Pillar 3 Report 2018

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1. BACKGROUND

1.1 Regulation

This document sets out the Pillar 3 disclosures for Jordan International Bank (the Bank or JIB) as at 31 December 2018.

The European Union Capital Requirements Regulation (CRR) and Directive (CRD) came into effect on 1 January 2007. In particular articles 431 to 455 of the CRR specify the Pillar 3 framework requirements. The CRD IV legislative package came into force on 1st January 2014.

The disclosure requirements of Pillar 3 are designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes.

Pillar 3 aims to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

The EU's Capital Requirements Regulation (CRR) introduced further enhancements for the Pillar 3 disclosures from 2015, 2016, 2017 and 2018. The enhancements up to and including 2018 have been included within this document. Further enhancements to the Pillar 3 disclosures are scheduled to be introduced in 2019 and 2020.

1.2 Basis and Frequency of Disclosures

The Pillar 3 disclosures are published annually, concurrently with the Annual Report and Accounts. In accordance with regulatory guidelines, the frequency of disclosure will be reviewed should there be any material change in any approach used for the calculation of capital, business structure (e.g. scale of operations, range of activities or involvement in different financial sectors) or regulatory requirements.

The description of the Bank's governance, methods and processes reflects the position as at 31 December 2018.

The data contained in the Bank's Pillar 3 disclosures are calculated in accordance with CRD IV regulatory capital requirements.

Scope of disclosures

The Pillar 3 disclosures in this document relate to JIB which has no subsidiaries.

Governance

The Bank's Executive Committee attests to the accuracy of the data and at the same time consistency checks and reconciliations were performed with the Bank's 2018 Annual Report and Accounts and regulatory returns where applicable.

These disclosures have been subject to internal verification and have been reviewed by the Board's Audit Committee (BAC) on behalf of the Board. The Board approves the Pillar 3 document.

These disclosures have not been externally audited and do not constitute any part of the Bank's Financial Statements; however, some of the information within the disclosures also appears in the Annual Report and Accounts.

JIB's Pillar 3 disclosures are published on the Bank's website: www.jordanbank.co.uk.

Regulatory position

CRR introduced disclosure requirements relating to risk management, corporate governance, capital resources, unencumbered assets and leverage.

JIB has allocated specific resource to identify future regulatory change and to develop the Banks's regulatory compliance framework to meet any applicable change.

The regulatory landscape continues to evolve and forthcoming changes such as the ongoing Basel consultation on risk weightings and implementation of new International Financial Reporting Standards have the potential to alter further capital requirements across the industry.

2. OVERVIEW OF RISK MANAGEMENT

2.1 Business Model

JIB is engaged predominantly in lending to property developers and property investors in the UK, coupled with trade finance and correspondent banking arising from its inter-bank relationships within the Middle East & North Africa (MENA) region.

The Bank also provides deposit products and some basic private banking services to retail and small business customers, primarily from the UK, Jordan and the wider Middle East region.

The Bank has a Treasury department which predominantly manages the liquidity of the Bank and has a holding of securities for investment purposes.

The principal activities of the Bank are considered in more detail below.

Property finance

The property financing is primarily focused in London and South East England.

The underlying loan book comprises two different types of loan. The two types of loans are 'development loans' and income producing real estate loans ('investment loans').

Treasury operations

Treasury operations consist of foreign exchange, cash management and a portfolio of securities, both High Quality Liquid Assets (HQLA) and non HQLA both with fixed and floating rate coupons.

Foreign exchange transactions are executed on behalf of/or with a range of Middle Eastern counterparties and are hedged. They are also used to manage/hedge the Bank's own foreign exchange exposure.

The Treasury department's key functions are to manage the Bank's liquidity position and to generate a revenue stream from the securities portfolio. The securities portfolio also provides liquidity via holdings of HQLA.

The Treasury function raises deposits from a range of wholesale financial institutions, including shareholder banks, former shareholder banks, other Middle Eastern banks and the Central Bank of Jordan. The Bank also accepts deposits from UK and Middle Eastern retail depositors.

Trade finance

Trade finance products are provided to/with Financial Institutions predominantly in the MENA region.

The products offered by the Bank include confirming and discounting Letters of Credit and Guarantees coupled with trade loans and promissory notes.

Private Banking

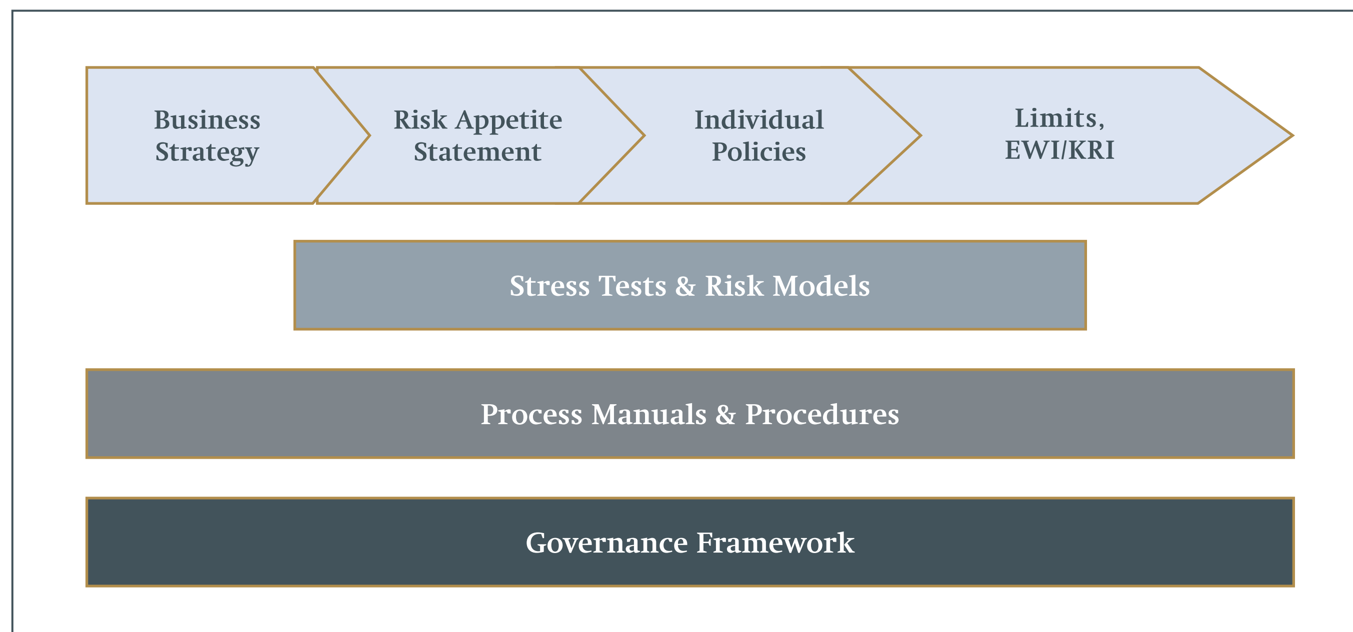
The Private Banking department services the UK banking requirements of a number of Jordanian and other Middle Eastern High Net Worth nationals (HNWs) and provides access to the UK markets with current, notice and short term fixed deposit accounts. The Bank also provides fixed term deposit products to UK retail depositors.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

The overarching framework

The risk management framework sets the structure for managing risk in JIB. The overarching framework is illustrated below.



The Bank has in place an Enterprise Wide Risk Management Framework which provides oversight and management of all of the daily operations and risks faced by the Bank in the pursuit of its business activities, strategic objectives and financial goals.

The risk management framework aims to provide JIB with a common structure and similar measures across the Bank to assist the Board and Senior Management to understand, evaluate and communicate the categories and level of risk they are prepared to accept.

The framework also ensures that material emerging risks and risk taking activities beyond the Risk Appetite Statement are acknowledged, escalated and addressed in a timely fashion.

The risk management framework details how JIB approaches its risk capacity, how it identifies risks, how it is interlinked with the risk appetite and how this is cascaded down to JIB business units.

The roles and responsibilities for risk management are defined under a 'three lines of defence' model, where for each line of defence (risk owners, risk control owners and audit and governance bodies) a specific set of responsibilities for risk management and control are described.

Risk management methodology

JIB risks taxonomy is established based on the business strategy and associated business processes. High level risks are identified and levels of tolerances accepted to implement the business strategy as well as the regulatory obligations which need to be met in order to achieve the Board's strategic objectives and financial goals.

JIB has defined its risk capacity in relation to capital and liquidity (and various other measures as defined in its Risk Appetite Statement) being determined as the maximum tolerable level of financial loss acceptable, given the Bank's risk appetite and constraints determined by regulatory requirements. Risk capacity is part of JIB Risk Appetite Statement and is reviewed annually.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Risk management methodology

All risks are described and documented in the Risk Appetite Statement together with established tolerances. The Risk Appetite Statement will include the following:

- **Risk identification** – describes the risk and how it applies to the Bank
- **Stated risk appetite** – describes the Bank's appetite and tolerance in relation to the identified risk
- **Core risk metrics** – defines how the Bank quantifies and measures each risk
- **Target** – establishes the tolerance limits accepted
- **Risk owner** – identifies who is responsible for managing and measuring that risk. In addition it describes the role played by the first, second and third line of defence.

All risks are monitored at regular intervals appropriate for the risk type. For that purpose management information will be established with Early Warning Indicators and an action plan to activate once those triggers have been reached.

The management information will include metrics that clearly identify the levels of risk to which the Bank is exposed.

Governance Framework – in order to implement a strong risk culture, robust governance is in place and documented with clear definition of roles and responsibilities.

Business Strategy – is the first element of the risk and governance framework and establishes the Bank's financial and strategic goals and business model. This document should present a 3 to 5 year view and be updated on an annual basis by the Executive Committee and approved by the Board.

Risk Appetite Statement – will be defined based on the business strategy, and identifies the high level tolerances the Board is willing to accept in order to achieve the business objective. The Board is responsible for setting the Bank's risk capacity and the aggregate risk appetite, with the Chief Risk Officer having the responsibility of producing the relevant documentation. The Risk Appetite Statement will be reviewed annually together with the Business Strategy.

Individual Policies – based on the Risk Appetite Statement, lower level risks will be identified together with the relevant risk tolerances. The granularity of the individual risks and tolerances will depend on their relevance to and level of potential impact on the business strategy. The individual risk policies and level of granularity should be reviewed and updated annually, or where there is a material change to the Bank's business.

Policies should be considered for all identified risks and are likely to include the following items:

- **Policy purpose and scope** – identify the reason for the policy as well as the boundaries to which the policy applies
- **Policy content** – describe the policy statement which should include all applicable rules
- **Governance** – with well-defined reporting lines, identify all related staff, supporting committee structures and assigned roles and responsibilities and escalation procedures
- **Risk control and management information** – identify management information, establish controls and the monitoring process
- **Associated documents** – identify all other related policy documents that are part of the same process.

Limits, EWI/KRI and Mitigation Plans – Limits, EWI (Early Warning Indicators) and/or KRI (Key Risk Indicators) should be determined for each of the major individual risks identified. A strong set of management information should be established to monitor the limits, EWI/KRI and eventual impacts on the business strategy. A clear action plan should be defined for breaches of triggers and/or limits. EWI/KRI and related actions plans should be reviewed annually together with individual risk statements.

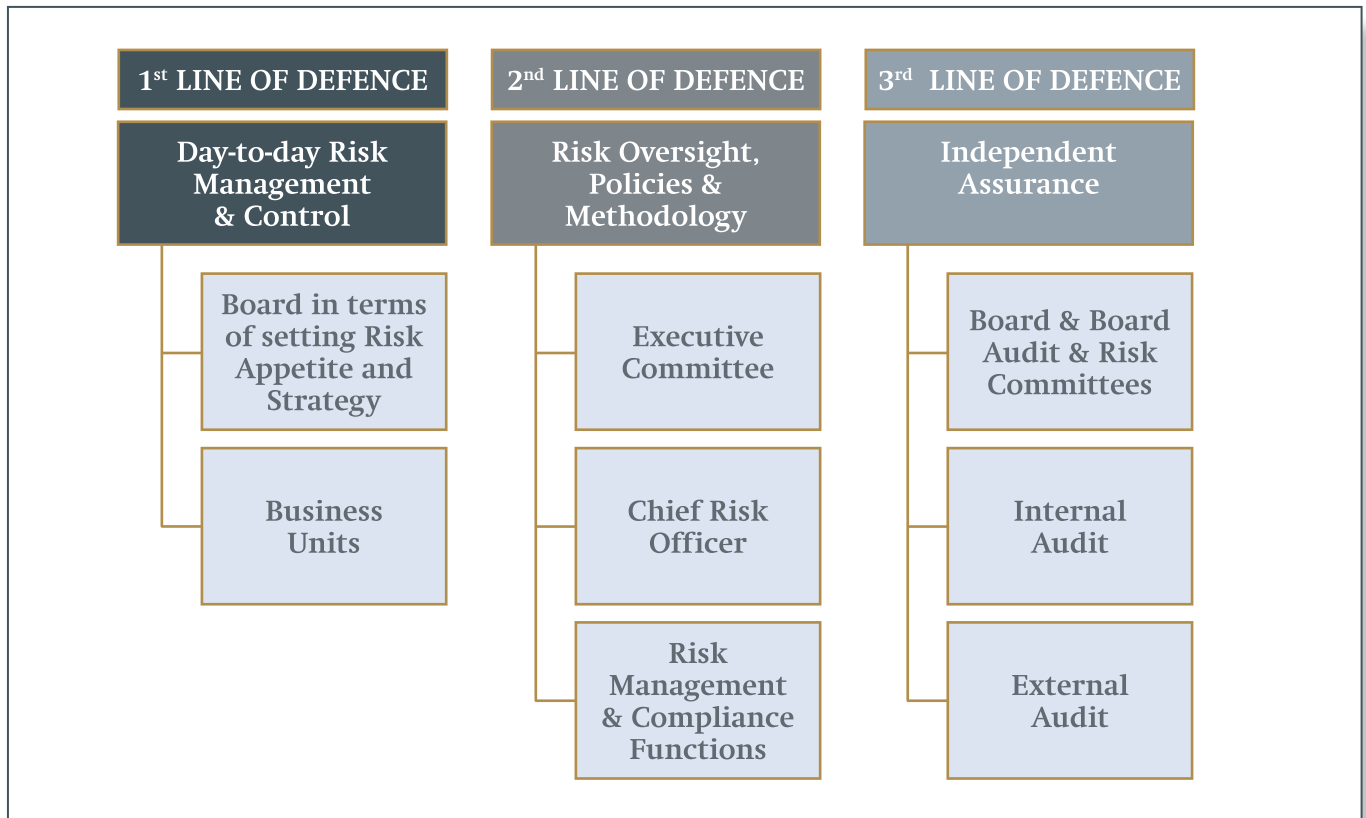
Stress Test/Risk Models – some risks require regulatory stress tests and/or risk models. For each of the individual risks that require stress tests and/or risk models a stress test and/or risk model policy should be established and monitored.

Procedures – procedures should describe the actions taken to comply with JIB's business strategy and the associated risk policies.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Three lines of defence



First line of defence

The Board of Directors has a key role in the first line of defence as it establishes and communicates a clear set of policy boundaries and limits in keeping with the Bank's risk appetite, business strategy and financial targets.

The first line of defence is the front line business units. They are the risk owners. Business and operational managers are responsible for managing the risks related to their businesses/functions and for implementing corrective actions to address process and control deficiencies. Every employee should ensure the effective management of risks within the scope of their direct organisational responsibilities.

The business heads are responsible and accountable for ensuring compliance with these policies within their respective businesses and functions.

All employees are required to ensure the effective management of risks within the Bank's articulated risk appetite, according to the limits structure in place and the scope of their direct organisational responsibilities.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Second line of defence

The second line of defence comprises the respective control functions. They are the risk control owners.

The risk control owners are responsible for ensuring that the risks remain within the defined risk appetite, for establishing adequate policies, procedures and structures for managing risks as well as for overseeing the effectiveness of the monitoring and management of risks that the first line undertakes.

The control owners are the control and risk functions, the Chief Risk Officer (CRO) and the Executive Committee (ExCo).

JIB's Chief Executive Officer (CEO) has a central role in the second line for defence as chairperson of ExCo.

Third line of defence

The third line of defence is the independent assurance provided by the Bank's Internal Audit (IA) function and the Bank's external auditors. Their roles are defined, approved and overseen by the Audit Committee.

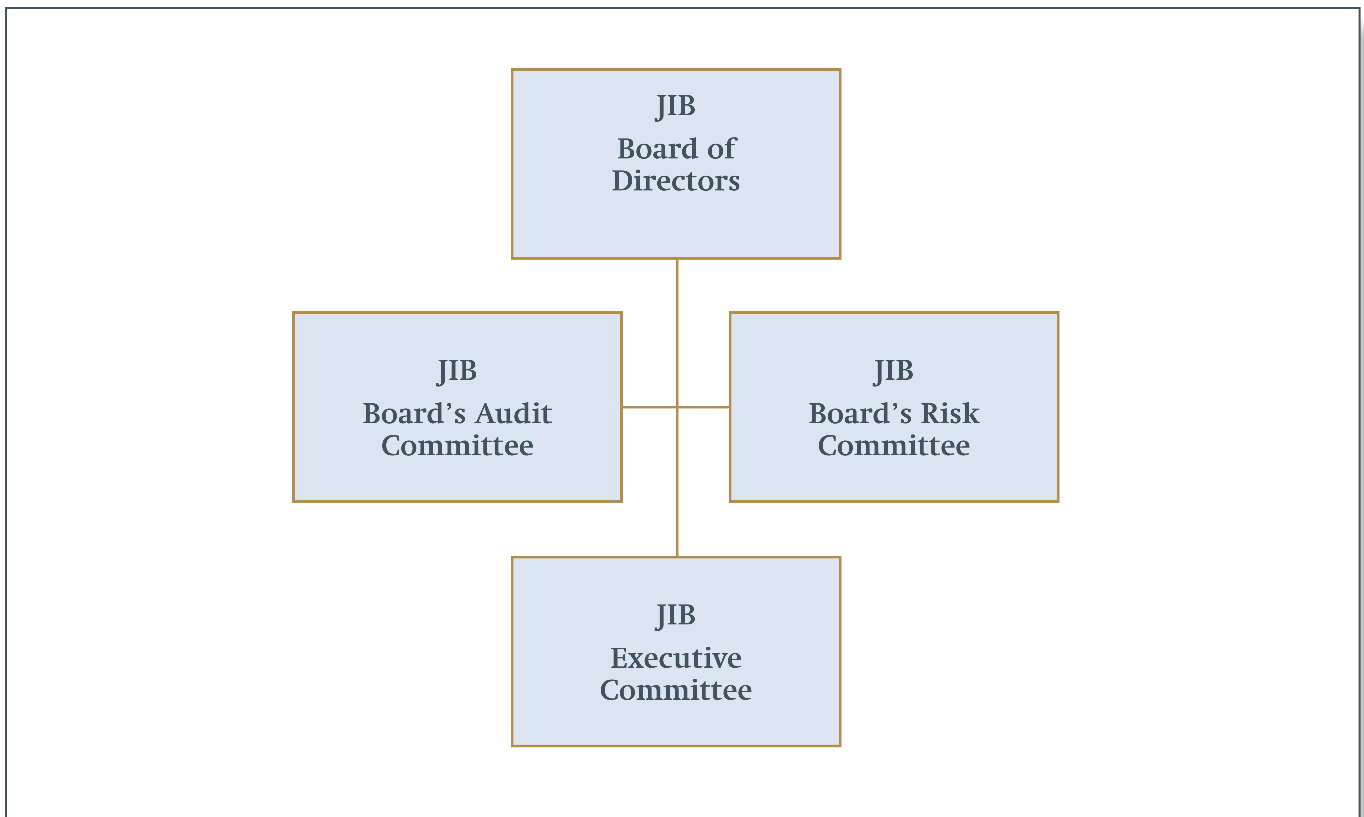
Internal and external audit assess whether appropriate controls are applied, assurance processes are in place and encourage process and control improvement over time.

All audit findings and follow-up are reported to the Board's Audit Committee and ExCo, the latter monitoring the findings and ensuring weaknesses are remediated within a given period.

The governance structure

The Bank's business strategy is underpinned by a strong governance structure, headed by the Board of Directors. The Board delegates day-to-day responsibility for risk management to JIB's Executive Committee (ExCo).

The following chart outlines the Bank's Board and governance process through committees.



2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

The Board of Directors

The Board is ultimately responsible for setting the Bank's Risk Appetite Statement and must ensure that this is accurately reflected in the Bank's business plan and strategy, and in particular, the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The Board is responsible for defining risk policy (via the Risk Appetite Statement), and must approve any amendments to policies.

Where the Board have changed their business strategy and/or their risk appetite, they must ensure that the associated policies have been updated and that all changes are communicated to each 'line of defence'.

The Board of Directors receive quarterly management reports on all major risk areas from the Board's Risk and Audit Committees for review.

The Board's terms of reference are defined in the Bank's Memorandum and Articles of Association. These documents are supported by a Matters Reserved for the Board document dated 13th September 2018.

The Board has ultimate responsibility for all decisions. It meets at least four times per year. As of 31 December 2018 the Board of Directors was comprised of the following members:

Chairman – Mr Ammar Al-Safadi - CEO of The Housing Bank for Trade and Finance (HBTF)

Deputy Chairman – Mr Ian Schmiegelow – Independent Non-Executive Director

Mr Hani Al-Qadi – CEO of Arab Jordan Investment Bank (AJIB)

Mr Samer Al-Qadi – Head of Treasury of AJIB

Mr Rakan Al-Tarawneh – CEO of JIB

Mr Adel Assad – Group CRO of HBTF

Mr Riyad Taweel – Head of Treasury of HBTF

Mr Nabil Hamadeh – Independent Non-Executive Director

Mr Mark Williams – CFO of JIB

The Board therefore comprises five representatives of the shareholders, two independent Non-Executive Directors and two Executive Directors being the Bank's Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

The Board members receive a comprehensive 'Board pack' for each meeting, along with other documents relating to specific issues to be addressed at the Board meeting.

The Board pack includes reports of developments, initiatives and issues across all areas of the Bank, detailed financial commentary and analysis, credit watch-list reports and a report from the Chairs of the Audit Committee and the Risk Committee. The Board also review minutes of the previous Board meeting and matters arising, together with minutes of previous Audit, Risk and Exco Committees.

The Board is responsible for seeing that clear escalation procedures are in place to ensure it receives immediate notification of all 'high risk' incidents, including risk exposures that are outside its risk appetite, operational incidents, triggers of EWIs, breaches of regulatory or legislative requirements and data breaches. Any incident must be accompanied by an appropriate risk mitigation plan if considered necessary, or, if not, undergo formal risk acceptance. The Board must agree on a final Risk Mitigation Plan and its implementation must be overseen by the Chief Risk Officer and ExCo.

Various responsibilities are delegated to the Board's committees as listed below. The committees meet as determined by their individual terms of reference (TOR), which have been approved by the Board and are regularly reviewed and updated, or when necessary.

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Board Audit Committee

This is a non-executive committee that supports the Board in carrying out its responsibilities for financial reporting and in respect of internal and external audit risk assessment. It also monitors Compliance, Conduct and Financial Crime Risk. The Committee must meet at least four times per year. The Audit Committee comprises:

Chairman – Independent Non-Executive Director

Shareholder representative – from both HBTF and AJIB

Independent Non – Executive Director

Board Risk Committee

This is a non-executive committee that supports the Board in carrying out its responsibilities for the risk functions. The Committee must meet at least four times per year. The Risk Committee comprises:

Chairman – Non-Executive Director – shareholder representative – HBTF

Shareholder representative – AJIB

Two Independent Non – Executive Directors

The Executive Committee

The Executive Committee (ExCo) is responsible for implementation of relevant risk policy statements.

As of 31st December 2018 ExCo comprised of the following members:

Chairman – Mr Rakan Al-Tarawneh – Chief Executive Officer

Mr Mark Williams – Chief Financial Officer

Mr Rajesh Khosla – Chief Risk Officer

Mr Terry McKee – Head of Operations

Mr Steve Dry – Head of Structured Property Finance

Mr David Lavers – Head of Treasury

ExCo is also responsible for ensuring that risk policies are reviewed and updated regularly in line with changes to the operating and risk environment. It must review and recommend to the Board (or Board sub-committees) all amendments to policies.

ExCo is responsible for seeing that clear escalation procedures are in place, to ensure it receives immediate notification of all 'high risk' incidents, operational incidents, soft limit breaches and triggered amber EWIs. The incident notifications must be accompanied by an appropriate risk mitigation plan if applicable. ExCo must agree on a final risk mitigation plan and its implementation must be overseen by the Chief Risk Officer (CRO).

2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for executing Board policy and strategy. Departments within the Bank ultimately report to the CEO. The departments are:

- Structured Property Finance
- Treasury
- Trade Finance
- Private Banking
- Operations
- Finance & Regulatory Reporting
- Risk (includes Credit Risk, Compliance and Financial Crime)
- Information Technology
- Human Resources

The reporting lines and responsibilities are clearly identified in the Bank's organisation chart, ExCo Terms of Reference and individual role descriptions.

Chief Risk Officer

The Chief Risk Officer (CRO) function is separate from the business line functions of JIB; this is to ensure the required independence when assessing the risk/return balance of the Bank's business decisions.

It is the responsibility of the CRO to define and prepare the risk management framework in accordance with the business strategy and appetite for risk outlined by the Board; to ensure that this is effectively communicated and implemented across the Bank; to sustain the adequacy of the Bank's risk/return decisions and to guarantee that the risks are properly measured and controlled in accordance with the defined risk appetite.

Internal and external audit

An independent view on the adequacy of the risk management framework, the effectiveness of its implementation across the Bank and the risk management systems and controls is provided by the internal and the external auditor as well as by the Audit Committee.

2. OVERVIEW OF RISK MANAGEMENT

2.3 Risk Appetite

Introduction

The Bank's Risk Appetite Statement describes the amount of risk the Bank wishes to expose itself to, within the constraints of regulatory and other prudential measures. The key metrics within the statement are expressed in either qualitative or quantitative form in relation to assets, liabilities, profitability, or capital, or various operational measures. The limits are applied to various metrics including product type, customer, currency, geographic split and industry. This section of the Pillar 3 disclosures describes the most significant elements of the Risk Appetite Statement.

Principles

The Risk Appetite Statement is derived from the Bank's business model and strategic plan. It identifies risks inherent in these, and sets the levels of tolerances to implement the business strategy and deliver its financial goals, whilst meeting its regulatory and other external obligations.

The risk appetite balances targeted profitability against a level of potential loss. It is therefore at the centre of the Bank's activities, and provides the reference point for decisions about the development of the Bank, its products and exposures, and the methods used to achieve its strategic aims whilst managing its risks.

The Board has set specific limits for credit and market risk exposures. When these limits are breached the Board is notified immediately so that remedial action can be taken. The Bank has also set specific notification limits for operational losses.

There are similar notification limits set which identify when liquidity and capital tolerances are being reached. The Bank recognises that being overly aggressive in its business strategies creates a higher risk of loss.

It therefore takes a conservative approach to risk, ensuring a low risk profile by restraining its targets and limits within its ability to finance and manage its exposures, implementing a commensurate control environment to ensure this is maintained.

The Risk Appetite Statement is a living document and is used by the Board and the Bank through its governance structures to actively manage the Bank's risks by:

- providing a clear view of the risks the Bank is exposed to as well as risk definitions;
- providing an objective measure to serve as the link between risk, strategic planning and business decision making;
- giving business units a clear mandate of the type and amount of risk to accept and manage;
- limiting the possibility of significant negative surprises; and
- providing a consistent measure of risk/return for decision making.

The Risk Appetite Statement is prepared annually by the CRO, reviewed by ExCo and is then approved by the Bank's Board.

The following risks were identified by the Bank's management as the overarching risks which can affect the current business strategy and model. These risks were identified using management experience, market best practices, regulation guidance and internal discussion.

2. OVERVIEW OF RISK MANAGEMENT

2.3 Risk Appetite

RISK	DEFINITION	APPETITE
Capital Risk	Inadequate capital to support the business and meet regulatory requirements	Conservative capital adequacy limits to cover both regulatory capital requirements and stress scenarios
Liquidity Risk	Insufficient funds to meet obligations and liabilities	Conservative liquidity management to meet regulatory requirements and cover stress scenarios
Conduct Risk	The risk that detriment is caused to the Bank, its clients or counterparties because of the inappropriate execution of JIB's business activities	To maintain a culture in which it is clear that there is no room for misconduct and a procedure to ensure poor behaviour is addressed
Business/ Strategic Risk	Poor business and strategic planning that increase the risks across the whole business	A modest target return on equity and assets
Credit Risk	Loss due to the failure of a counterparty to meet its obligations in accordance with agreed terms	Proportional and broad risk limits for credit risk as set out in a credit risk appetite statement
Concentration Risk	Loss due to the failure of a group of connected counterparties to meet their obligations	Proportional risk limits for concentration risk
Market Risk	Loss arising from market risk (including FX and interest rate movements)	To minimise the sensitivity of net interest income and economic value of its equity base from changes in interest rates and FX rates
Operational Risk	Loss arising from the failure of people, processes or technology or the impact of external events (This includes cyber crime and losses incurred when the Disaster Recovery plan is activated)	Minimal operational risk, maintained by strong governance and risk management processes
Financial Crime Risk	Failure to identify and prevent fraud or dishonesty, misconduct in, or misuse of information relating to the handling of the proceeds of crime	Minimal financial crime risk, maintained by strong governance and risk management processes
Risks in Stress Scenarios	Risk arising from stressed market and macro-economic conditions	Sufficient capital and liquidity to support the core Banking operations in a time of stress

2. OVERVIEW OF RISK MANAGEMENT

2.4 Capital Adequacy

JIB's strategy is to be well capitalised, and its approach to capital management is driven by strategic requirements while also taking into account the regulatory and commercial environments in which it operates. JIB maintains a strong capital base to support the development of the business and to ensure the Bank meets its Total Capital Requirement at all times, as well as regulatory buffers which include meeting severe stress scenarios. As a result, the Bank maintains capital adequacy ratios above minimum regulatory requirements as part of its own internal risk appetite.

2.4.1 Capital management and allocation

As per the Capital Requirements Directive the framework for capital requirements is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

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 Moody's as its nominated External Credit Assessment Institution (ECAI).

With respect to Pillar 1 minimum capital requirements for credit risk (including counterparty risk), the Bank follows the 'standardised approach'. This involves applying pre-determined risk weightings to assets in accordance to their allocated 'credit step' for that particular credit exposure class. For the purpose of capital allocation the process of using credit steps involves the allocation of external credit ratings into bands (steps).

With regards to capital requirements for operational risk, the Bank has adopted the Basic Indicator Approach (BIA). The Bank also allocates capital against its limited market risk exposures and further counterparty risk (CVA – Credit Valuation Adjustment).

2.4.2 Capital management

It is the Bank's intention 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: revaluation reserve and retained earnings.

ExCo is central to the Bank's Internal Capital Adequacy Assessment Process (ICAAP). It assesses the capital required over and above the Pillar 1 requirement to withstand all risks (Pillar 2 capital to meet both expected and stressed circumstances), inherent in its business model.

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. It will then propose capital allocation to product lines accordingly.

The total capital required to withstand risks arising from current and planned business activity is subjected to stress testing and scenario analysis. The Board provides challenge to the ICAAP assumptions and projected outcomes, this being a fundamental part of the capital allocation process.

The PRA supervises JIB on a solo basis and as such receives information on the capital adequacy of the Bank. In implementing the EU's Banking Consolidation Directive, the PRA requires each Bank to maintain adequate capital resources to meet its various capital requirements under Pillar 1 and Pillar 2. JIB's capital consists of Tier 1 qualifying capital only.

2. OVERVIEW OF RISK MANAGEMENT

2.4 Capital Adequacy

Tier 1 Capital

This comprises Shareholders' funds including share capital, share premium, revaluation reserve (non-equity) and retained earnings. The PRA's rules permit the inclusion of profits/ (losses) in Tier 1 Capital to the extent they have been verified in accordance with the PRA's General Prudential Sourcebook.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank undertakes an ICAAP annually which is an integral part of the Bank's risk management process. The main output from the process is an assessment of all material risks faced by the Bank, determination of the level of capital required to be held against each major source of risk and an analysis of a number of severe but plausible stress tests over a five-year time horizon; this is the Bank's standard business planning timescale.

Management at all levels within the Bank is involved in carrying out risk assessments for their business units, having input into stress testing and scenario analysis, and where necessary, approving inputs into the process. The ICAAP is subject to detailed review and challenge by both ExCo and by the Board's Risk Committee, before approval by the Board.

Minimum capital requirement: Pillar 1

The Pillar 1 capital requirement, determined in accordance within the rules contained within CRR as applied to the Bank, consists of the following components:

Credit risk – the Bank uses the standardised approach. This involves the application of standard risk weightings to each exposure class.

Operational risk – the Bank uses the Basic Indicator Approach. This calculation is based on the Bank's operating income for the past three years.

Market risk – the Bank uses the standardised approach for its foreign exchange risk and interest rate risk.

Pillar 2 requirement

The Pillar 2 framework includes an Internal Capital Adequacy Assessment Process (ICAAP) carried out by firms to analyse and conclude on the additional amount of capital required, and the regulators' review of that process, the Supervisory Review and Evaluation Process. Pillar 2A addresses risks to firms that are not adequately covered within Pillar 1. Pillar 2B addresses risks to which the firm may become exposed over a forward-looking planning horizon particularly when the firm may experience adverse situations.

Capital buffers

Capital conservation buffer

The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. The requirement is set as 1.875% at 31st Dec 2018 (this will rise incrementally until fully implemented at 2.5% in 2019).

Countercyclical capital buffer (CCyB)

The countercyclical capital buffer requires institutions to hold additional capital to reduce the build-up of systemic risk during a positive credit cycle. Institution's specific rates are calculated as the weighted average of the countercyclical capital buffers that apply in those jurisdictions where the relevant credit exposures exist. In the UK responsibility for setting the CCyB rests with the Financial Policy Committee, which has confirmed rates of 0% until June 2018; 0.5% from June 2018 to November 2018 and 1% from November 2018. For JIB the overall countercyclical capital buffer is 0.56% of total risk weighted assets.

3. SUMMARY OF KEY CAPITAL RATIOS

KEY METRICS

	2018 £m	2017 £m
Common Equity Tier 1 (CET1)	**84.5**	83.0
Tier 1	**84.5**	83.0
Total capital	**84.5**	83.0
Total risk-weighted assets (RWA)	**383.1**	392.6

	%	%
Common Equity Tier 1 ratio (%)	**22.05**	21.15
Tier 1 ratio (%)	**22.05**	21.15
Total capital ratio (%)	**22.05**	21.15

	% £m	% £m
Leverage ratio exposure measure	**392.2**	396.6
Leverage ratio (%)	**21.53**	20.93
LCR ratio (%)	**223.56**	525.38

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

OWN FUNDS DISCLOSURE

	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	2018 £m	Regulation (EU) No.575/2013 Article Reference
1	Directly issued qualifying common share capital and share premium account	65.3	26 (1), 27, 28, 29, EBA list 26 (3)
2	Retained earnings	20.2	26 (1) (3)
3	Accumulated other comprehensive income (and other reserves)	(0.9)	26 (1)
6	COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS	84.6	
7	Prudent valuation adjustments	(0.1)	
29	COMMON EQUITY TIER 1 CAPITAL (CET 1)	84.5	
44	Additional Tier 1 capital (AT 1)	~	
45	TIER 1 CAPITAL (T1= CET1 +AT1)	84.5	
58	Tier 2 capital (T2)	~	
59	TOTAL REGULATORY CAPITAL (T1 +T2)	84.5	
60	Total risk-weighted assets	383.1	

	CAPITAL RATIOS AND BUFFERS	%	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	22.05	92 (2) (a) (465)
62	Tier 1 (as a percentage of risk- weighted assets)	22.05	92 (2) (b) (465)
63	Total capital (as a percentage of risk-weighted assets)	22.05	92 (2) ©
64	Institution-specific buffer requirement (capital conservation plus countercyclical buffer requirements - expressed as a percentage of risk-weighted assets)	2.43	
65	of which: capital conservation buffer requirement	1.875	
	AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)	£m	CRD 128,129,140
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2.3	36 (1) (c),38,48,470,472(5)

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

2018		CARRYING VALUE OF ITEMS:			
ASSETS	Carrying values for financial and regulatory reporting purposes £m	Subject to credit risk framework £m	Subject to counterparty credit risk framework £m	Subject to the market risk framework £m	Not subject to capital requirements or subject to deduction from capital £m
Cash and balances at central banks	0.1	0.1	~	~	~
Nostros	10.1	10.1	~	~	~
Loans and advances to shareholder banks	40.0	40.0	~	~	~
Loans and advances to other banks	36.8	36.8	~	~	~
Loans and advances to customers	168.2	168.2	~	~	~
Investments in debt securities	125.4	125.4	~	~	~
Tangible fixed assets	1.9	1.9	~	~	~
Other assets	0.5	0.5	~	~	~
– of which sundry receivables	0.4	0.4	~	~	~
– of which derivatives at fair value	0.1	0.1	0.1	0.1	~
Deferred tax asset	2.3	2.3	~	~	~
Prepayments and accrued income investments	1.9	1.9	~	~	~
As at 31 December	**387.2**	**387.2**	**0.1**	**0.1**	**~**

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

2017		CARRYING VALUE OF ITEMS:			
ASSETS	Carrying values for financial and regulatory reporting purposes £m	Subject to credit risk framework £m	Subject to counterparty credit risk framework £m	Subject to the market risk framework £m	Not subject to capital requirements or subject to deduction from capital £m
Cash and balances at central banks	0.1	0.1	~	~	~
Nostros	7.6	7.6	~	~	~
Loans and advances to shareholder banks	36.1	36.1	~	~	~
Loans and advances to other banks	47.9	47.9	~	~	~
Loans and advances to customers	157.9	157.9	~	~	~
Investments in debt securities	137.9	137.9	~	~	~
Tangible fixed assets	1.1	1.1	~	~	~
Other assets	0.5	0.5	0.1	0.1	~
– of which sundry receivables	0.4	0.4	~	~	~
– of which derivatives at fair value	0.1	0.1	0.1	0.1	~
Deferred tax asset	2.1	2.1	~	~	~
Prepayments and accrued income investments	1.9	1.9	~	~	~
As at 31 December	393.1	393.1	0.1	0.1	~

*1 The balances shown in column "Carrying values for financial and regulatory reporting purposes" do not equal the sum of those in the columns relating to the regulatory framework, as certain assets can be in scope for more than one regulatory framework.

As such, assets included in line items for "Investments in debt securities", "Derivatives at fair value", "Loans and advances to customers" and "Loans and advances to banks, and shareholder banks" can be subject to credit risk, counterparty credit risk and market risk.

*2 The column "Subject to market risk framework" is based on trading book assets if appropriate.

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

The tables below illustrate the differences between JIB's regulatory exposure amounts and the carrying value in the Financial Statements both as at 31 December 2017 and 31 December 2016.

		ITEMS SUBJECT TO:		
2018	**Total £m**	**Credit risk framework £m**	**Counterparty credit risk framework £m**	**Market risk framework £m**
Asset carrying value amount under scope of regulatory consolidation	**387.2**	**387.2**	**0.1**	**~**
Liabilities carrying value amount under regulatory scope of consolidation	**~**	**~**	**-0.1**	**~**
Total net amount under regulatory scope of consolidation	**387.2**	**387.2**	**~**	**~**
Off-balance sheet amounts	**17.0**	**17.0**	**~**	**~**
Differences due to treatment of credit risk mitigation (CRM) rules	**-2.4**	**-2.5**	**~**	**~**
Other differences	**-2.0**	**-1.9**	**~**	**~**
Net exposure amounts (post CRM and application of CCF) considered for regulatory purposes at 31 December	**399.8**	**399.8**	**~**	**~**

		ITEMS SUBJECT TO:		
2017	**Total £m**	**Credit risk framework £m**	**Counterparty credit risk framework £m**	**Market risk framework £m**
Asset carrying value amount under scope of regulatory consolidation	393.1	393.1	0.1	~
Liabilities carrying value amount under regulatory scope of consolidation	~	~	-0.1	~
Total net amount under regulatory scope of consolidation	393.1	393.1	~	~
Off-balance sheet amounts	14.0	14.0	~	~
Differences due to treatment of credit risk mitigation (CRM) rules	(3.8)	(3.8)	~	~
Other differences	~	~	0.4	~
Net exposure amounts (post CRM and application of CCF) considered for regulatory purposes at 31 December	403.3	403.3	0.4	~

Explanation of Differences between Accounting and Regulatory Exposure Amounts

Included overleaf is a summary of the key types of differences between the accounting and regulatory exposure amounts as shown in the reconciliation above.

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

Off-Balance Sheet Amounts

Instruments not on the balance sheet such as contingent Letters of Credit, guarantees, acceptances and other lending commitments are considered as exposures for the calculation of regulatory capital requirements.

Netting treatments & Counterparty Credit Risk

Netting

Under the FRS 102 accounting framework, financial assets and liabilities are offset and the net amount reported on the Balance Sheet where the Bank has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Under the regulatory framework, netting is applied for the calculation of exposures if there is legal certainty and the positions are managed on a net collateralised basis. This typically means that more netting is recognised under the regulatory framework than under the accounting framework.

Counterparty Credit Risk

In calculating regulatory exposure amounts for derivative contracts, an add-on is calculated for potential future credit exposure based on the notional amount of the derivative contract.

RISK WEIGHTED ASSETS

The table below provides an analysis of the Bank's risk weighted assets by risk type.

	RWA £m's		Minimum capital requirements £m's
	2018	2017	2018
Credit risk (excluding counterparty credit risk) (CCR)	**335.4**	348.5	**26.8**
– of which standardised approach (SA)	**335.4**	348.5	**26.8**
Counterparty credit risk	**0.2**	0.2	-
– of which standardised approach for counterparty credit risk (SA-CCR)	**0.2**	0.2	-
Credit valuation adjustment (CVA)	**0.1**	0.1	-
– of which standardised method	**0.1**	0.1	-
Market risk	**23.3**	19.8	**1.9**
– of which foreign exchange risk	**23.3**	19.8	**1.9**
Operational risk	**24.1**	24.0	**1.9**
– of which Basic Indicator Approach	**24.1**	24.0	**1.9**
Total	**383.1**	392.6	**30.6**

Total RWA's have decreased by £9.5m (-2.4%) to £383.1m from £392.6m with Credit risk RWA's decreasing by £13.1m (-3.7%) to £335.4m from £348.5m due to overall net decrease in credit risk exposures driven mainly from a reduction in holdings of LAB assets held for liquidity purposes and bank exposures.

Market risk RWA's have increased by £3.5m (+17.6%) to £23.3m from £19.8m.

Operational RWA's have increased marginally by £0.1m to £24.1m from £24.0m caused by an overall increase in the average indicator for the preceding 3 years.

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

LEVERAGE RATIO COMMON DISCLOSURE

The leverage ratio for a quarter end is calculated using on and off balance sheet figures at a point in time. The measure of Tier 1 capital used in the computation of the Bank's ratio is the same under both transitional and fully phased in definitions of Tier 1 capital per CRD IV.

SUMMARY COMPARISON OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURE MEASURE	£000
Total consolidated assets as per balance sheet	**387,205**
Adjustments for derivative financial instruments	**339**
Adjustments for off-balance sheet items (conversion to CCF amounts)	**4,634**
Leverage ratio exposure measure	**392,178**

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

LEVERAGE RATIO COMMON DISCLOSURE

	2018		2017	
	Fully loaded £m	Transitional £m	Fully loaded £m	Transitional £m
Total Assets as per published accounts (excluding derivatives)	**387.2**	**387.2**	393.1	393.1
Replacement cost associated with all derivative transactions	**0.2**	**0.2**	0.1	0.1
Add-on amounts for PFE associated with all derivative transactions	**0.1**	**0.1**	0.2	0.2
Total derivative exposures	**0.3**	**0.3**	0.3	0.3
Other off-balance sheet exposures				
Off-balance sheet exposures at gross notional amount	**38.7**	**38.7**	29.2	29.2
Adjustments for conversion to credit equivalent amounts	**(34.0)**	**(34.0)**	(26.1)	(26.1)
Total other off-balance sheet exposures	**4.7**	**4.7**	3.1	3.1
Total leverage ratio exposure	**392.2**	**392.2**	396.5	396.5
Tier 1 capital	**~**	**~**	~	~
Leverage ratio total exposure measure	**392.2**	**392.2**	396.5	396.5
Leverage ratio	**21.53%**	**21.53%**	20.93%	20.93%
TOTAL OTHER OFF-BALANCE SHEET EXPOSURE				
Gross Undrawn lending facilities	**31.0**	**31.0**	27.3	27.3
Adjustments for conversion to credit equivalent amounts	**(27.9)**	**(27.9)**	(24.6)	(24.6)
Gross Trade Finance contingents	**7.7**	**7.7**	1.9	1.9
Adjustments for conversion to credit equivalent amounts	**(6.1)**	**(6.1)**	(1.5)	(1.5)
Net amount	**4.7**	**4.7**	3.1	3.1

5. SOURCES OF RISK

5.1 Credit Risk

Background

Credit risk arises in the normal course of lending business and is defined as the likelihood of a customer or counterparty being unable to meet their contracted financial obligations resulting in a default situation and/or financial loss. Included within credit risk is counterparty risk, relating to JIB's dealings with other banks and financial institutions, mainly through placements for the purpose of liquidity risk management.

The Bank's principal sources of credit risk are:

- Loans to corporates, partnerships and private individuals arising from the Bank's real estate finance lending activities - such loans include: Development and investment finance for residential, commercial and mixed use properties
- Exposures to banks in respect of foreign exchange and money market activities
- Exposures to banks, multilateral institutions and sovereigns in respect of investment activities including the management of the Bank's liquid asset buffer
- Trade Finance transactions including off-balance sheet exposures to bank counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds
- Groups of related counterparties (concentration and country risk).

Credit risk management principles

The principles that determine the structures of the Bank's credit risk management framework are defined below.

Board approved risk appetite and strategy

As stated previously, the Board has responsibility for approving and periodically reviewing the credit risk strategy, credit risk appetite and credit risk policies of the Bank. The strategy must reflect the Bank's tolerance for risk and the level of profitability that it expects to achieve for incurring credit risk in the pursuit of its strategic objectives and financial goals.

Implementation of strategy

ExCo have responsibility for implementing the credit risk strategy approved by the Board and for developing policies for identifying, measuring, monitoring and controlling credit risk. Such policies address credit risk in all of the Bank's activities and at both the individual credit and portfolio levels.

Credit approval process

The Bank operates within sound, well-defined credit-granting criteria with appropriate risk mitigants. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

The Bank has a clearly established process in place for approving new credit exposures as well as the amendment, renewal and re-financing of existing credit exposures.

Credit limits

The Bank has established overall credit limits at the level of individual borrowers and counterparties and groups of connected counterparties. The Bank's Risk Management function ensures credit exposures are within levels consistent with prudential standards and internal limits.

5. SOURCES OF RISK

5.1 Credit Risk

Ongoing credit management and monitoring

The Bank has a system for the ongoing administration of its various credit risk-bearing portfolios. Exposures are monitored on a regular basis and regular MI together with appropriate commentary is submitted to ExCo on a monthly basis.

The Risk Management function enforces internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Debt management and provisions

The Bank has a system for monitoring the condition of individual credits, including determining the adequacy of provisions on a timely basis. Each month end any exposure whose credit quality is categorised as doubtful or in default is reviewed and the appropriate provision assessed.

Credit gradings

The Bank has an internal risk rating system in managing credit risk. The rating system is consistent with the nature, size and complexity of the Bank's activities. For standardised exposures that are rated the nominated external credit assessment institution (ECAI) for the Bank is Moody's. The Bank complies with the credit quality assessments scale in allocating external credit ratings to the credit quality steps as defined by the PRA. The Bank utilises, where available, credit ratings from Moody's to assign internal credit ratings on a scale of 1 to 10. A mapping table of internal credit grades to equivalent Moody's credit ratings is maintained and used. Moody's credit ratings are used for all the Bank's assets where ratings are available, namely securities and loans with the exception of property loans.

Credit risk management information systems

The Bank has a system for monitoring the overall composition and quality of the credit portfolio and reporting on credit risk to ExCo and the Board.

The Bank's systems enable management to measure the credit risk inherent in all on and off-balance sheet activities on an ongoing basis. The management information system provides adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Credit risk stress testing

The Bank takes into consideration potential future changes in economic conditions when assessing individual credits and credit portfolios, and periodically assesses the credit risk exposures under stressed conditions.

Independent review of credit risk management framework

On a periodic basis the Bank's Internal Audit function independently assesses the Bank's credit risk management processes and the results of such reviews are communicated directly to the Board's Audit Committee.

Management of deteriorating credit

The Bank has a process in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations. Enhanced monitoring is also performed on deteriorating credits.

5. SOURCES OF RISK

5.1 Credit Risk

Business Model and Strategic Credit Plan

The Bank's Business Model (as described in section 2) forms the basis of the Strategic Plan.

The Strategic Plan articulates the Board's strategy for the management and development of its property lending, securities investment, cash management, private banking and trade financing businesses that generate credit risk.

The Board's Credit Risk Appetite Statement is derived from the Strategic Plan and the associated five year business plan. All these documents are monitored on an ongoing basis and are updated for changes in the business model and economic environment.

Credit risk appetite

The purpose of the Credit Risk Appetite Statement is to:

- Identify the risks generated by transactions with individual counterparties (credit risk) and groups of related counterparties or where credit exposures share certain characteristics (concentration and country risk).
- Define the Board's tolerance levels for credit, concentration and country risks.

The Bank seeks to manage its credit risk appetite through adherence to both quantitative and qualitative statements made in relation to the credit portfolio as a whole and its key lending sectors, in particular:

- Risk is commensurate with reward and the Bank uses measures, in particular credit gradings, to ensure this is the case in respect of individual credits and portfolios of credit.
- Limits are applied to reflect the Bank's credit appetite for concentration risk.
- Risk tolerances are applied at a total portfolio and sector portfolio level using the Bank's credit grading system and its preparedness to absorb future losses.
- Key Risk Indicators and Early Warning Indicators are established to facilitate early remedial action. The Bank grades both the inherent and residual risk in respect of key lending sectors.

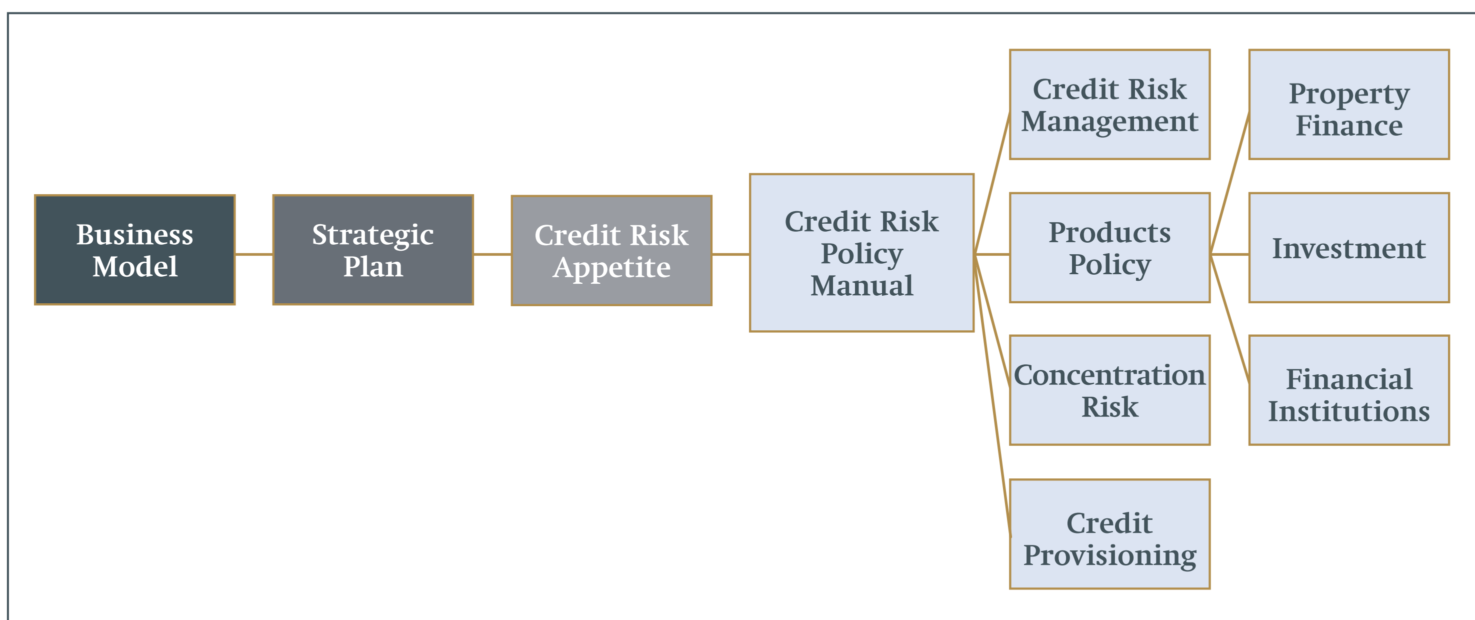
Credit policies

The Risk Management function ensures that both the qualitative and quantitative risk tolerance levels of the Credit Risk Appetite Statement are clearly articulated within the Credit Risk Policy Manual. The Credit Risk Policy Manual provides more granular detail on how the tolerances will be applied on a day-to-day basis.

The Credit Risk Policy Manual identifies the Key Risk Indicators and Early Warning Indicators used to monitor adherence to the Credit Risk Appetite Statement. It further includes escalation procedures to be followed for actual or potential breaches of the Credit Risk Appetite Statement or the Credit Policy Manual.

The Credit Policy Manual is made up of a number of credit polices. All credit policies are reviewed by the Board's Risk Committee on an annual basis.

The linkage between the business model and the credit policies is illustrated below.



Credit risk management control functions

The first line of defence for credit risk lies with the business units generating those risks. Business units are responsible for assessing the credit quality of all proposed business and for monitoring the quality of existing credit exposures.

The Risk Management function, as second line of defence, is responsible for an independent review and grading of all credit applications and for the ongoing independent monitoring of existing exposures.

ExCo is responsible for reviewing all credit applications and risk assessments before granting credit facilities or (for significant exposures) recommending them to the Board for approval.

ExCo and the Board's Risk Committee receive regular reports on the performance of the credit portfolios and agree management actions for deteriorating credits.

Internal Audit, as third line of defence, will periodically review the adequacy of the credit risk management framework and report directly to the Board's Audit Committee.

Credit risk monitoring and reporting

The Risk Management function reports on compliance with the quantitative factors within the Credit Risk Appetite Statement and associated Credit Risk Policy Manual.

It is the responsibility of the Risk Management function to ensure that credit risk exposures are monitored on an on-going basis. Breaches of limits and Early Warning Indicators must be reported and acted upon on a timely basis.

As a minimum the Bank's Credit Risk Exposures, in relation to the Credit Risk Appetite Statement, will be reported in detail to ExCo on a monthly basis.

A summary of the key/significant credit risks will be presented to the Risk Committee of the Board on a quarterly basis. Additionally, presentation of significant credit risks will be submitted to the full Board on a quarterly basis.

5. SOURCES OF RISK

5.1 Credit Risk

Impairment of financial assets

All financial assets are assessed periodically for indications of impairment. 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.

From 01/01/2018 a new accounting standard International Financial Reporting Standard (IFRS) 9 was introduced and adopted by JIB. IFRS 9 replaced IAS 39 and addresses the classification, measurement and de-recognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income, expected credit loss provisions for loan commitments and financial guarantee contracts and general hedge accounting. The standard will affect the classification and measurement of financial assets as follows:

- Loans and advances to banks and customers previously classified as loans and receivables and measured at amortised cost will in general also be measured at amortised cost under IFRS 9.
- Held to maturity investment securities previously measured at amortised cost will in general also be measured at amortised cost under IFRS9.
- Debt investment securities previously classified as available–for-sale, may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the circumstances.

IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets recorded at amortised cost or fair value through other comprehensive income: loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

Financial assets carried at amortised cost - Financial assets that are held to collect contractual cash flows where those cashflows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks together with certain debt securities. Interest income is accounted for using the effective interest method.

Financial assets measured at fair value through other comprehensive income - Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Profit and Loss statement. The Bank recognises a charge for expected credit losses in the income statement. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset; it is reflected in other comprehensive income.

Financial assets measured at fair value through profit and loss - Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within total operating income.

With the exception of FVOCI equity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit and loss account to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of FVOCI equity securities, impairment losses previously recognised through the profit and loss account are not reversed through the profit and loss account. Any increase in fair value subsequent to an impairment loss is recognised through the Statement of Comprehensive Income.

In the circumstances where a customer is unable to make repayments due on financial assets, for example due to a deterioration in the changing economic environment, the Bank will show 'forbearance' and work with its customers to ensure an equitable renegotiation of the terms attached to the financial asset.

5. SOURCES OF RISK

5.1 Credit Risk

Impairment

IFRS 9 replaced the "incurred loss" model under FRS 102 with a forward looking "expected credit loss" (ECL) model. Depending on the asset's classification under the three stage impairment model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased & Stage 3 – credit impaired financial asset). Where credit risk is deemed not to have increased significantly since initial recognition a loss allowance is calculated based on an amount equal to a 12-month ECL (Expected Credit Loss). Where the credit risk is deemed to have increased significantly since initial recognition a loss allowance based on lifetime expected losses is calculated. An asset is deemed to have moved to Stage 3 where management consider the asset to be impaired in accordance with the Bank's credit risk management policies.

CREDIT QUALITY OF ASSETS

The tables below show the credit quality of the Bank's assets.

	GROSS CARRYING VALUES OF			
2018	Defaulted exposures £m	Non-defaulted exposures £m	Allowances/ impairments £m	Net values £m
Loans	~	**245.0**	**0.1**	**244.9**
Securities	~	**125.8**	**0.4**	**125.4**
Off-balance sheet exposures	~	**39.7**	~	**39.7**
Total	~	**410.5**	**0.5**	**410.0**

	GROSS CARRYING VALUES OF			
2017	Defaulted exposures £m	Non-defaulted exposures £m	Allowances/ impairments £m	Net values £m
Loans	0.7	241.3	0.5	241.5
Securities	0.6	137.2	2.1	135.7
Off-balance sheet exposures	~	30.2	~	30.2
Total	1.3	408.7	2.6	407.4

The credit quality of the bank's assets has improved when compared to the prior year. During the year impairments of financial assets have decreased when compared to 2017. In 2017 an impairment loss of £2.1m was recognised on a legacy sovereign bond and impairments of £0.5m related to a customer account and two structured property development loans. During 2018 the legacy sovereign bond was disposed of and the customer and property development loans matured and repaid.

5. SOURCES OF RISK

5.1 Credit Risk

CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

The tables below detail the movement in impairment losses of the Bank.

IMPAIRMENT LOSSES - SPECIFIC ASSETS	2018 £m	2017 £m
At 1 January	**1.3**	0.4
(Charge)/Credit to profit and loss	**0.2**	2.1
Other adjustments	**(1.5)**	(1.2)
As at 31 December	**~**	1.3

The change in impairment losses in the year were due to the disposal of a legacy sovereign bond and the sale and maturity of property development loans.

IMPAIRMENT LOSSES - COLLECTIVE PROVISION	2018 £m	2017 £m
At 1 January	**(0.2)**	(0.2)
- Expected credit losses (ECL)	**(0.2)**	~
- Lifetime ECL	**(0.1)**	~
- Credit impairment	**~**	~
As at 31 December	**(0.5)**	(0.2)

The movement in collective provisions during the year included the restatement of collective provisions under the IFRS 9 methodology from the previous UK GAAP methodology.

MOVEMENT IN DEFAULTED ASSETS	2018 £m	2017 £m
Defaulted loans and debt securities at end of the previous reporting period	**1.3**	0.4
Loans and debt securities that have defaulted since the last reporting period	**~**	6.1
Returned to non-defaulted status	**~**	~
Amounts repaid	**(0.4)**	(4.0)
Other changes	**(0.9)**	(1.2)
As at 31 December	**~**	1.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK MITIGATION TECHNIQUES

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.

2018	Exposures unsecured: carrying amount £m	Exposures secured by collateral £m	Exposures secured by collateral, of which: secured amount £m	Exposures secured by financial guarantees £m	Exposures secured by financial guarantees, of which: secured amount £m	Exposures secured by credit derivatives £m	Exposures secured by credit derivatives, of which: secured amount £m
Loans	**59.7**	**184.4**	**184.4**	~	~	~	~
Debt securities	**125.4**	~	~	~	~	~	~
As at 31 December	**185.1**	**184.4**	**184.4**	~	~	~	~
of which defaulted	~	~	~	~	~	~	~

2017	Exposures unsecured: carrying amount £m	Exposures secured by collateral £m	Exposures secured by collateral, of which: secured amount £m	Exposures secured by financial guarantees £m	Exposures secured by financial guarantees, of which: secured amount £m	Exposures secured by credit derivatives £m	Exposures secured by credit derivatives, of which: secured amount £m
Loans	55.9	184.5	184.5	~	~	~	~
Debt securities	137.8	~	~	~	~	~	~
As at 31 December	193.7	184.5	184.5	~	~	~	~
of which defaulted	0.6	0.3	1.0	~	~	~	~

During the year to December 2018, unsecured exposures fell from £194m to £185m. This was primarily due to a reduction in the Bank's securities portfolio, more notably the extremely high liquidity and credit quality (HQLA) UK and US government bonds. These bonds form part of the Bank's liquidity buffer, in relation to the Liquidity Coverage (LC) ratio. Exposures classified as defaulted decreased from £1.0m to £nil due to the sale of an impaired legacy sovereign bond and the elimination of outstanding balances on two SPF property loans.

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE SUMMARY

The table below detail the Bank's credit risk exposure under the standardised approach to credit risk.

2018	Exposure value £m	Average exposure value £m	RWA's £m	Capital requirement £m
Central Government or Central Bank	93.9	99.0	20.7	1.7
Regional Government or Local Authorities	~	~	~	~
Multilateral Development Banks	~	1.2	~	~
Institutions	12.8	11.5	6.9	0.5
Corporates	47.1	42.5	27.4	2.2
Retail	~	~	~	~
Secured by mortgages on immoveable property	83.0	76.8	61.9	5.0
Items associated with high risk	100.2	98.5	150.3	12.0
Exposures in default	~	0.1	~	~
Claims on institutions and corporates with short term credit assessment	56.8	74.1	57.8	4.6
Other items	7.5	6.9	10.4	0.8
As at 31 December	**401.3**	**410.6**	**335.4**	**26.8**

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE SUMMARY

2017	Exposure value £m	Average exposure value £m	RWA's £m	Capital requirement £m
Central Government or Central Bank	107.5	107.0	21.0	1.7
Regional Government or Local Authorities	~	~	~	~
Multilateral Development Banks	3.0	3.1	~	~
Institutions	9.8	7.8	3.6	0.3
Corporates	46.1	45.0	37.4	3.0
Retail	~	~	~	~
Secured by mortgages on immoveable property	67.6	60.9	50.6	4.0
Items associated with high risk	102.5	116.5	153.7	12.3
Claims on institutions and corporates with short term credit assessment	61.5	70.3	73.4	5.9
Other items	5.3	4.7	8.8	0.7
As at 31 December	403.3	415.3	348.5	27.9

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY GEOGRAPHICAL REGION

The tables below detail the Bank's credit risk exposure (post CRM/CCF) by geographical region.

2018	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	5.0	~	61.5	12.3	9.5	4.0	1.6	93.9
Regional Government or Local Authorities	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	~	~	5.1	0.8	~	6.9	~	12.8
Corporates	~	~	3.0	21.2	11.5	6.3	5.1	47.1
Retail	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	79.6	~	~	~	~	~	3.4	83.0
Items associated with high risk	98.3	~	~	~	~	~	1.9	100.2
Claims on institutions and corporates with short term credit assessment	5.0	14.3	4.6	12.0	20.5	0.4	~	56.8
Other items	7.5	~	~	~	~	~	~	7.5
As at 31 December	195.4	14.3	74.2	46.3	41.5	17.6	12.0	401.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY GEOGRAPHICAL REGION

2017	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	15.0	~	69.0	13.9	5.9	~	3.8	107.6
Regional Government or Local Authorities	~	~	~	~	~	~	~	-
Multilateral Development Banks	~	3.0	~	~	~	~	~	3.0
Institutions	4.2	~	3.7	~	~	~	1.9	9.8
Corporates	~	2.3	3.8	8.3	23.6	5.9	2.2	46.1
Retail	~	~	~	~	~	~	~	-
Secured by mortgages on immoveable property	64.1	2.8	~	0.1	~	~	0.6	67.6
Items associated with high risk	101.3	1.1	~	~	~	~	~	102.4
Claims on institutions and corporates with short term credit assessment	10.1	24.4	7.3	~	19.4	0.3	~	61.5
Other items	5.3	~	~	~	~	~	~	5.3
As at 31 December	200.0	33.6	83.8	22.3	48.9	6.2	8.5	403.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK WEIGHTED ASSETS BY GEOGRAPHICAL REGION

The tables below detail the Bank's risk weighted assets (post CRM/CCF) by geographical region.

2018	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	~	~	1.1	7.3	9.5	2.0	0.8	20.7
Regional Government or Local Authorities	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	~	~	2.6	0.8	~	3.5	~	6.9
Corporates	~	~	3.0	5.9	11.5	3.1	3.9	27.4
Retail	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	58.8	~	~	~	~	~	3.1	61.9
Items associated with high risk	147.5	~	~	~	~	~	2.8	150.3
Claims on institutions and corporates with short term credit assessment	2.9	5.1	0.9	18.0	30.8	0.1	~	57.8
Other items	10.4	~	~	~	~	~	~	10.4
As at 31 December	219.6	5.1	7.6	32.0	51.8	8.7	10.6	335.4

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK WEIGHTED ASSETS BY GEOGRAPHICAL REGION

2017	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	~	~	5.4	7.8	5.9	~	1.9	21.0
Regional Government or Local Authorities	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	0.8	~	1.9	~	~	~	0.9	3.6
Corporates	~	2.2	4.2	3.2	23.6	3.0	1.2	37.4
Retail	~	~	~	~	~	~	~	-
Secured by mortgages on immoveable property	47.3	2.7	~	~	~	~	0.6	50.6
Items associated with high risk	152.0	1.7	~	~	~	~	~	153.7
Claims on institutions and corporates with short term credit assessment	4.8	33.9	5.6	~	29.0	0.1	~	73.4
Other items	8.8	~	~	~	~	~	~	8.8
As at 31 December	213.7	40.5	17.1	11.0	58.5	3.1	4.6	348.5

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY INDUSTRY SECTOR

The tables below detail the Bank's credit risk exposure (post CRM/CCF) by industry sector.

2018	Government/ Public administration £m	Financial £m	Property £m	Other £m	Total £m
Central Government or Central Bank	93.9	~	~	~	93.9
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~
Institutions	~	12.8	~	~	12.8
Corporates	~	27.8	~	19.3	47.1
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	83.0	~	83.0
Items associated with high risk	~	~	100.2	~	100.2
Claims on institutions and corporates with short term credit assessment	~	56.8	~	~	56.8
Other items	~	~	~	7.5	7.5
As at 31 December	93.9	97.4	183.2	26.8	401.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY INDUSTRY SECTOR

2017	Government/ Public administration £m	Financial £m	Property £m	Other £m	Total £m
Central Government or Central Bank	107.6	~	~	~	107.6
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	3.0	~	~	3.0
Institutions	~	9.8	~	~	9.8
Corporates	~	26.3	~	19.8	46.1
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	67.6	~	67.6
Items associated with high risk	~	~	102.4	~	102.4
Claims on institutions and corporates with short term credit assessment	~	~	~	~	~
Other items	~	66.8	~	~	66.8
As at 31 December	107.6	105.9	170.0	19.8	403.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY MATURITY

The tables below detail the maturity profile of the Bank's credit risk exposures (post CRM/CCF).

2018	Less than 1yr £m	Between 1-5yrs £m	More than 5yrs £m	Undated £m	Total £m
Central Government or Central Bank	63.5	17.8	12.6	~	93.9
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~
Institutions	0.8	10.5	1.5	~	12.8
Corporates	32.0	11.0	4.1	~	47.1
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	31.1	51.9	~	~	83.0
Items associated with high risk	56.9	38.7	~	4.6	100.2
Claims on institutions and corporates with short term credit assessment	46.7	~	~	10.1	56.8
Other items	~	~	2.0	5.5	7.5
As at 31 December	231.0	129.9	20.2	20.2	401.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY MATURITY

2017	Less than 1yr £m	Between 1-5yrs £m	More than 5yrs £m	Undated £m	Total £m
Central Government or Central Bank	77.1	16.9	11.7	1.9	107.6
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	3.0	~	~	~	3.0
Institutions	6.1	3.7	~	~	9.8
Corporates	28.8	12.8	4.5	~	46.1
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	24.1	43.5	~	~	67.6
Items associated with high risk	74.5	20.5	~	7.4	102.4
Claims on institutions and corporates with short term credit assessment	54.0	~	~	7.5	61.5
Other items	~	~	2.3	3.0	5.3
As at 31 December	267.6	97.4	18.5	19.8	403.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS

The tables below detail the effects of credit risk mitigation on the Bank's credit risk exposures.

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
2018	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density %
ASSET CLASSES						
Central Government or Central Bank	93.8	1.0	93.7	0.2	20.7	22
Regional Government or Local Authorities	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~
Institutions	12.0	3.9	12.0	0.8	6.9	53
Corporates	46.9	1.2	46.9	0.2	27.4	58
Retail	~	~	~	~	~	~
Secured by mortgages on immoveable property	83.0	~	83.0	~	61.9	75
Items associated with high risk	84.7	31.0	84.7	15.5	150.3	150
Exposures in default	~	~	~	~	~	~
Claims on institutions and corporates with short term credit assessment	56.5	1.6	56.5	0.3	57.8	102
Other assets	7.4	~	7.4	~	10.4	140
As at 31 December	384.3	38.7	384.2	17.0	335.4	84

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
2017	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density %
ASSET CLASSES						
Central Government or Central Bank	107.5	0.1	107.5		21.0	20
Regional Government or Local Authorities	~	~	~	~	~	~
Multilateral Development Banks	3.0	~	3.0	~	~	~
Institutions	9.8	~	9.8	~	3.6	37
Corporates	45.8	1.7	45.8	0.3	37.4	81
Retail	~	~	~	~	~	~
Secured by mortgages on immoveable property	66.8	1.5	66.8	0.8	50.6	75
Items associated with high risk	89.6	25.8	89.6	12.9	153.7	150
Exposures in default	0.3	~	~	~	~	~
Claims on institutions and corporates with short term credit assessment	61.4	0.1	61.4	~	73.4	119
Other assets	5.3	~	5.3	~	8.8	166
As at 31 December	389.5	29.2	389.2	14.0	348.5	86

Risk weighted assets decreased by £13m to £335m, when compared to prior year (2017: £348m).

Increases in risk weighted exposures to institutions (2018:£7m, 2017:£3m) and those secured by mortgages (2018:£62m, 2017:£51m), have been offset by a fall in short term risk weighted exposures (2018:£58m, 2017:£73m).

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY RISK WEIGHT

The tables below detail the Bank's credit exposures by risk weighting.

	RISK WEIGHTINGS									
2018	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Others £m	Total credit exposure amount (post CCF and CRM) £m
ASSET CLASS										
Central Government or Central Bank	65.3	~	4.3	~	9.0	~	15.3	~	~	93.9
Regional Government or Local Authorities	~	~	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~	~	~
Institutions	~	~	~	~	12.0	~	0.8	~	~	12.8
Corporates	~	~	15.7	~	14.1	~	17.3	~	~	47.1
Retail	~	~	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	~	32.4	~	~	50.6	~	~	83.0
Items associated with high risk	~	~	~	~	~	~	~	100.2	~	100.2
Claims on institutions and corporates with short term credit assessment	~	~	14.5	~	7.5	~	2.3	32.5	~	56.8
Other assets	0.1	~	~	~	~	~	5.4	~	2.0	7.5
As at 31 December	65.4	~	34.5	32.4	42.6	~	91.7	132.7	2.0	401.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY RISK WEIGHT

	RISK WEIGHTINGS									
2017	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Others £m	Total credit exposure amount (post CCF and CRM) £m
ASSET CLASSES										
Central Government or Central Bank	79.8	~	4.5	~	9.1	~	11.4	2.8	~	107.6
Regional Government or Local Authorities	~	~	~	~	~	~	~	~	~	~
Multilateral Development Banks	3.0	~	~	~	~	~	~	~	~	3.0
Institutions	~	~	4.2	~	5.6	~	~	~	~	9.8
Corporates	~	~	3.0	~	13.5	~	28.8	0.8	~	46.1
Retail	~	~	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	~	26.2	~	~	41.4	~	~	67.6
Items associated with high risk	~	~	~	~	~	~	~	102.4	~	102.4
Claims on institutions and corporates with short term credit assessment	~	~	7.5	~	9.0	~	~	45.0	~	61.5
Other assets	0.1	~	~	~	~	~	3.0	~	2.2	5.3
As at 31 December	82.9		19.2	26.2	37.2	~	84.6	151.0	2.2	403.3

5. SOURCES OF RISK

5.1 Credit Risk

ADDITIONAL DISCLOSURE RELATED TO THE CREDIT QUALITY OF ASSETS

Non-Performing Assets (NPA) and specific provisions

The Bank acknowledges there are circumstances where an asset may be classified as non-performing due to a variety of reasons and that such an asset may or may not warrant a provision against it. The value of any such provision will depend upon a number of factors.

Provisioning Policy (specific provisions)

The Bank applies a series of thresholds to determine the level of provision required against any NPA. The minimum criteria are set out in the tables below.

CREDIT QUALITY	STATUS	DEFINITION	MINIMUM PROVISION
Vulnerable	Early warning/ performing	Weak business credit; judged to be of poor standing and subject to very high credit risk	0%
Substandard	Watch List/ Sub-standard	Unacceptable business credit with normal repayment in jeopardy	0%
Doubtful	Provision/doubtful	Full repayment questionable. Serious problems to the point where partial loss of principal is likely	25%
In default	Recovery/loss	Expected loss. Very serious problems where loss of principal expected	100%

5. SOURCES OF RISK

5.1 Credit Risk

CONCENTRATION OF CREDIT RISK

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

	2018 £m	2017 £m
OECD	**283.7**	268.8
Jordan	**44.0**	51.2
Arab/Middle East	**46.8**	41.5
Other	**12.7**	31.6
Total	**387.2**	393.1

The following industry concentrations are considered significant:

	2018 £m	2017 £m
Government/Quasi-Government	**87.6**	99.3
Banks	**102.9**	104.1
Property lending	**168.2**	157.9
Other	**28.5**	31.8
Total	**387.2**	393.1

Credit risk mitigation

JIB employs a framework for managing collateral risk and other credit risk mitigants, providing the Bank with a transparent, effective and standardised system for minimising the impact of credit risk arising from its lending activities. The Bank defines collateral as an asset or a group of assets that a borrower or guarantor has pledged as security for a loan.

Collateral risk is defined as the risk of loss arising from deficiencies in the nature, quantity, pricing or characteristics of the collateral.

The Credit Risk Mitigation Framework is aimed at:

- Ensuring that all documentation used in collateralised transactions, on and off-balance sheet netting agreements and trade finance are binding of all parties and legally enforceable in all relevant jurisdictions.
- Assuring that all necessary steps are taken in order to safeguard the Bank's right to enforce its security in the event of default (or one or more credit events set out in the transaction documentation).
- Defining general rules for acceptance, enforceability, valuation and monitoring of credit risk mitigants.
- Enabling the classification and valuation of credit risk mitigants in a manner that allows the residual risk in a transaction to be accurately evaluated.

The Bank uses a number of different techniques to mitigate the credit risk to which it is exposed, including:

- First and second charges on assets (including property)
- Third Party Guarantees
- Cash Deposits
- Netting Agreements
- Promissory Notes and Side Letters

5. SOURCES OF RISK

5.2 Counterparty Credit Risk

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE

The table below provides an analysis of counterparty credit risk exposure.

	2018				2017			
	Replacement cost £m	Potential future exposure £m	EAD (post-CRM) £m	RWA £m	Replacement cost £m	Potential future exposure £m	EAD (post-CRM) £m	RWA £m
Mark to Market method	**0.2**	**0.1**	**0.3**	**0.2**	0.1	0.3	0.4	0.2
By exposure class:								
- of which institutions	**0.2**	**0.1**	**0.3**	**0.2**	0.1	0.3	0.4	0.2
By product:								
- of which Derivatives	**0.2**	**0.1**	**0.3**	**0.2**	0.1	0.3	0.4	0.2
By Region:								
- of which Europe	**0.2**	**0.1**	**0.3**	**0.2**	0.1	0.3	0.4	0.1
- of which Middle East	**~**	**~**	**~**	**~**	~	~	~	0.1
As at 31 December	**0.2**	**0.1**	**0.3**	**0.2**	0.1	0.3	0.4	0.2

Replacement cost

The cost of replacing the derivative position if the counterparty were to default and all related positions were closed immediately.

Potential future exposure

Any potential increase in exposure between the present and up to the end of the margin period of risk.

Exposure at default (post CRM)

The amount relevant for a capital requirements calculation having applied CRM techniques. This is the sum of the replacement cost and potential future exposure.

5. SOURCES OF RISK

5.2 Counterparty Credit Risk

CREDIT VALUATION ADJUSTMENT (CVA)

The tables below provide an analysis of the credit valuation adjustment capital charge.

2018	EAD (post-CRM) £m	RWA £m
All portfolios subject to the Standardised CVA capital charge	**0.3**	**0.1**
By product:		
– of which Derivatives	**0.3**	**0.1**
By region:		
– of which Europe	**0.3**	**0.1**
As at 31 December	**0.3**	**0.1**

2017	EAD (post-CRM) £m	RWA £m
All portfolios subject to the Standardised CVA capital charge	0.3	0.1
By product:		
– of which Derivatives	0.3	0.1
By region:		
– of which Europe	0.2	0.1
– of which Middle East	0.1	~
As at 31 December	0.3	0.1

Note

The Credit Valuation Adjustment (CVA) measures the risk from mark to market losses due to the deterioration in the credit quality of a counterparty to over the counter derivative transactions with JIB. It is a complement to the Counterparty credit risk charge (CCR) that accounts for the risk of outright default of a counterparty.

Standardised CVA capital charge:

The standardised approach calculation takes account of external credit ratings of each counterparty and incorporates the effective maturity and EAD from the calculation of the CCR.

5. SOURCES OF RISK

5.3 Market Risk

Market risk is the risk that movements in market conditions, including foreign exchange rates, interest rates and credit spreads will reduce the Bank's income, capital or the value of its portfolios.

The Bank is exposed to market risk because of its on and off-balance sheet positions in its banking book, through the volatility of prices in its investment portfolio and through the generation of a portion of its income in a currency different to its reporting one. The Bank does not have a trading book.

Market risk appetite

JIB has a very low appetite for market risk. It does not take open positions on its own account (proprietary trading) and seeks to have minimal exposure across currencies.

The Bank's most significant cross-currency exposure is of a Jordanian Dinar/US Dollar position, where market risk exposure is mitigated by the existence of a fixed currency peg, whereby the Jordanian Dinar is pegged against the US Dollar.

The Board has set conservative limits for exposures to interest rate movements.

Market risk management

The management of market risk is principally undertaken by the ExCo using risk limits approved by the Board of Directors.

JIB has clearly defined market risk policies that reflect the Board's risk appetite. On a day-to-day basis compliance with the market risk policies is monitored by the Bank's Risk Management function.

All exceptions to policy are escalated when identified and mitigating action is taken.

Foreign exchange risk

With the exception of the Jordanian Dinar/US Dollar position mentioned above, the Bank does not have significant positions in any foreign currencies and accordingly there is no significant impact on the income statement or equity as a result of foreign exchange rate fluctuations. In general, assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures or are covered by forward foreign exchange contracts.

Foreign exchange risks are controlled through the monitoring against limits which have been approved by the Board of Directors. Compliance with position limits is independently monitored on an ongoing basis.

MARKET RISK UNDER STANDARDISED APPROACH

The capital requirement for JIB's market risk exposure is calculated using the standardised approach.

	2018		2017	
	RWAs £m	Capital requirement £m	RWAs £m	Capital requirement £m
Outright products:				
– Foreign exchange risk	**23.3**	**1.9**	19.7	1.6
As at 31 December	**23.3**	**1.9**	19.7	1.6

Pillar 1 market risk is in respect of foreign exchange position risk. The Bank is exposed to foreign exchange risk as a result of transactional foreign exchange exposures in its operating entities. These are primarily US Dollar, Euro and Jordanian dinar.

5. SOURCES OF RISK

5.3 Market Risk

SENSITIVITY ANALYSIS OF FOREIGN EXCHANGE 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) to which the Bank is exposed.

			% CHANGE IN US$/£ EXCHANGE RATE			
2018	US$m	£m	-10% £m	-20% £m	+10% £m	+20% £m
US DOLLARS						
Total assets	225.9	177.8	197.5	222.2	161.6	148.2
Total liabilities	(253.6)	(199.6)	(221.7)	(249.5)	(181.4)	(166.3)
Forward contracts	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net	(27.9)	(22.0)	(24.4)	(27.5)	(20.0)	(18.3)
Movement	~	~	(2.4)	(5.5)	2.0	3.7

			% CHANGE IN EURO/£ EXCHANGE RATE			
2018	EURm	£m	-10% £m	-20% £m	+10% £m	+20% £m
EUROS						
Total assets	4.2	3.8	4.2	4.7	3.4	3.1
Total liabilities	(20.8)	(18.7)	(20.8)	(23.4)	(17.0)	(15.6)
Forward contracts	16.7	15.0	16.7	18.8	13.7	12.6
Net	0.1	0.1	0.1	0.1	0.1	0.1
Movement	~	~	~	~	~	~

5. SOURCES OF RISK

5.3 Market Risk

			% CHANGE IN US$/£ EXCHANGE RATE			
2017	**US$m**	**£m**	**-10% £m**	**-20% £m**	**+10% £m**	**+20% £m**
US DOLLARS						
Total assets	243.8	181.4	201.5	226.7	164.9	151.1
Total liabilities	(278.1)	(206.9)	(229.8)	(258.5)	(188.0)	(172.3)
Forward contracts	7.8	5.8	6.4	7.2	5.2	4.8
Net	(26.5)	(19.7)	(21.9)	(24.6)	(17.9)	(16.4)
Movement	~	~	(2.2)	(4.9)	1.8	3.3

			% CHANGE IN EURO/£ EXCHANGE RATE			
2017	**EURm**	**£m**	**-10% £m**	**-20% £m**	**+10% £m**	**+20% £m**
EUROS						
Total assets	4.5	4.1	4.5	5.1	3.7	3.4
Total liabilities	(19.9)	(17.8)	(19.7)	(22.2)	(16.1)	(14.8)
Forward contracts	15.4	13.7	15.2	17.1	12.4	11.4
Net	~	~	~	~	~	~
Movement	~	~	~	~	~	~

5. SOURCES OF RISK

5.3 Market Risk

Interest rate risk

Structural rate risk arises primarily from the Bank's banking book, including its treasury activities and property finance, trade finance and private banking businesses. All interest rate risk is within the Banking Book.

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

Structural interest rate risk arises in those activities where assets and liabilities have different re-pricing 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.

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 very similar 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. Gap amounts represent net assets/liabilities for each time bucket. Change in projected net interest income arising from a shift in yield curves of:

	2018		2017	
POUNDS STERLING	Gap £m	£'000	Gap £m	£'000
Up to 15 days	**75.78**	**1,282**	89.68	1,284
15 days to 1 month	**16.85**	**316**	6.41	103
1 - 2 months	**22.26**	**390**	13.52	122
2 - 3 months	**20.88**	**331**	29.61	366
3 - 4 months	**(20.82)**	**(295)**	(14.82)	(209)
4 - 5 months	**(3.07)**	**(38)**	(8.83)	(110)
5 - 6 months	**(2.27)**	**(25)**	(4.64)	(50)
6 - 9 months	**(10.15)**	**(76)**	(18.99)	(142)
9 - 12 months	**(10.16)**	**(25)**	(11.97)	(30)
Total	**89.30**	**1,860**	79.97	1,334

5. SOURCES OF RISK

5.3 Market Risk

Interest rate risk

SENSITIVITY OF PROJECTED NET INTEREST INCOME

	2018		2017	
US DOLLARS	Gap US$m	US$'000	Gap US$m	US$'000
Up to 15 days	**(0.79)**	**(16)**	(0.70)	(10)
15 days to 1 month	**(24.74)**	**(464)**	(3.33)	(46)
1 - 2 months	**(34.78)**	**(609)**	(34.09)	(444)
2 - 3 months	**1.15**	**18**	(23.38)	(275)
3 - 4 months	**(70.19)**	**(994)**	(54.26)	(572)
4 - 5 months	**4.90**	**61**	(0.46)	(4)
5 - 6 months	**12.49**	**135**	(7.49)	(60)
6 - 9 months	**16.35**	**123**	0.56	3
9 - 12 months	**(2.91)**	**(7)**	27.97	52
Total	**(98.52)**	**(1,753)**	(95.18)	(1,356)

5. SOURCES OF RISK

5.4 Operational Risk

Operational risk is defined as the risk of loss arising from a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events.

Operational risk includes actual and/or potential losses caused by but not limited to the following:

- System failures (software and hardware)
- Processing errors
- Electrical/telecommunications failures
- External events, such as natural disasters damaging physical assets
- Non compliance with legal and regulatory requirements
- Employee fraud
- External fraud
- Malicious acts (terrorism, vandalism, sabotage)
- Information security risks
- Business resilience and continuity risks
- Cyber crime related events
- Conduct risks
- Reputational risks.

Operational risk capital assessment

The operational risk management framework has been developed in accordance with Basel II guidelines for the management of operational risks, also taking into account best practice within the industry.

In accordance with the Capital Requirements Directive 2013/36 (CRD IV) the Bank adopts the 'basic indicator' approach to calculate the capital requirement for operational risk under Pillar 1. The capital requirement is calculated as 15% of the average of the 3 prior year's relevant revenue.

Other sources of operational risk are assessed and measured under Pillar 2 in order to determine additional capital necessities.

The basic approach followed by JIB to forecast their potential operational losses as part of the Pillar 2 assessment are as follows:

- Review of Historic Operational Losses and Risk events to predict the future losses
- Review of the Bank's Risk register, specifically periodically reassessing the controls therein
- Review of outstanding issues from Risk Assessments to anticipate future risk incidents
- Review of Key Operational Risk Indicators
- Review risk categories that have not been considered by the previous actions
- Consider the impact of insurance to mitigate operational losses
- Consider possible scenarios with exceptional outlying events
- Consider audit findings and external events.

5. SOURCES OF RISK

5.4 Operational Risk

Operational risk management framework

The operational risk management framework ensures that the Bank has processes and procedures to manage its exposure to operational risk minimising the probability of an operational risk crystallising into an event, and the impact of its effect if it does. JIB's operational risk management framework is characterised by the following key elements:

- Risk identification
- Risk assessment
- Risk monitoring
- Risk reporting.

Supported by three key tools:

- Risk and control effectiveness assessment
- Operational risk event reporting
- Key Risk Indicators
- Operational risk registers.

A sound operational risk management framework is a fundamental element of a robust risk based culture and risk management practices, and reflects the Board and senior management's effectiveness in administering the Bank's portfolio of products, activities, process and systems.

Managing operational risk

Operational risk is intrinsic to all products, activities, process and systems and is generated in all business and support areas. For this reason all employees at JIB are responsible for managing and controlling operational risk.

Effective operational risk management relies on a three lines of defence model:

- **The first line of defence** - business line management – are responsible for identifying and managing the risk inherent in the products, activities, processes and systems for which it is accountable
- **The second line of defence** – risk management function – are responsible for the operational risk framework, risk measurement and reporting to the different governing bodies
- **The third line of defence** – internal audit – gives assurance on operational risk management controls, processes and systems in place.

Additionally, the Board promotes a strong risk culture and solid ethical core values that support and provide appropriate standards and incentives for professional and responsible behaviour throughout the Bank.

5. SOURCES OF RISK

5.4 Operational Risk

Managing operational risk

In managing operational risk JIB seeks to:

- Ensure that the operational risks across the Bank's activities are captured, understood, risk assessed and reported
- Through effective Management Information, seek to learn and implement appropriate process/control remediation
- Drive a mature operational risk culture of ownership, accountability and awareness
- Ensure that the adequate corrective measures for controlling and mitigating operational risk exposure are implemented and monitored by all employees
- Minimise actual or potential losses arising from operational risk failures
- Ensure that each department is responsible for managing their operational risks as part of their day to day activities
- Ensure that all roles and responsibilities are agreed and clearly understood by all management levels
- Ensure that the potential impact of operational risks on new activities and products from their outset is duly assessed, in order to minimise these risks as far as possible
- Ensure that the appropriate training in operational risks is given to all staff
- Ensure the adequate protection of all of the Bank's assets as well as of its employees
- Ensure the development of adequate Business Continuity Plans (BCP), in order to minimise the impact of unpredictable events on the Bank's operations and customer service
- Minimise the financial impact of operational losses through the use of insurance for such risks that can be insured, or other risk transfer tools

The following table details the type of approach adopted by JIB with resultant risk weighted assets and capital usage.

	2018		2017	
	RWAs £m	Capital requirements £m	RWAs £m	Capital requirements £m
Basic Indicator Approach	**24.1**	**1.9**	24.0	1.9
	24.1	**1.9**	24.0	1.9

5.5 Interest Rate Risk

The general qualitative disclosure requirement, including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and the behaviour of non-maturity deposits, and the frequency of IRRBB measurement are covered in the section on Market Risk.

5.6 Pension Risk

The Bank operates a defined contribution scheme. The assets of the scheme are held separately from those of the Bank and are independently administered. The pension cost charge of £456,585 for 2018, (2017: £437,858) represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

6. LIQUIDITY POSITION & ASSET ENCUMBRANCE

Liquidity Position

Jordan International Bank is subject to CRD IV, CRR and PRA liquidity requirements through which it must demonstrate self sufficiency for liquidity purposes. Consequently the Bank is subject to the Liquidity Coverage Ratio ("LCR") which requires it to hold a sufficient buffer of High Quality Liquid Assets ("HQLA") to cover potential cash outflows during the first 30 days of a liquidity stress event.

As at 31 December 2018 the Bank was in compliance with its regulatory and internal liquidity requirements.

LCR DISCLOSURES

LCR Disclosure Requirements

The objective of the LCR disclosure requirements is to provide market participants with information to assess EU banks' liquidity positions and risk management. The Guidelines allow credit institutions which are neither a Global Systemically Important Institutions ("G-SIIs") nor Other Systemically Important Institutions ("O-SIIs"), or an institution which chooses to disclose their LCR voluntarily, to disclose a simplified template. This simplified template includes the liquidity buffer, total net cash outflows and the LCR. As Jordan International Bank is neither a G-SII nor O-SII it has disclosed the simplified template as detailed below:

	TOTAL WEIGHTED VALUE (AVERAGE) £m			
QUARTER ENDING	31.03.18	30.06.18	30.09.18	31.12.18
Liquidity buffer	**74.5**	**79.6**	**74.5**	**69.1**
Total net cash outflows	**16.4**	**18.4**	**19.5**	**23.0**
1 - 2 months	**475%**	**439%**	**389%**	**330%**

	TOTAL WEIGHTED VALUE (AVERAGE) £m			
QUARTER ENDING	31.03.17	30.06.17	30.09.17	31.12.17
Liquidity buffer	81.6	73.2	75.9	82.8
Total net cash outflows	16.9	18.4	16,.7	16.9
1 - 2 months	484%	404%	462%	493%

The disclosed values above are the simple average of LCR monthly reporting observations for each quarter.

6. LIQUIDITY POSITION & ASSET ENCUMBRANCE

ASSET ENCUMBRANCE

The following is the disclosure of on-balance sheet encumbered and non-encumbered assets and off-balance sheet collateral.

2018	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	**~**	**~**	**389.0**	**124.8**
Equity instruments	**~**	**~**	**~**	**~**
Debt securities	**~**	**~**	**124.8**	**124.8**
Other assets	**~**	**~**	**264.2**	**~**
Collateral received	**~**	**~**	**~**	**~**

2017	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	~	~	394.3	137.2
Equity instruments	~	~	~	~
Debt securities	~	~	138.6	137.2
Other assets	~	~	255.7	~
Collateral received	~	~	~	~

7. REMUNERATION POLICY

Purpose

Based on the Bank's profile, JIB has defined itself as a Proportionality 'Level Three' firm and adopted a proportionate approach to its remuneration policy. The Bank has considered its specific needs on an ongoing basis and where appropriate, has not applied certain disclosure provisions in accordance with the UK regulators' and the EBA guidance.

The Remuneration Policy of JIB is approved by the Board of Directors and applies to all employees of the Bank.

The Policy and the Bank's incentive structures reflect the Bank's objectives for good corporate governance as well as sustained and long term value creation for shareholders. It also ensures that the Bank is able to attract, develop and retain high performing and motivated employees. Employees are offered a competitive and market aligned remuneration package in which fixed salaries form the major remuneration component. A discretionary bonus may be awarded annually, subject to the approval of a bonus pool by the Board of Directors as part of the budget setting process. This variable remuneration is not guaranteed.

Decisions on fixed remuneration and variable remuneration are determined in the light of the annual review process which both assesses an individual employee's contribution to the Bank, as well as viewing this in the context of business unit or team performance and the overall performance of the Bank.

Factors such as fixed remuneration is determined on the basis of the role and position of the individual employee, taking into account, experience, relevant professional qualifications, seniority, responsibility, job complexity and local market conditions etc. Adjustments to individual fixed remuneration, may be made from time to time based on, but not limited to, any one or a combination of factors including, market forces and cost of living indices, individual contribution, expansion of responsibilities and accountabilities.

Variable remuneration is awarded on the basis of the bonus scheme in place and is intended to incentivise and reward individual performance in excess of that required fulfilling the ordinary requirements of the employee's role. All employees will have individual role specific performance objectives set in the context of the agreed business strategy and regulatory environment. When assessing an individual's contribution the focus is not only on what has been achieved but the way in which duties and tasks have been completed.

Any award of variable pay will always be subject to an assessment of the performance of the individual, the business unit concerned and the overall results of the Bank. The relationship between the amount of fixed remuneration and variable remuneration will always be set on a basis that the fixed component represents a sufficiently high proportion of total remuneration to make non-payment of any performance based variable amount possible.

Decisions on fixed and variable remuneration of any Executive Directors, Senior Managers and material risk takers will be considered and approved by the Non Executive Directors of the Board, or a sub committee of the Board, as directed by the Chairman from time to time. Such decisions on fixed and variable remuneration will be based on a range of factors including; Delivery of the Bank's business strategy, values, key priorities and long term goals; Alignment with the principles of protection of customer and shareholder interests in the delivery of the goals of the Bank; Achievement of financial targets in alignment with the declared risk and control parameters for the business.

The Bank works to ensure that risk and compliance individuals are not rewarded as a result of the performance of the business that they oversee by measuring their performance against the effective oversight and control for the business that they look after rather than the Financial performance of the Bank. Specific individual objectives measure their behaviours against a set of standards and it is this that is used to assess their contribution to the Bank's overall performance.

The Bank's Senior Managers have been identified as those who have responsibility for areas which involve, or might involve, a risk of serious consequence for the Bank. Any employee who is not a Senior Manager but whose daily activities have a material impact on the Bank's risk profile is categorised as a Material Risk Taker. Senior Managers and Material Risk takers need to demonstrate that they have conducted themselves and have taken all steps to mitigate any risk to the Bank. The Individuals Total Remuneration, both fixed pay and variable pay will be considered in the light of their performance against these key responsibilities when calculating any financial remuneration. Failure to perform could result in no annual pay increment and no discretionary bonus being awarded.

7. REMUNERATION POLICY

Remuneration awarded during the year

	Senior Management	Other Material Risk Takers	Total
Number of Employees	8	9	17
Total Fixed Remuneration	£1,070,311	£609,278	£1,679,589
Total Variable Remuneration	£156,483	£82,115	£238,598
Total Remuneration	£1,226,794	£691,393	£1,918,187

Remuneration by business area

FUNCTION	Total Remuneration	No. of staff
Property Lending	£461,110	3
Trade Finance	£64,640	1
Treasury	£248,498	3
Finance/Risk	£407,255	3
Operations	£205,742	3
Other	£530,942	4
Total	£1,918,187	17

Special payment disclosure is not required for the Bank as it is not required for a proportionality level 3 firm. (as per PRA SS2/17).