



# Jordan International Bank Plc

*Report & Accounts*  
*2009*

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## *Shareholders & Directors*

### *Shareholders*

	Percentage
Government of the Hashemite Kingdom of Jordan	15.000%
The Housing Bank for Trade and Finance	22.100%
Jordan 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%
	<u>100.000%</u>

### *Directors*

H E Dr Umayya Toukan (Chairman)
H E Dr Michel Marto (Deputy Chairman) Omar Zuheir Malhas (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, Correspondent and Private Banking

George A Shihata

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 Statutory Auditors  
London

**Internet**

The Bank's website is at  
[www.jordanbank.co.uk](http://www.jordanbank.co.uk)

## Shareholder Highlights

### *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.*

<i>The Housing Bank For Trade and Finance</i>	2009 JD'M's	2008 JD'M's
Total assets	<u>6,090</u>	<u>5,431</u>
Capital and reserves	<u>967</u>	<u>911</u>

*The Housing Bank for Trade and Finance operates one of the largest branch networks in the country, with 113 branches, of which 100 in Jordan, 12 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.*

<i>Jordan Ahli Bank</i>	2009 JD'M's	2008 JD'M's
Total assets	<u>2,256</u>	<u>2,106</u>
Capital and reserves	<u>216</u>	<u>203</u>

*At the end of 2009 the Bank operated through 48 branches in Jordan, 6 in Palestine, 1 in Cyprus and 10 in Lebanon.*

<i>Bank of Jordan</i>	2009 JD'M's	2008 JD'M's
Total assets	<u>1,908</u>	<u>1,686</u>
Capital and reserves	<u>193</u>	<u>180</u>

*At the end of 2009 Bank of Jordan operated through 64 full branches in Jordan and 10 full branches in Palestine. The Bank is active in corporate finance, retail banking and treasury management.*

<b>Jordan Kuwait Bank</b> (financial data available in US\$'s)	<b>2009</b> US\$M's	2008 US\$M's
Total assets	<u>3,017</u>	<u>2,909</u>
Capital and reserves	<u>413</u>	<u>353</u>

*At the end of 2009, Jordan Kuwait Bank operated a domestic network of 49 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.*

<b>Jordan Commercial Bank</b>	<b>2009</b> JD'M's	2008 JD'M's
Total assets	<u>630</u>	<u>628</u>
Capital and reserves	<u>91</u>	<u>88</u>

*At the end of 2009 Jordan Commercial Bank operated a network of 31 branches.*

<b>Arab Jordan Investment Bank</b>	<b>2009</b> JD'M's	2008 JD'M's
Total assets	<u>801</u>	<u>697</u>
Capital and reserves	<u>125</u>	<u>124</u>

*At the end of 2009 Arab Jordan Investment Bank operated through a domestic network of 10 branches.*

<b>Jordan Investment and Finance Bank</b>	<b>2009</b> JD'M's	2008 JD'M's
Total assets	<u>667</u>	<u>683</u>
Capital and reserves	<u>93</u>	<u>86</u>

*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.*

## *Chairman's Statement*

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A year ago, I was able to report that the Bank's operating results were satisfactory, given the severe crisis in global financial markets and the difficult environment in which all banks were obliged to operate. A similar judgement can be applied to the year just ended, granted that the after-shocks of the financial crisis continued to reverberate, notably in the MENA markets.

During 2009, the Bank reported an operating loss before impairments and fair value accounting of £906k compared to an operating profit for 2008 of £1.348 million. With impairments totalling £11.5 million and positive fair value adjustments of £3.3 million, pre-tax losses for 2009 amounted to £9.1 million compared to £8.9 million in 2008.

The lengthening list of the impaired and doubtful assets already referred to meant further increases in provisions to cover potential losses. During 2009 both senior management and the Board of Directors continued in their conservative and cautious policy of addressing the Bank's non-performing loans. The Board of the Bank remains mindful of the need to maintain capital and liquidity levels and to guard against a possible deleveraging of the Bank's balance sheet.

I am pleased to report that following the 2009 year end, all the Bank's shareholders agreed in principle whereby the Housing Bank for Trade and Finance and the Arab Jordan Investment Bank would acquire the shareholdings of all other current shareholders except for the Government of the Hashemite Kingdom of Jordan who had proposed to retain its 15% shareholding for the time being. This change in control should prove to be a positive step for the Bank as it not only underpins the commitment of the Central Bank of Jordan but also signifies a more cohesive direction to the Bank's activities. Further, it is anticipated that the Bank will benefit markedly from a re-focused strategy which will fit into the core competencies of the two acquiring shareholder banks. Clearly, the change in control remains subject to the approval of the Financial Services Authority.

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

Dr Umayya Toukan  
Chairman

13 May 2010

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank 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 Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## *Directors' Report*

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The Directors present their annual report and the audited financial statements for the year ended 31 December 2009.

### *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 2009*

From a financial results perspective, the year 2009 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 £2.964 million (2008: £5.315 million) and total operating expenses including administration expenses, depreciation and other operating charges amounted to £3.87 million (2008: £3.967 million). Including positive fair value revaluations totalling £3.294 million (2008: negative £5.486 million) the Bank made a profit before provisions and taxation of £2.388 million (2008: loss £4.138 million).

Having made new provisions during the year for recently impaired portfolio investments of £11.556 million (2008: £6.365 million), the net loss for the year before taxation amounted to £9.168 million (net loss 2008: £8.887 million). Net interest revenues for the year totalled £2.95 million (2008: £3.97 million) compared to a budgeted forecast of £3.82 million representing a shortfall of 23%.

Net interest income continued to be adversely affected by the reversal of interest from non-performing assets, including loans to banks and customers and debt securities, and the placement of these assets on non-interest accrual. Net interest revenues continued to suffer as a result of continuing difficulties in the international money markets where the cost of funds, for part of the year, remained at a premium over LIBOR and as directed by the Board of Directors to increase liquidity, suffered from the migration of funds from higher yielding maturing assets to lower yielding money market assets.

Non-interest income (fees, commissions and trading profits) was higher than expected due primarily to higher profitability from foreign exchange trading and trade finance. Total non-interest income was 25% higher than budgeted at £1.034 million (2008: £1.394 million).

Although all departments in the Bank performed well in their respective core business sectors, unfortunately the net financial results for the year were negatively impacted by the increased level of provisions made on some of the Bank's impaired assets held within its securities and syndicated loan portfolios.

Management consider it highly likely that the taxable losses created for 2008 and 2009 will be utilised in eliminating corporation taxation liabilities against future profits. Consequently, a deferred tax asset of £2.432 million (2008: £2.494 million) has been recognised.

### *Principal risks and uncertainties*

#### *Current economic and market conditions*

The market turbulence and recessionary conditions experienced in 2007 and 2008 eased during 2009 as Governments and Central Banks took concerted action to boost liquidity and confidence in the financial markets. Jordan International Bank has benefitted from the easing of these conditions as values have increased in its financial assets and derivatives designated as 'Fair Value Through Profit and Loss' (FVTPL) (See Chairman's Statement). However, the financial services industry continues to face a high degree of uncertainty with economic conditions still remaining fragile.

#### *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.

The adverse market conditions that Jordan International Bank faced during the height of the recent financial crisis highlighted the significant benefits of its deposit base comprised predominantly of shareholder banks deposits. Over the past two years these deposits have remained relatively stable.

#### *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*

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### *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*

Following the 2009 year end, all the Bank's shareholders agreed in principle whereby the Housing Bank for Trade and Finance and the Arab Jordan Investment Bank would acquire the shareholdings of all other current shareholders except for the Government of the Hashemite Kingdom of Jordan who have proposed to retain its 15% shareholding. This revised shareholder group, comprising the Government of the Hashemite Kingdom of Jordan, The Housing Bank for Trade & Finance and Arab Jordan Investment Bank are committed to the provision of adequate capital for the Bank to ensure the maintenance of a positive and strong surplus for both operational and regulatory purposes. Notwithstanding the further losses which have occurred during the year ended 31 December 2009 the proposed new shareholder group have indicated their willingness to subscribe further Tier 1 capital as needed.

A major factor underlying the rationale for the restructured shareholdings is the keenness of the Housing Bank for Trade & Finance and Arab Jordan Investment Bank respectively to increase the level of business referred to and executed by Jordan International Bank in London in the sectors of trade finance and investment banking.

Those banks that cease to be shareholders following the restructuring will remain counterparties to the Bank and will continue to form an important part of the Bank's commercial depositor base for the foreseeable future. In addition the subordinated debt arrangements with the existing shareholders will remain in place until the maturity of that loan in November 2013.

All shareholders continue to recognize 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 £6,720,000 (2008: loss £6,570,000). The Directors recommend that no dividend be paid (2008: £nil).

### *Payment policy*

It is the Bank's policy to pay suppliers as they fall due. At 31 December 2009, the Bank's trade creditors had been outstanding for an average of 27 days (2008: 6 days).

### *Directors' and officers' liability insurance*

During the year, the Bank has purchased and maintained cover for directors and officers under directors' and officers' liability insurance policies as permitted by section 533 of the Companies Act 2006.

### *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 s418 of the Companies Act 2006.

### *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  
13 May 2010

## *Independent Auditors' Report*

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We have audited the financial statements of Jordan International Bank Plc for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### *Respective responsibilities of directors and auditors*

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### *Scope of the audit of the financial statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

*Opinion on financial statements*

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

*Opinion on other matter prescribed by the Companies Act 2006*

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

*Matters on which we are required to report by exception*

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kari Hale (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP Chartered Accountants and Statutory Auditors  
London, United Kingdom

13 May 2010

## *Profit & Loss Account*

### *Profit & Loss Account for the year ended 31 December 2009*

	Notes	2009 £'000's	2008 £'000's
<i>Interest income</i>			
Interest receivable and similar income arising from debt securities		3,482	4,414
Other interest receivable and similar income		2,729	7,534
Interest from impaired financial assets		501	124
		<u>6,712</u>	<u>12,072</u>
Interest payable - Bank loans and overdrafts		(1,535)	(6,261)
Interest payable - Other loans		(2,224)	(1,838)
<i>Net interest income</i>		<u>2,953</u>	<u>3,973</u>
<i>Non-interest income</i>			
Fees and commissions		553	812
Dealing profits	5	312	150
Other operating income		13	12
Loss on disposal of securities		(1,024)	(52)
Fair value changes in assets held at FVTPL	5	2,239	(2,154)
Fair value changes in derivatives held at FVTPL	5	1,055	(3,332)
<i>Total operating income</i>		<u>6,101</u>	<u>(591)</u>
Administrative expenses	3	(2,339)	(2,281)
Depreciation	5, 14	(89)	(93)
Other operating charges		(1,442)	(1,593)
Impairment of loans and advances	10	(11,556)	(4,749)
Profit on sale of debt securities	5	157	420
<i>Operating loss and loss on ordinary activities before taxation</i>	5	<u>(9,168)</u>	<u>(8,887)</u>
Tax credit on loss on ordinary activities	6	2,448	2,317
<i>Loss for the financial year</i>		<u>(6,720)</u>	<u>(6,570)</u>

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 2009*

	Notes	2009 £'000's	2008 £'000's
<i>Assets</i>			
Cash		266	226
Nostros		6,598	3,418
Loans and advances to shareholder banks	7	9,939	9,148
Loans and advances to other banks	8	56,625	57,654
Loans and advances to customers	9	49,794	61,186
Investments in debt securities	12	67,247	82,418
Tangible fixed assets	14	281	350
Other assets	15	1,014	730
Deferred tax	6	4,926	2,494
Prepayments and accrued income		332	1,562
<i>Total assets</i>		<u>197,022</u>	<u>219,186</u>
<i>Liabilities</i>			
Deposits by shareholder banks	16	127,564	129,253
Deposits by other banks	17	26,675	34,190
Customer accounts	18	18,410	21,589
Other liabilities	19	1,706	3,228
Accruals and deferred income		994	1,548
Subordinated liabilities	20	9,302	10,287
<i>Total liabilities</i>		<u>184,651</u>	<u>200,095</u>
Called-up share capital	22	20,000	20,000
Share premium	23	316	316
Profit and loss account	24	(7,945)	(1,225)
<i>Shareholders' funds ~ equity interests</i>		<u>12,371</u>	<u>19,091</u>
<i>Total liabilities and shareholder's funds</i>		<u>197,022</u>	<u>219,186</u>

## Balance Sheet

### Balance Sheet at 31 December 2009 (continued)

	Notes	2009 £'000's	2008 £'000's
<i>Memorandum items</i>			
<i>Contingent liabilities</i>	34		
Acceptances		288	508
Guarantees and irrevocable letters of credit		11,767	20,147
		<u>12,055</u>	<u>20,655</u>

*These financial statements of Jordan International Bank Plc, Registered No. 1814093, were approved by the Board of Directors and authorised for issue on 13 May 2010.*

*Signed on behalf of the Board of Directors*

*Dr Umayya Toukan*

*Dr Michel Marto*

*Mr Abdulkader Al-Qadi*

} Directors

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

## Cash Flow Statement

### Statement of cash flows for the year ended 31 December 2009

	Notes	2009 £'000's	2008 £'000's
<i>Net cash outflow from operating activities</i>	25	<u>(13,258)</u>	<u>(41,908)</u>
<i>Returns on investments and servicing of finance</i>			
Interest received		<u>4,001</u>	<u>4,538</u>
<i>Net cash inflow from returns on investments and servicing of finance</i>		<u>4,001</u>	<u>4,538</u>
<i>Taxation</i>			
Corporation tax repaid		<u>47</u>	<u>~</u>
Tax repaid		<u>47</u>	<u>~</u>
<i>Capital expenditure and financial investment</i>			
Purchase of investments		<u>(21,002)</u>	<u>(35,127)</u>
Investments sold and matured		<u>30,318</u>	<u>39,448</u>
Purchase of tangible fixed assets	14	<u>(20)</u>	<u>(16)</u>
<i>Net cash (outflow)/inflow before management of liquid resources and financing</i>		<u>(9,296)</u>	<u>4,305</u>
<i>Financing</i>			
Issue of subordinated debt		<u>~</u>	<u>10,287</u>
<i>Increase/(Decrease) in cash in the year</i>	26	<u>86</u>	<u>(22,778)</u>

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

## *Notes to the Accounts*

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### *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.

#### *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.

## *Notes to the Accounts*

### *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. The Bank does not use hedge accounting in accounting for its derivative financial instruments.

*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. Any differences between contributions payable in the year and contributions actually paid would be shown as either accruals or prepayments in the balance sheet (note 31).

*m) Operating leases*

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

*n) Cash*

Cash 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.

## Notes to the Accounts

### 2 Segmental information

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

### 3 Administrative expenses

	2009 £'000's	2008 £'000's
Staff costs including Directors:		
Salaries	1,722	1,692
Social security costs	205	201
Other pension costs (note 31)	252	245
	<u>2,179</u>	<u>2,138</u>
Other administrative expenses	160	143
	<u>2,339</u>	<u>2,281</u>

The average number of persons employed by the Bank in 2009 was 34 (2008 ~ 35), made up as follows:

	2009	2008
Retail banking	6	6
Corporate banking	5	6
Treasury and dealing activities	7	7
Other support staff	16	16
	<u>34</u>	<u>35</u>

### 4 Directors' emoluments

The aggregate amount of emoluments paid to Directors consisted of:

	2009 £'000's	2008 £'000's
Fees	30	26
Salaries	118	115
	<u>148</u>	<u>141</u>

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:

	2009 £'000's	2008 £'000's
(i) Income:		
Profits from securities dealing ~ foreign exchange	(312)	(150)
Profits on disposal of debt securities	(157)	(420)
Net (profit)/loss on financial assets and liabilities; ~ designated at fair value through profit and loss	(2,239)	2,154
Net (profit)/loss on derivatives designated at fair value through profit and loss	(1,055)	3,332
(ii) Charges:		
Impairment	11,556	4,749
Depreciation on owned assets	89	93
Auditors' remuneration ~ statutory audit of annual accounts	91	91
Taxation services	28	23
Other services	5	27
Total non-audit fees	<u>33</u>	<u>50</u>
Rental on land and buildings	233	233

**6 Tax on loss on ordinary activities**

Based on loss for the year:

	2009 £'000's	2008 £'000's
United Kingdom corporation tax	~	~
Adjustments in respect of prior year periods	16	~
	<u>16</u>	<u>~</u>
Deferred tax ~ current year	2,438	2,314
Deferred tax ~ prior year adjustment	(6)	3
Total tax credit	<u>2,448</u>	<u>2,317</u>

## Notes to the Accounts

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

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:

	2009 £'000's	2008 £'000's
Loss on ordinary activities before tax	<u>(9,168)</u>	<u>(8,887)</u>
Tax charge/(credit) on profit/(loss) on ordinary activities at 28% (2008: 28.5%)	(2,567)	(2,533)
Effects of:		
Expenses not deductible for tax purposes	81	12
Depreciation in excess of capital allowances	7	10
Movement in short-term timing differences	~	~
Marginal relief	~	~
Prior-period adjustments	(16)	~
Other timing differences	(17)	(17)
Current tax year losses	<u>2,496</u>	<u>2,528</u>
Current tax credit/(charge) for the period	<u>(16)</u>	<u>~</u>

The UK standard corporation tax rate changed from 30% to 28% with effect from 1 April 2008. For year end 31 December 2008 a blended rate of 28.5% was used, for 2009 a rate of 28% was used.

The movement on deferred taxation balance in the period is:

	£'000's
Opening balance	2,494
(Charge)/Credit to profit and loss account	<u>2,432</u>
Closing balance	<u>4,926</u>
Analysis of deferred tax balance:	
Accelerated capital allowances	(33)
Tax losses	5,061
Short-term timing differences	<u>(102)</u>
Deferred tax assets recognised	<u>4,926</u>

**7 *Loans and advances to shareholder banks***

	2009 £'000's	2008 £'000's
Repayable		
~ on demand	7,056	3,135
~ within three months	89	3,138
~ between three months and one year	569	513
~ between one and five years	2,225	1,890
~ more than five years	~	472
	<u>9,939</u>	<u>9,148</u>

**8 *Loans and advances to other banks***

	2009 £'000's	2008 £'000's
Repayable		
~ on demand	27,981	25,240
~ within three months	17,490	9,352
~ between three months and one year	10,978	6,687
~ between one and five years	4,207	16,375
	<u>60,656</u>	<u>57,654</u>
Impairment (note 10)	(4,031)	~
	<u>56,625</u>	<u>57,654</u>

**9 *Loans and advances to customers***

	2009 £'000's	2008 £'000's
Repayable		
~ on demand	11,970	8,856
~ within three months	16,656	11,644
~ between three months and one year	5,719	13,567
~ between one and five years	19,098	24,839
~ over five years	3,977	3,311
Impairment (note 10)	(7,626)	(1,031)
	<u>49,794</u>	<u>61,186</u>

## Notes to the Accounts

### 10 Impairment losses

	2009 £'000's	2008 £'000's
At 1 January	7,396	3,033
Charge to profit and loss	11,556	4,749
Less: other movements	~	(386)
At 31 December	<u>18,952</u>	<u>7,396</u>

See accounting policy note 1(f) 'Impairment of financial assets'. The year end balance (in £'000's), of £18,952 comprises an impairment of £4,031 on loans and advances to banks, £7,626 to customers and £7,295 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:

	2009 £'000's	2008 £'000's
OECD	77,055	81,245
Jordan	41,863	30,246
Arab/Middle East	62,938	90,857
Other	15,166	16,838
	<u>197,022</u>	<u>219,186</u>

The following industry concentrations are considered significant:

	2009 £'000's	2008 £'000's
Government/Quasi-Government	27,600	22,818
Banks	71,592	70,277
Investment and Finance	22,230	25,797
Other	75,600	100,294
	<u>197,022</u>	<u>219,186</u>

*12 Debt securities*

2009	Govt securities £'000's	Other debt securities £'000's	Total £'000's
Designated at fair value through profit and loss	19,389	12,399	31,788
Held-to-maturity	~	35,459	35,459
At 31 December 2009	<u>19,389</u>	<u>47,858</u>	<u>67,247</u>

2008	Govt securities £'000's	Other debt securities £'000's	Total £'000's
Designated at fair value through profit and loss	19,690	16,106	35,796
Held-to-maturity	2,572	44,050	46,622
At 31 December 2008	<u>22,262</u>	<u>60,156</u>	<u>82,418</u>

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

	HTM £'000's	FVTPL £'000's	Total £'000's
At 1 January 2009	46,622	35,796	82,418
Additions	4,982	4,662	9,644
Disposals	(11,477)	(7,688)	(19,165)
Exchange adjustment	(3,381)	(4,264)	(7,645)
Fair value adjustment reversed	(823)	~	(823)
Fair value adjustment	466	3,282	3,748
Impairment (note 10)	(930)	~	(930)
At 31 December 2009	<u>35,459</u>	<u>31,788</u>	<u>67,247</u>

## Notes to the Accounts

### 13 Trading books

	2009 £'000's	2008 £'000's
Net gain from trading in debt securities	<u>2</u>	<u>1</u>

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
<i>Cost</i>			
At 31 December 2008	851	423	1,274
Additions	7	13	20
At 31 December 2009	<u>858</u>	<u>436</u>	<u>1,294</u>
<i>Depreciation</i>			
At 31 December 2008	705	219	924
Charge for the year	58	31	89
At 31 December 2009	<u>763</u>	<u>250</u>	<u>1,013</u>
<i>Net book value</i>			
At 31 December 2009	<u>95</u>	<u>186</u>	<u>281</u>
At 31 December 2008	<u>146</u>	<u>204</u>	<u>350</u>

### 15 Other assets

	2009 £'000's	2008 £'000's
Corporation tax recoverable	16	47
Derivatives at fair value (note 27)	~	59
Sundry loan receivables	998	624
	<u>1,014</u>	<u>730</u>

**16 Deposits by shareholder banks**

	2009 £'000's	2008 £'000's
Repayable		
~ on demand	29,606	19,735
~ within three months	95,281	109,518
~ between three months and one year	2,677	~
	<u>127,564</u>	<u>129,253</u>

**17 Deposits by other banks**

	2009 £'000's	2008 £'000's
Repayable		
~ on demand	993	1,068
~ within three months	20,381	30,542
~ between three months and one year	5,301	2,580
	<u>26,675</u>	<u>34,190</u>

**18 Customer accounts**

	2009 £'000's	2008 £'000's
Repayable		
~ on demand	8,801	8,566
~ within three months	8,599	12,088
~ between three months and one year	1,010	935
	<u>18,410</u>	<u>21,589</u>

**19 Other liabilities**

	2009 £'000's	2008 £'000's
Current UK corporation tax	~	~
Derivatives at fair value (note 27)	194	320
Tax and social security	59	63
Other liabilities	1,453	2,845
	<u>1,706</u>	<u>3,228</u>

## Notes to the Accounts

### 20 Subordinated loan liabilities

	2009 £'000's	2008 £'000's
At amortised cost:		
US\$15 million subordinated loan	<u>9,302</u>	<u>10,287</u>

During 2008 the Bank entered into a US\$15 million subordinated loan with its shareholders. 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

2009

	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
<i>Financial assets</i>					
Cash	~	~	~	266	266
Collection on banks	~	~	~	6,598	6,598
Loans and advances to shareholder banks	2,136	~	7,803	~	9,939
Loans and advances to other banks	~	~	56,625	~	56,625
Loans and advances to customers	2,791	~	47,003	~	49,794
Debt securities	31,788	35,459	~	~	67,247
Other financial assets	~	~	~	1,014	1,014
Accrued income	~	~	~	36	36
	<u>36,715</u>	<u>35,459</u>	<u>111,431</u>	<u>7,914</u>	<u>191,519</u>
<i>Financial liabilities</i>					
Deposits from shareholder banks	~	~	~	127,564	127,564
Deposits from other banks	~	~	~	26,675	26,675
Deposits from customers	~	~	~	18,410	18,410
Other financial liabilities	~	~	~	1,706	1,706
Accruals	~	~	~	994	994
Subordinated liabilities	~	~	~	9,302	9,302
	~	~	~	<u>184,651</u>	<u>184,651</u>

21 Summary of financial assets and liabilities (continued)

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
<b>Financial assets</b>					
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	~	~	~	730	730
Accrued income	~	~	~	1,239	1,239
	<u>48,716</u>	<u>44,393</u>	<u>117,297</u>	<u>5,613</u>	<u>216,019</u>
<b>Financial liabilities</b>					
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	~	~	~	1,548	1,548
Subordinated liabilities	~	~	~	10,287	10,287
	<u>~</u>	<u>~</u>	<u>~</u>	<u>200,095</u>	<u>200,095</u>

## Notes to the Accounts

### 22 Called-up share capital

	2009 £'000's	2008 £'000's
<i>Authorised:</i>		
25,000,000 (2008: 25,000,000) ordinary shares of £1 each	<b>25,000</b>	25,000
<i>Called-up, allotted and fully paid:</i>		
20,000,000 (2008: 20,000,000) ordinary shares of £1 each	<b>20,000</b>	20,000

### 23 Share premium

	2009 £'000's	2008 £'000's
At 31 December	<b>316</b>	316

### 24 Reconciliation of movements in shareholders funds and reserves

	2009 £'000's	2008 £'000's
<i>Shareholders funds</i>		
Loss for the financial year	(6,720)	(6,570)
Opening shareholders funds	<b>19,091</b>	25,661
Closing shareholders funds	<b>12,371</b>	19,091
<i>Reserves</i>		
Loss for the financial year	(6,720)	(6,570)
Profit and loss at 1 January	<b>(1,225)</b>	5,345
Profit and loss at 31 December	<b>(7,945)</b>	(1,225)

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

	2009 £'000's	2008 £'000's
Operating loss before tax	(9,168)	(8,887)
Interest received on debt securities	(4,001)	(4,538)
Decrease/(Increase) in prepayments and accrued income	1,231	(191)
Decrease in accruals and deferred income	(554)	(9)
Loss/(Profit) on sale of debt securities	867	(368)
Amortisation of (discounts)/premiums	(104)	(228)
Depreciation	89	93
Fair value changes in financial assets	(2,239)	2,154
Fair value changes in derivatives	(1,055)	3,332
Impairment (net of recoveries)	11,556	4,749
Exchange adjustment	(685)	(45,108)
Net cash outflow from trading activities	(4,063)	(49,001)
Net decrease in loans and advances	15,892	12,690
Net decrease in deposits	(22,179)	(7,220)
Net increase in other assets and liabilities	(2,908)	1,623
Net cash outflow from operating activities	<u>(13,258)</u>	<u>(41,908)</u>

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

	2009 £'000's	2008 £'000's	Change in year £'000's
Cash	266	226	40
Collections on other banks	6,598	3,418	3,180
Loans and advances to shareholder banks	7,056	3,135	3,921
Loans and advances to other banks	27,981	25,240	2,741
Deposits by shareholder banks	(29,606)	(19,735)	(9,871)
Deposits by other banks	(993)	(1,068)	75
	<u>11,302</u>	<u>11,216</u>	<u>86</u>

## Notes to the Accounts

### 27 Derivatives at fair value

2009	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	56,695	~	55
~ for hedging purposes	<u>1,860</u>	<u>~</u>	<u>~</u>
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	<u>37,334</u>	<u>~</u>	<u>2,792</u>
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	<u>2,057</u>	<u>~</u>	<u>~</u>
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	<u>47,564</u>	<u>~</u>	<u>3,960</u>

The Bank enters into derivative instruments solely for hedging purposes for managing interest rate and foreign exchange exposures. The fair value of the derivatives above have been included within debt securities and loans and advances.

### 28 Assets and liabilities in foreign currencies

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

	2009 £'000's	2008 £'000's
Assets	142,039	166,365
Liabilities	<u>133,604</u>	<u>169,741</u>

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 & 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 2009 is estimated (£'000's) at £2,792 (2008: £3,960) on the contracts with a book value of £37,334 (2008: £47,564). 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- and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements is represented as follows:

	2009 £'000's	2008 £'000's
<i>On-balance sheet</i>		
Loans and advances to shareholder banks	9,939	9,148
Loans and advances to other banks	56,625	57,654
Loans and advances to customers	49,794	61,186
Debt securities	<u>67,247</u>	<u>82,418</u>
<i>Off-balance sheet</i>		
Letters of guarantee	<u>5,464</u>	<u>5,912</u>

*Distribution of loans and advances by credit quality*

	At 31 December 2009		At 31 December 2008	
	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	42,589	65,944	51,707	66,802
~ past due but not impaired loans and receivables at amortised cost;				
Less than 3 months	~	~	3,662	~
3 to 12 months	~	~	3,192	~
1 to 5 years	~	~	~	~
~ impaired	14,832	4,651	3,656	~
Less: provisions	(7,627)	(4,031)	(1,031)	~
	<u>49,794</u>	<u>66,564</u>	<u>61,186</u>	<u>66,802</u>

*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.

## Notes to the Accounts

### 29 Risk management (continued)

#### Impaired assets

##### ~ Loans and advances to banks

Total impaired loans to Banks were £4.6 million at 31 December 2009, representing 6% of gross loans and advances to Banks. Provisions were made against two loans extended to Banks within the MENA region where doubt was expressed over their recoverability.

##### ~ Loans and advances to customers

Total impaired loans to customers were £14.8 million at 31 December 2009 compared to £3.6 million at 31 December 2008. This level of impairment represents 26% and 6% of gross loans to customers respectively. New provisions and increases on previously agreed provisions were made against a number of corporate loans in the UK and MENA regions, which were considered to be impaired. Doubt had been expressed over the recoverability of these loans, in cases where loans were extended on an unsecured basis or where security taken against these loans was considered insufficient to retire the outstanding loans.

##### ~Debt securities

One new provision and an increase in another provision were made against securities during 2009. With regard to the former, a provision was deemed necessary against an exposure to a corporate in Kuwait where uncertainty was expressed over the ultimate recoverability of monies due under agreed restructuring plans. A further increase in provision was also agreed against an exposure where losses on asset sales had further increased.

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

	At 31 December 2009		At 31 December 2008	
	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	~	28,982	~	15,195
Non-investment grade	~	~	~	6,000
Unrated	42,589	36,962	51,707	45,607
	<u>42,589</u>	<u>65,944</u>	<u>51,707</u>	<u>66,802</u>

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 2009		At 31 December 2008	
	Govt securities	Other debt securities	Govt securities	Other debt securities
	£'000's	£'000's	£'000's	£'000's
AA- to A+	5,067	18,624	3,108	13,775
Lower than A	7,710	12,768	10,362	24,016
Unrated	6,612	13,271	8,792	19,886
	<u>19,389</u>	<u>44,663</u>	<u>22,262</u>	<u>57,677</u>
Impaired	~	3,195	~	2,479
	<u>19,389</u>	<u>47,858</u>	<u>22,262</u>	<u>60,156</u>

Loans and receivables at fair value through profit or loss.

2009

	Fair value at 1 January £'000's	Change during year		Other movement £'000's	Fair value at 31 December £'000's
		Credit risk £'000's	Other risk £'000's		
<i>Maximum exposure to credit risk</i>					
Loans and advances to shareholder banks	2,687	~	(181)	(472)	2,034
Loans and advances to other banks	503	~	12	(515)	~
Loans and advances to customers	4,026	~	(226)	(1,101)	2,699
	<u>7,216</u>	<u>~</u>	<u>(395)</u>	<u>(2,088)</u>	<u>4,733</u>

2008

	Fair value at 1 January £'000's	Change during year		Other movement £'000's	Fair value at 31 December £'000's
		Credit risk £'000's	Other risk £'000's		
<i>Maximum exposure to credit risk</i>					
Loans and advances to shareholder banks	2,356	~	675	(344)	2,687
Loans and advances to other banks	1,823	~	~	(1,320)	503
Loans and advances to customers	2,366	~	837	823	4,026
	<u>6,545</u>	<u>~</u>	<u>1,512</u>	<u>(841)</u>	<u>7,216</u>

### 29 Risk management (continued)

#### *Fair value measurements*

The fair value of the financial assets have been based on quoted prices for debt securities and on observable market data for interest rate swaps attached to relevant loans and advances.

#### *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 & 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 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 2009 to £155 million (2008: £163 million). Funding from customer accounts decreased by 18% during 2009 to £18 million (2008: £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.

#### *New FSA Liquidity Regime*

In October 2009 the FSA published their final Policy Statement 'PS 09/16 – Strengthening Liquidity Standards'. The policy statement confirmed the requirements of Banks in the following areas:

- a) *Systems and Controls;*
- b) *Quantitative Requirements; and*
- c) *Data Reporting.*

#### *a) Systems and Controls*

The FSA have revised the Systems and Controls requirements of Banks in the areas of liquidity risk management, stress testing and contingency funding. These new requirements are contained within BIPRU 12.3 and BIPRU 12.4 of the FSA Handbook and were required to be adopted by Banks by 1 December 2009. A detailed review and analysis was performed by the Bank's Executive Committee (EXCO) on the requirements set out in BIPRU 12.3 and BIPRU 12.4. This analysis detailing both the Bank's compliance with the requirements and recommended action plans to address outstanding issues was submitted to, and approved by, the Board of Directors. The updating of the Bank's policies and procedures has begun and will continue throughout 2010 as the Bank prepares to meet the FSA's deadline of quarter 4 2010 for the new quantitative requirements and data reporting.

29 Risk management (continued)

b) Quantitative requirements

The FSA has introduced a new domestic quantitative framework for liquidity management. This new quantitative framework will be implemented via new Individual Liquidity Adequacy Standards (ILAS). Under the ILAS regime Banks and other ILAS BIPRU firms will be required to carry out an Individual Liquidity Adequacy Assessment (ILAA) of the type and quality of liquidity resources it thinks it should hold against the sources of liquidity risk that could occur under relevant stress scenarios. The Bank intends to adopt the Standardised ILAS regime in preference to the simplified ILAS regime.

The Bank has already commenced work on the production of its ILAA, with significant work undertaken on reviewing and enhancing its stress testing scenario framework. Work will continue on this during 2010 in anticipation of its submission to the FSA in the fourth quarter of 2010.

c) Data reporting

Plans have already been made with our FSA software supplier to ensure that the Bank will be able to satisfy its data reporting requirements that will become operative from 1 October and 1 November 2010 switch on dates.

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).

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
<b>At 31 December 2009</b>						
Deposits by shareholder's	28,972	95,374	2,741	~	~	127,087
Deposits by other banks	2,461	20,370	5,346	~	~	28,177
Customer accounts	8,801	8,423	1,192	~	~	18,416
Subordinated liabilities	~	~	~	9,302	~	9,302
Derivatives	14,410	18,121	8,832	~	~	41,363
	<u>54,644</u>	<u>142,288</u>	<u>18,111</u>	<u>9,302</u>	<u>~</u>	<u>224,345</u>

## Notes to the Accounts

### 29 Risk management (continued)

	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	~	~	131,084
Deposits by other banks	1,153	29,237	3,309	~	~	33,699
Customer accounts	8,163	12,084	1,386	~	~	21,633
Subordinated liabilities	~	~	~	10,287	~	10,287
Derivatives	~	37,162	1,298	2,350	~	40,810
	29,689	189,004	6,183	12,637	~	237,513

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, collections on other banks (2009: £6,864, 2008: £3,644); loans and advances to shareholder banks (2009: £9,939, 2008: £9,148) including £7,714 (2008: £6,785) repayable within one year; loans and advances to other banks (2009: £60,656, 2008: £57,654) including £56,449 (2008: £41,279) repayable within one year. In addition Jordan International Bank held debt securities marketable at a value of £67,247 (2008: £82,418). None of these assets were pledged to secure liabilities. Undrawn loan commitments at 31 December 2009 stood at £3,101 (2008: £5,252).

Jordan International Bank would meet unexpected net cash outflows by primarily seeking additional funding from its shareholder funds, the 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 & Liability Committee (ALCO) using risk limits approved by the Executive Committee (EXCO) or the Board of Directors.

#### Sensitivity analysis of market risk

The tables opposite 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.

29 Risk management (continued)

At 31 December 2009

	US Dollars		% change in US\$/£ exchange rate			
	US\$000's	£'000's	-10% £'000's	-20% £'000's	+10% £'000's	+20% £'000's
Total assets	161,265	100,003	111,115	125,004	90,912	83,336
Total liabilities	(163,704)	(101,516)	(112,795)	(126,894)	(92,287)	(84,596)
Forward contracts	2,502	1,552	1,724	1,939	1,410	1,293
Net	63	39	44	49	35	33
Movement	~	~	5	10	(4)	(6)

	Euros		% change in Euro/£ exchange rate			
	Euro000's	£'000's	-10% £'000's	-20% £'000's	+10% £'000's	+20% £'000's
Total assets	34,878	31,147	34,608	38,934	28,316	25,956
Total liabilities	(32,580)	(29,095)	(32,328)	(36,369)	(26,450)	(24,246)
Forward contracts	(2,047)	(1,828)	(2,031)	(2,285)	(1,662)	(1,523)
Net	251	224	249	280	204	187
Movement	~	~	25	56	(20)	(37)

At 31 December 2008

	US Dollars		% change in US\$/£ exchange rate			
	US\$000's	£'000's	-10% £'000's	-20% £'000's	+10% £'000's	+20% £'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			
	Euro000's	£'000's	-10% £'000's	-20% £'000's	+10% £'000's	+20% £'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)

## Notes to the Accounts

### 29 Risk management (continued)

#### 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 below 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.

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

#### Pounds Sterling

	2009		2008	
	gap £M's	£'000's	gap £M's	£'000's
Up to 15 days	11.96	234	11.46	224
15 days to 1 month	(1.26)	(24)	(1.49)	(28)
1-2 months	(9.29)	(162)	(3.92)	(68)
2-3 months	4.37	69	4.90	78
3-4 months	(0.54)	(8)	(0.27)	(4)
4-5 months	(0.04)	~	4.90	61
5-6 months	1.98	21	0.04	~
6-9 months	~	~	~	~
9-12 months	1.91	5	(0.08)	~
Total	9.09	135	15.54	263

29 Risk management (continued)

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

US Dollars

	2009		2008	
	gap £M's	£'000's	gap £M's	£'000's
Up to 15 days	(5.75)	(113)	(19.45)	(381)
15 days to 1 month	(4.34)	(81)	(28.40)	(532)
1-2 months	5.62	98	22.31	390
2-3 months	1.19	19	6.22	98
3-4 months	9.34	132	14.92	211
4-5 months	(7.57)	(95)	(8.01)	(100)
5-6 months	5.22	57	15.15	164
6-9 months	(1.35)	(10)	2.50	19
9-12 months	(0.20)	~	(0.90)	(2)
Total	2.16	7	4.34	(133)

Assuming no management actions, such an increase in the yield curve would result in a increase in planned net interest income for 2009 in the currencies stated by £142,000 (2008: increase £130,000). These figures incorporate the impact of all financial derivatives attached to the underlying exposures.

**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.

### *29 Risk management (continued)*

#### **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.

##### *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 & 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.

*29 Risk management (continued)*

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*

This comprises Shareholders funds including share capital, share premium and retained earnings. The FSA's rules permit the inclusion of profits/(losses) in Tier 1 capital to the extent they have been verified in accordance with the FSA's General Prudential Sourcebook by the external auditor. Verification procedures covering losses for the year to 31 December 2009 were completed by the external auditor on 13 May 2010 and therefore these losses have been included in the Bank's Tier 1 capital.

*~ 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.

## Notes to the Accounts

### 29 Risk management (continued)

2009 (unaudited)	£'000's
<b>Movement in capital resources</b>	
At 1 January	28,636
2009 losses	(6,720)
Amortisation of Tier 2 subordinated debt	(2,846)
Excess on Tier 2 capital	(513)
	<u>18,557</u>
<b>Tier 1</b>	
Permanent share capital	20,000
Profit and loss	(7,945)
Share premium	316
	<u>12,371</u>
<b>Tier 2</b>	
Lower Tier 2 subordinated loan	7,441
Excess on limits	(1,255)
	<u>6,186</u>
<b>Total capital resources</b>	<u>18,557</u>
<b>Variable capital requirement</b>	
Credit and counterparty risk	11,397
Operational risk	484
Market risk	9
Total variable capital requirement	<u>11,890</u>
Surplus of own funds	<u>6,667</u>
<b>Capital ratios</b>	
Tier 1 capital	9.05%
Total capital	13.58%

## 29 Risk management (continued)

## Analysis of credit risk

	Capital Requirement £'000's
<i>Exposure classes</i>	
Central Government/Central Banks	1,684
Regional Government/Local Authorities	~
Institutions	740
Corporates	3,802
Retail	132
Secured on real estate property	475
Past due items	1,268
Short-term claims on institutions and corporates	2,785
Other items	47
	<u>10,933</u>
2008 (unaudited)	£'000's
<b>Movement in capital resources</b>	
At 1 January (as adjusted for 2007 results)	25,661
2008 losses	(6,570)
Subordinated liabilities	10,287
Less excess on limits	(742)
	<u>28,636</u>
<b>Tier 1</b>	
Permanent share capital	20,000
Profit and loss	(1,225)
Share premium	316
	<u>19,091</u>
<b>Tier 2</b>	
Lower Tier 2 subordinated loan	10,287
Excess on limits	(742)
	<u>9,545</u>
<b>Total capital resources</b>	<u>28,636</u>

## Notes to the Accounts

### 29 Risk management (continued)

#### Variable capital requirement

Credit and counterparty risk	13,492
Operational risk	730
Market risk	8
Total variable capital requirement	<u>14,230</u>
Surplus of own funds	<u>14,406</u>

#### Capital ratios

Tier 1 capital	11.32%
Total capital	16.98%

#### Analysis of credit risk

<i>Exposure classes</i>	Capital Requirement £'000's
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
	<u>13,492</u>

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 2009

	Non-trading book	
	Book value £'000's	Fair value £'000's
<i>Assets</i>		
Loans and advances designated at fair value through profit and loss	4,927	4,927
Other loans and receivables at amortised cost	111,431	113,831
Debt securities designated at fair value through profit and loss	31,788	31,788
Debt securities held-to-maturity	35,455	35,455
<i>Liabilities</i>		
Deposits by banks and customers at amortised cost	172,649	172,649

At 31 December 2008

	Non-trading book	
	Book value £'000's	Fair value £'000's
<i>Assets</i>		
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
<i>Liabilities</i>		
Deposits by banks and customers at amortised cost	185,032	185,032

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.

## Notes to the Accounts

### 30 Fair values of financial instruments (continued)

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. (2008: £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 2009 were £44,995 (2008: £56,936).

### 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	
	2009	2008
	£'000's	£'000's
Leases which expire after five years or more	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 2009. All transactions with shareholder banks are undertaken on commercial terms and there have been no changes in these terms during the year. Emoluments paid to Directors of the Bank during 2009 totalled £148,000 (2008: £141,000) (note 4).

### 36 Controlling party

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

### 37 Post balance sheet event

As previously noted in the Chairman's Report it is intended that The Housing Bank for Trade & Finance and Arab Jordan Investment Bank will increase their respective shareholdings to 60% and 25% respectively through the acquisition of the holdings of the other shareholders other than the Government of the Hashemite Kingdom of Jordan. The transaction is subject to the consent of the UK Financial Services Authority which is currently being sought.

