December 2008	**705**	**219**	**924**
Net book value			
At 31 December 2008	**146**	**204**	**350**
At 1 January 2008	**198**	**229**	**427**

15 *Other assets*

	2008 £'000's	2007 £'000's
Corporation tax recoverable	**47**	47
Derivatives at fair value (note 26)	**59**	8
Sundry loan receivables	**624**	162
	730	217

16 Deposits by shareholder banks

	2008 £'000's	2007 £'000's
Repayable		
~ on demand	**19,735**	7,646
~ within three months	**109,518**	111,663
~ between three months and one year	**~**	10,080
	129,253	129,389

17 Deposits by other banks

	2008 £'000's	2007 £'000's
Repayable		
~ on demand	**1,068**	2,156
~ within three months	**30,542**	37,685
~ between three months and one year	**2,580**	3,691
	34,190	43,532

18 Customer accounts

	2008 £'000's	2007 £'000's
Repayable		
~ on demand	**8,566**	6,266
~ within three months	**12,088**	12,527
~ between three months and one year	**935**	869
	21,589	19,662

19 Other liabilities

	2008 £'000's	2007 £'000's
Current UK corporation tax	**~**	~
Derivatives at fair value (note 26)	**320**	397
Other liabilities	**2,908**	223
	3,228	620

20 Subordinated loan liabilities

	2008 £'000's	2007 £'000's
At amortised cost:		
US$15 million subordinated loan	**10,287**	~

The Bank entered into a US$15 million subordinated loan with its shareholders on 18 November 2008. The loan which is repayable at par on maturity, has a 5 year maturity, with interest payable bi-annually at an agreed margin over LIBOR. This loan is classified as regulatory capital (Lower Tier 2) and will amortise on a straight line basis.

21 Summary of financial assets and liabilities

2008

	FVTPL £'000's	**Held to maturity £'000's**	**Loans and Receivables at amortised cost £'000's**	**Financial assets /liabilities at amortised cost £'000's**	**Total £'000's**
Financial assets					
Cash	~	~	~	**226**	**226**
Collection on banks	~	~	~	**3,418**	**3,418**
Loans and advances to shareholder banks	**5,991**	~	**3,157**	~	**9,148**
Loans and advances to other banks	**514**	~	**57,140**	~	**57,654**
Loans and advances to customers	**4,186**	~	**57,000**	~	**61,186**
Debt securities	**38,025**	**44,393**	~	~	**82,418**
Other financial assets	~	~	~	**3,573**	**3,573**
Accrued income	~	~	~	**1,239**	**1,239**
	48,716	**44,393**	**117,297**	**8,456**	**218,862**
Financial liabilities					
Deposits from shareholder banks	~	~	~	**129,253**	**129,253**
Deposits from other banks	~	~	~	**34,190**	**34,190**
Deposits from customers	~	~	~	**21,589**	**21,589**
Other financial liabilities	~	~	~	**3,228**	**3,228**
Accruals	~	~	~	**1,665**	**1,665**
Subordinated liabilities	~	~	~	**10,287**	**10,287**
	~	~	~	**200,212**	**200,212**

21 Summary of financial assets and liabilities (continued)

2007	FVTPL £'000's	Held to maturity £'000's	Loans and 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
Accrued income	~	~	~	836	836
	34,985	51,544	129,567	3,947	220,043
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
Accruals	~	~	~	1,426	1,426
	~	~	~	194,629	194,629

22 Called-up share capital

	2008 £'000's	2007 £'000's
Authorised:		
25,000,000 (2007: 25,000,000) ordinary shares of £1 each	**25,000**	25,000
Called-up, allotted and fully paid:		
20,000,000 (2007: 20,000,000) ordinary shares of £1 each	**20,000**	20,000

23 Share premium

	2008 £'000's	2007 £'000's
At 31 December	**316**	316

24 Reconciliation of movements in shareholders funds and reserves

	2008 £'000's	2007 £'000's
Shareholders funds		
Loss for the financial year	**(6,570)**	(386)
Opening shareholders funds	**25,661**	26,047
Closing shareholders funds	**19,091**	25,661
Reserves		
Loss for the financial year	**(6,570)**	(386)
Profit and loss at 1 January	**5,345**	5,731
Profit and loss at 31 December	**(1,225)**	5,345

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

	2008 £'000's	2007 £'000's
Operating loss before tax	**(8,887)**	(515)
Interest received on debt securities	**(4,538)**	(3,240)
Increase in prepayments and accrued income	**(191)**	(605)
Decrease in accruals and deferred income	**(9)**	(423)
Profit on sale of debt securities	**(368)**	(123)
Amortisation of (discounts)/premiums	**(228)**	(166)
Depreciation	**93**	100
Fair value changes in financial assets	**2,154**	40
Fair value changes in derivatives	**3,332**	(248)
Impairment (net of recoveries)	**4,749**	(330)
Exchange adjustment	**(45,108)**	414
Net cash outflow from trading activities	**(49,001)**	(5,096)
Net decrease in loans and advances	**12,690**	13,915
Net decrease in deposits	**(7,220)**	(6,059)
Net increase in other assets and liabilities	**1,623**	329
Net cash (outflow)/inflow from operating activities	**(41,908)**	3,089

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

	2008 £'000's	2007 £'000's	Change in year £'000's
Cash	**226**	223	3
Collections on other banks	**3,418**	2,067	1,351
Loans and advances to shareholder banks	**3,135**	2,616	519
Loans and advances to other banks	**25,240**	38,890	(13,650)
Deposits by shareholder banks	**(19,735)**	(7,646)	(12,089)
Deposits by other banks	**(1,068)**	(2,156)	1,088
	11,216	33,994	(22,778)

27 Derivatives at fair value

2008	**Notional amounts £'000's**	**Fair value assets £'000's**	**Fair value liabilities £'000's**
Exchange rate contracts:			
Contract or underlying principal amount			
~ for dealing purposes	**41,052**	**59**	**~**
~ for hedging purposes	**2,057**	**~**	**~**
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	**47,564**	**~**	**3,960**

2007	Notional amounts £'000's	Fair value assets £'000's	Fair value liabilities £'000's
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

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

28 Assets and liabilities in foreign currencies

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

	2008 £'000's	2007 £'000's
Assets	**166,365**	170,917
Liabilities	**169,741**	170,955

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

29 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 27.

29 Risk management (continued)

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 aggregate fair value liabilities of swaps entered into at 31 December 2008 is estimated at £3,960,000 on the contracts with a book value of £47,563,514 (2007: £34,019,066). These amounts are based on market prices at the balance sheet date.

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.

29 Risk management (continued)

~ 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 watch list.

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).

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:

	2008 £'000's	2007 £'000's
On-balance sheet		
Loans and advances to shareholder banks	**9,148**	6,022
Loans and advances to other banks	**57,654**	87,639
Loans and advances to customers	**61,186**	44,523
Debt securities	**82,418**	77,912
Off-balance sheet		
Letters of Guarantee	**5,912**	4,532

Distribution of loans and advances by credit quality

	At 31 December 2008		At 31 December 2007	
	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	**51,707**	**66,802**	33,397	93,661
~ past due but not impaired loans and receivables at amortised cost;				
Less than 3 months	**3,662**	~	949	~
3 to 12 months	**3,192**	~	418	~
1 to 5 years	~	~	5,414	~
~ impaired	**3,656**	~	6,356	~
Less: provisions	**(1,031)**	~	(2,011)	~
	61,186	**66,802**	44,523	93,661

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.

29 Risk management (continued)

Impaired assets
Loan and advances –
A provision was maintained against one corporate loan which was considered impaired. Doubt was still expressed over the recoverability of the loan. The valuation of the Bank's security, namely a first charge over land, was considered insufficient to retire the outstanding loan. The value of the Bank's security at 31 December 2008 totalled Euro 4.9 million (2007: Euro 5.86 million).

Debt securities –
Provisions were made against three securities which were considered impaired:

~ *Lehman Brothers* ~ With bankruptcy declared in September 2008 the Board of Directors decided that a provision against this exposure be made which reflected the potential final recovery from asset sales. A provision of 90% was made against the Bank's exposure of £2.5 million.

~ *Links Finance Corporation (SIV)* ~ The Board of Directors decided that the level of provision against this security reflect the actual losses incurred by the fund on selling assets to maintain the fund's liquidity. An additional provision of 20% was made on top of the existing 15% provision made against the Bank's exposure of US$5 million.

~ *Sigma Finance Corporation (SIV)* ~ The Board of Directors decided to provide in full against the Bank's exposure of US$5 million. With the fund in receivership, indications show that, as Capital Note holders, the Bank will not receive any of the monies advanced.

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

	At 31 December 2008		At 31 December 2007	
	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	**~**	**15,195**	~	48,651
Non-investment grade	**~**	**6,000**	~	5,220
Unrated	**51,707**	**45,607**	33,397	39,790
	51,707	**66,802**	33,397	93,661

29 *Risk management (continued)*

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

Debt securities by rating agency designation

(Fitch Ratings)	**At 31 December 2008** Govt securities £'000's	**At 31 December 2008** Other debt securities £'000's	At 31 December 2007 Govt securities £'000's	At 31 December 2007 Other debt securities £'000's
AAA to AA+	~	~	~	4,499
AA– to A+	**3,108**	**13,775**	2,401	14,726
Lower than A	**10,362**	**24,016**	4,059	17,383
Unrated	**8,792**	**19,886**	9,975	23,396
	22,262	**57,677**	16,435	60,004
Impaired	~	**2,479**	~	1,473
	22,262	**60,156**	16,435	61,477

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 the Asset and Liability Committee 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 5% during 2008 to £163 million. Funding from customer accounts increased by 10% during 2008 to £22 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 cash flow obligations and potential cash flows arising from undrawn commitments and other contingent obligations, can be met as they arise from day-to-day, either from cash flows, from maturing assets, new borrowing or the sale of various debt securities held (after allowing for appropriate haircuts).

29 Risk management (continued)

Cash flows payable by the 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 2008						
Deposits by shareholder's	**20,373**	**110,521**	**190**	**10,287**	**~**	**141,371**
Deposits by other banks	**1,153**	**29,237**	**3,309**	**~**	**~**	**33,699**
Customer accounts	**8,163**	**12,084**	**1,386**	**~**	**~**	**21,633**
	29,689	**151,842**	**4,885**	**10,287**	**~**	**196,703**

	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
	16,120	158,464	18,938	~	~	193,522

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

Assets available to meet these liabilities, and to cover outstanding commitments include, (in £'000's), cash and nostros £3,644 (2007: £2,290): loans and advances to shareholder banks £9,148 (2007: £6,022) including £6,785 repayable within one year (2007: £3,960): loans and advances to other banks £57,654 (2007: £87,639) including £41,279 repayable within one year (2007: £72,592). In addition Jordan International Bank held debt securities marketable at a value of £82,418 (2007: £77,912). None of these assets were pledged to secure liabilities.

Undrawn commitments at 31 December 2008 stood at £5.252 million (2007: £7.768 million).

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.

29 Risk management (continued)

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 2008

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	**191,752**	**131,504**	**146,115**	**164,380**	**119,549**	**109,586**
Total liabilities	**(183,290)**	**(125,700)**	**(139,667)**	**(157,125)**	**(114,273)**	**(104,750)**
Forward contracts	**(8,397)**	**(5,759)**	**(6,399)**	**(7,198)**	**(5,235)**	**(4,799)**
Net	**65**	**45**	**49**	**57**	**41**	**37**
Movement	**~**	**~**	**4**	**12**	**(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	**33,159**	**31,793**	**35,326**	**39,742**	**28,903**	**26,495**
Total liabilities	**(36,737)**	**(35,224)**	**(39,138)**	**(44,030)**	**(32,022)**	**(29,353)**
Forward contracts	**3,936**	**3,774**	**4,193**	**4,717**	**3,431**	**3,145**
Net	**358**	**343**	**381**	**429**	**312**	**287**
Movement	**~**	**~**	**38**	**86**	**(31)**	**(56)**

29 Risk management (continued)

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

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 and 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 overleaf 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.

29 Risk management (continued)

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

Pounds Sterling

	2008		2007	
	gap £M's	**£'000's**	gap £M's	£'000's
up to 15 days	**11.46**	**224**	(0.58)	(11)
15 days to 1 month	**(1.49)**	**(28)**	(1.83)	(34)
1-2 months	**(3.92)**	**(68)**	4.51	78
2-3 months	**4.90**	**78**	2.58	40
3-4 months	**(0.27)**	**(4)**	(0.02)	~
4-5 months	**4.90**	**61**	(0.03)	~
5-6 months	**0.04**	**~**	~	~
6-9 months	**~**	**~**	~	~
9-12 months	**(0.08)**	**~**	1.94	5
Total	**15.54**	**263**	6.57	78

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

US Dollars

	2008		2007	
	gap £M's	**£'000's**	gap £M's	£'000's
up to 15 days	**(19.45)**	**(381)**	(0.48)	(9)
15 days to 1 month	**(28.40)**	**(532)**	(41.35)	(775)
1-2 months	**22.31**	**390**	20.32	356
2-3 months	**6.22**	**98**	6.80	108
3-4 months	**14.92**	**211**	(11.46)	(162)
4-5 months	**(8.01)**	**(100)**	11.69	146
5-6 months	**15.15**	**164**	20.00	217
6-9 months	**2.50**	**19**	(1.02)	(8)
9-12 months	**(0.90)**	**(2)**	0.52	1
Total	**4.34**	**(133)**	5.02	(126)

Assuming no management actions, such an increase in the yield curve would result in an increase in planned net interest income for 2008 in the currencies stated by £130,000 (2007: decrease £48,000). These figures incorporate the impact of all financial derivatives attached to the underlying exposures.

29 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 or 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 (Pillar 3 disclosures)
The Basel Committee on Banking Supervision 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.

29 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, retained earnings and subordinated liabilities.

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 adequate capital resources to meet its various capital requirements under Pillar 1 and Pillar 2. Jordan International Bank's capital is divided into two tiers;

Tier 1 (comprising shareholders funds – share capital and retained earnings).
Tier 2 (comprising qualifying subordinated loan capital). Qualifying dated subordinated loan capital may not exceed 50% of Tier 1 capital.

Banking book on and off-balance sheet items giving rise to credit risk are categorised into credit exposure classes with risk weighting determined by predetermined credit steps (credit rating categories). In allocating credit steps to assets in the standardised credit risk exposure classes the Bank uses Fitch Ratings as its nominated ECAI.

29 Risk management (continued)

2008	**£'000's**
Movement in Capital Resources	
At 1 January (as adjusted for 2007 results)	**25,661**
2008 losses	**(6,570)**
Subordinated liabilities	**10,287**
Less excess on limits	**(742)**
	28,636
Tier 1	
Permanent Share Capital	**20,000**
Profit and loss	**(1,225)**
Share premium	**316**
	19,091
Tier 2	
Lower Tier 2 subordinated loan	**10,287**
Excess on limits	**(742)**
	9,545
Total Capital Resources	**28,636**
Variable capital requirement	
Credit risk capital requirement (under standardised approach)	**13,492**
Operational risk capital requirement (Basic Indicator Approach)	**730**
Market risk capital requirement	**8**
Total variable capital requirement	**14,230**
Surplus of own funds	**14,406**

29 Risk management (continued)

Analysis of credit risk

	Capital Requirement £'000's
Exposure classes	
Central Government/Central Banks	**1,869**
Regional Government/Local Authorities	**79**
Institutions	**1,277**
Corporates	**6,776**
Retail	**121**
Secured on Real Estate Property	**451**
Short-term claims on institutions and corporates	**2,804**
Other items	**115**
	13,492

2007

Source and application of Tier 1 capital	£'000's
Movement in Tier 1 capital	
At 1 January	26,342
Losses/(profits)	(292)
At 31 December	26,050
Composition of regulatory capital	
Tier 1 capital	26,050
Tier 2	~
Total regulatory capital	26,050
Capital ratio	%
Tier 1 capital and total capital	19.22

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 2008	**Non-trading book**	
	Book value £'000's	**Fair value £'000's**
Assets		
Loans and advances designated at fair value through profit and loss	**10,691**	**10,691**
Other loans and receivables at amortised cost	**117,296**	**117,296**
Debt securities designated at fair value through profit and loss	**38,025**	**38,025**
Debt securities held to maturity	**44,393**	**44,393**
Liabilities		
Deposits by banks and customers at amortised cost	**185,032**	**185,032**

At 31 December 2007	Non-trading book	
	Book value £'000's	Fair value £'000's
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	26,368
Debt securities held to maturity	51,544	51,544
Liabilities		
Deposits by banks and customers at amortised cost	192,583	192,583

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. (2007: £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 2008 were £50,936 (2007: £76,806).

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	
	2008	2007
	£'000's	£'000's
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 have been no related parties' transactions during 2008. Emoluments paid to Directors of the Bank during 2008 totalled £141,000 (2007: £103,000) (note 4).

36 Controlling party

The Bank is owned by a consortium of banks (see page 1). Consequently, there is no single controlling party.

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