



Pillar 3 Report 2019

CONTENTS

1	BACKGROUND	3
1.1	Regulation	3
1.2	Basis and Frequency of Disclosures	3
2	OVERVIEW OF RISK MANAGEMENT	4
2.1	Business Model	4
2.2	Risk Management Objectives and Policies	5
2.3	Risk Appetite	12
2.4	Capital Adequacy	14
3	SUMMARY OF KEY RATIOS	16
4	CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE	17
5	SOURCES OF RISK	24
5.1	Credit Risk	24
5.2	Counterparty Credit Risk	48
5.3	Market Risk	50
5.4	Operational Risk	55
5.5	Interest Rate Risk	57
5.6	Pension Risk	57
6	LIQUIDITY POSITION & ASSET ENCUMBRANCE	58
7	REMUNERATION POLICY	60

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 2019.

The European Union Capital Requirements Regulation (CRR) and Capital Requirements 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 CRR introduced further enhancements for the Pillar 3 disclosures from 2015 to 2019. The enhancements up to and including 2019 have been included within this document. Further enhancements to the Pillar 3 disclosures are scheduled to be introduced in future years.

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 situation at 31 December 2019.

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 Jordan International Bank Plc which has no subsidiaries.

Governance

The Bank's Executive Committee attests to the accuracy of the data supported by consistency checks and reconciliations which were performed simultaneously with the Bank's 2019 Annual Report and Accounts and regulatory returns where applicable.

These disclosures have been subject to internal verification and have been reviewed by the Bank's Internal Auditor and the Board's Audit Committee on behalf of the Board.

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 Bank's regulatory compliance framework to meet such change.

The regulatory landscape continues to evolve and forthcoming changes, such as the ongoing Basel consultation on risk weightings and recent implementation of International Financial Reporting Standard (IFRS) 9, have the potential to increase 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 offers deposit products to retail and small business clients, primarily from the Middle East franchise of its shareholder banks.

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

Property finance

The property financing is primarily focused in London and Southern England.

The underlying loan book comprises two different types of loan. The larger portion relates to 'development loans' and a smaller portion relates to income producing real estate ('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 fully hedged.

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 Middle Eastern and UK retail depositors.

Treasury also executes money market placements with shareholder banks and other banks in its normal course of business.

Trade finance

Trade finance products are provided to/with Financial Institutions predominantly in the Middle East and Turkey.

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

Private banking

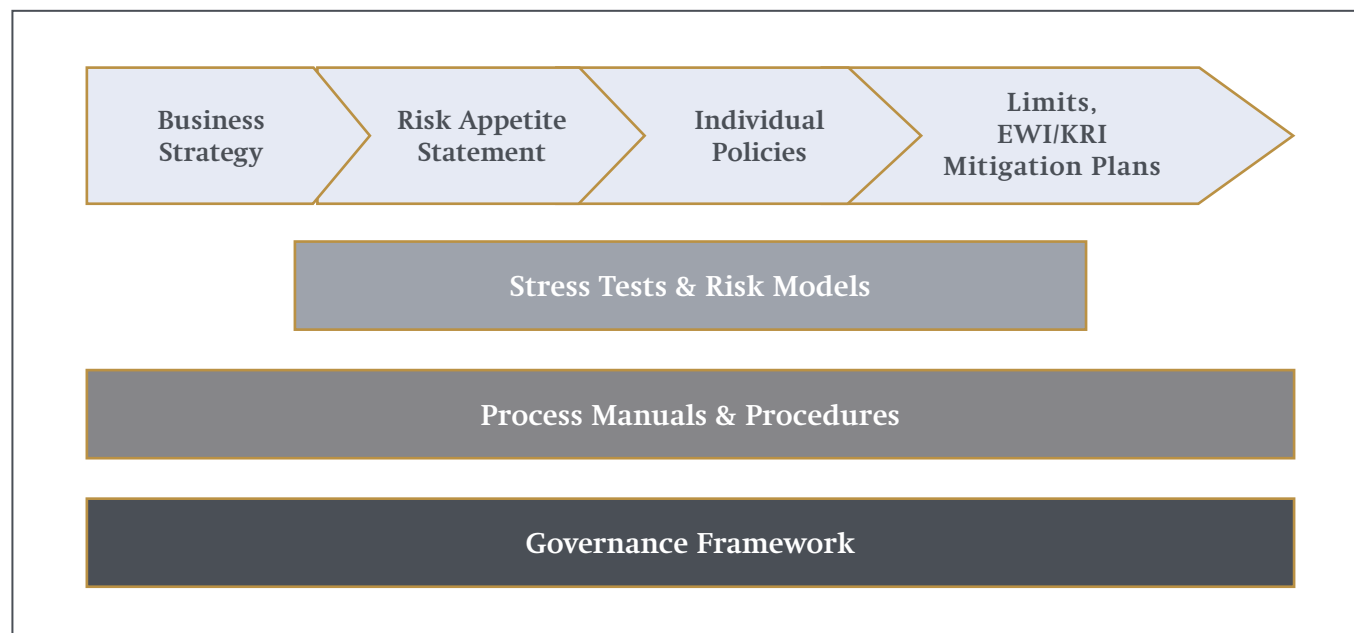
The Private Banking department services the UK banking requirements of a number of Jordanian and other Middle Eastern High Net Worth nationals and provides access to the UK markets with current, notice and short-term fixed deposit accounts. The Bank also provides fixed term deposit products to UK retail 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 Bank has put in place a 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 and strategic objectives.

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.

It 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 cascaded into lower level risks just up to the level they can be managed and controlled.

JIB has defined its risk capacity in relation to capital and liquidity, 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's 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 the established tolerances. The Risk Appetite Statement includes 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 the risk
- **Target** – establishes the tolerance limits accepted
- **Risk owner** – identifies who is responsible for managing and measuring that risk and the role played by the first, second and third line of defence.

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

The management information includes 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 established and documented with clear a definition of roles and responsibilities.

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

Risk Appetite Statement – this is defined based on the business strategy, and identifies the high level tolerances the Board accepts in order to achieve the business strategy. The Board is responsible for identifying 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 is reviewed annually together with the Business Plan.

Individual Policies – based on the Risk Appetite Statement, lower level risks are identified together with the relevant risk tolerances. The granularity of the individual risks and tolerances depend on their relevance to the business strategy and their level of potential impact. The individual risk policies and level of granularity are reviewed and updated annually.

Policies are established for all identified risks and include the following items:

- **Policy purpose and scope** – identifies the reason for the policy as well as the boundaries to which the policy applies
- **Policy content** – describes the policy statement which includes all applicable rules
- **Governance** – with well-defined reporting lines, identifies all related staff, supporting committee structures and assigned roles and responsibilities and escalation procedures
- **Risk control and management information** – identifies management information, establishes controls and the monitoring process
- **Associated documents** – identifies 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)** are determined for each of the individual risks identified. A strong set of management information has been established to monitor the limits, EWI/KRI and eventual impacts on the business strategy. A clear action plan is defined for breach of triggers and/or limits. EWI/KRI and related actions plans are reviewed annually together with individual risk statements.

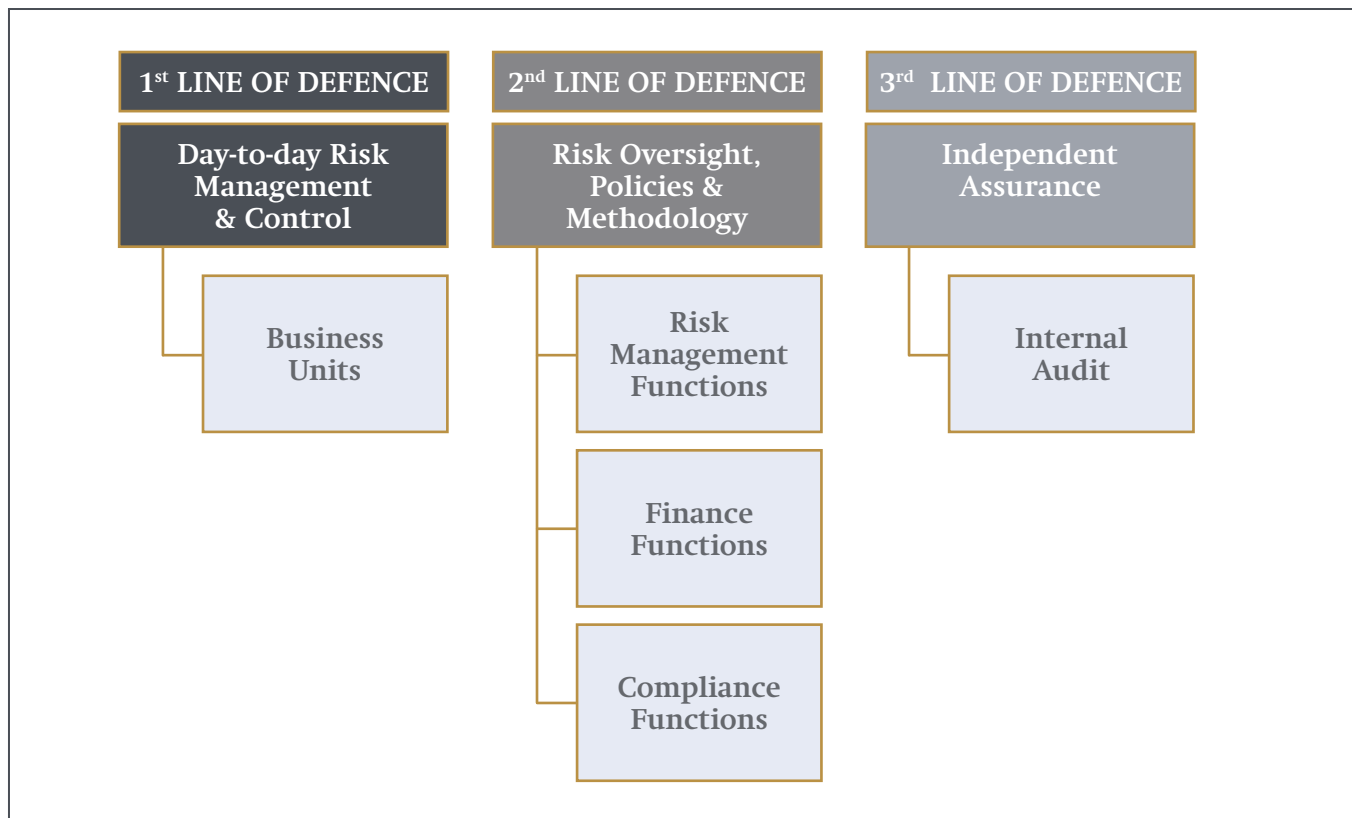
Stress Test/Risk Models – some risks require regulatory stress tests and/or risk models. For each of the individual risks that require stress tests and/or risk models a stress test and/or risk model policy is established and monitored.

Procedures – procedures 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

(Risk owners) are responsible for identifying, assessing and mitigating risks related to their businesses/ functions and for implementing corrective actions to address process and control deficiencies. They ensure adherence to risk boundaries and tolerances as determined in the Risk Appetite Statement. ExCo, business and functional owners are typical examples of the first line of defence functions.

Second line of defence

(Risk control owners) monitor and facilitate the implementation of effective risk management practices by business and functional management and assist the risk owners in reporting adequate risk related information throughout the Bank. The second line activities include establishing policies and processes of risk management, financial and operational controls, liaising between the third line of defence and the first line of defence, oversight of risk areas (e.g. credit, or operational risk), compliance and regulation. Risk management, Finance and Compliance/ MLRO are typical examples of the second line of defence functions.

Third line of defence

Internal audit provides independent assurance to the Board and ExCo on the effectiveness of the Bank in assessing and managing its risks. This includes assurance on the effectiveness of the first and second line of defence functions and controls used to manage and mitigate risk.

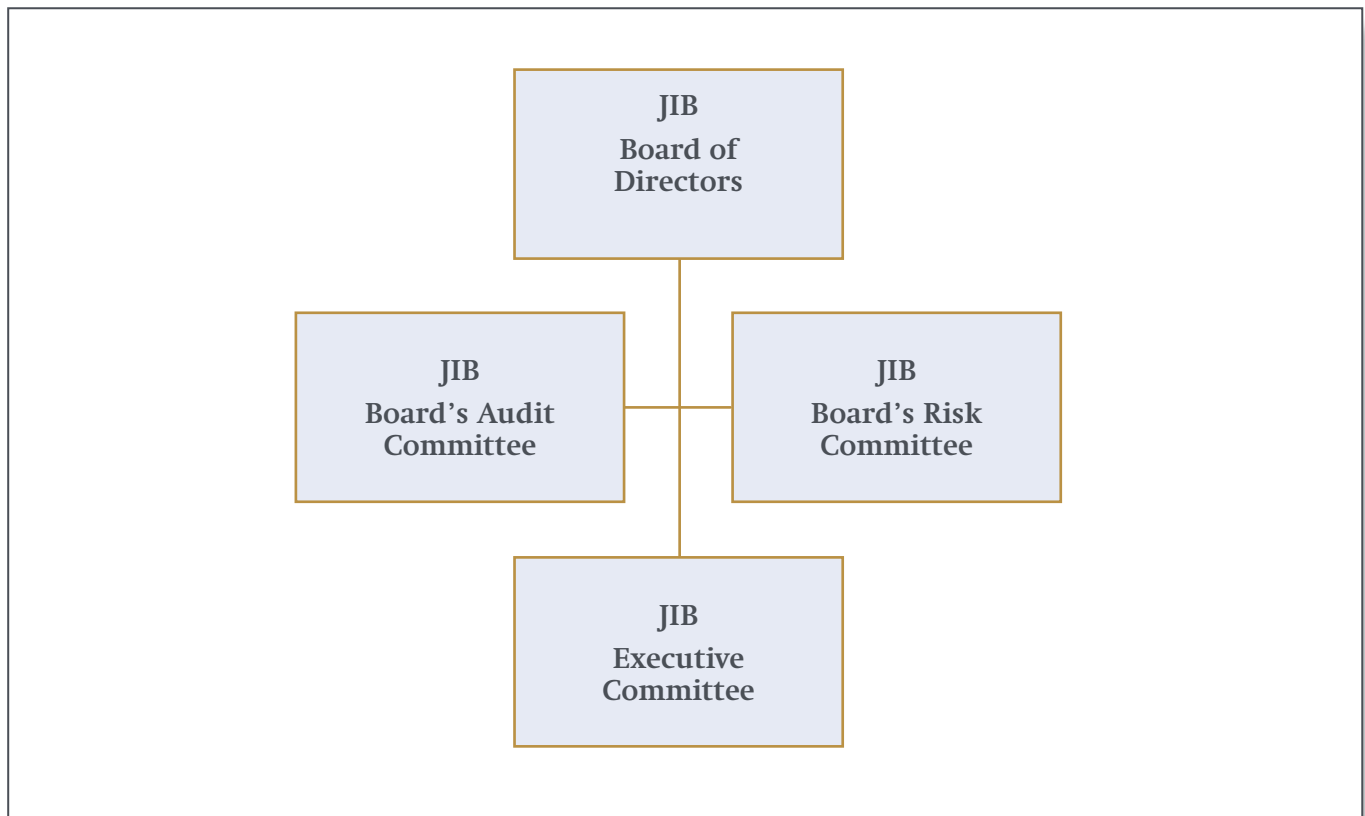
2. OVERVIEW OF RISK MANAGEMENT

2.2 Risk Management Objectives and Policies

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 ensures that this is accurately reflected in the Bank's business plan and strategy, 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 approves any amendments to policies.

Where the Board has changed the business strategy and/or the risk appetite, it ensures that the associated policies have been updated and, through ExCo, that all changes have been communicated to each 'line of defence'.

The Board of Directors, both directly and through the Audit and Risk Committees, receives quarterly management reports on all major risk areas 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 2019 the Board of Directors was comprised of the following members:

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

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

Mr Hani Al-Qadi – Chairman, Arab Jordan Investment Bank (AJIB)

Mr Samer Al-Qadi – Head of Treasury, AJIB

Mr Rakan Al-Tarawneh – CEO, JIB

Mr Nidal Ahmad – CFO, HBTF

Mr Riyadh Taweel – Head of Treasury, HBTF

Mr Nabil Hamadeh – Independent Non-Executive Director

Mr Mark Williams – CFO, JIB

Mr Hani Al-Qadi and Mr Samer Al-Qadi resigned as Directors of the Bank on 20th February 2020 and were replaced by Mr Basel Araj and Mr Raed-Al-Massis of Arab Jordan Investment Bank.

The Board therefore comprises 5 representatives of JIB's shareholders, two independent Non-Executive Directors, the Bank's Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

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 reports from the Chairs of the Audit Committee and the Risk Committee are provided for each Board Meeting. The Board also reviews minutes of the previous Board meeting and matters arising, together with the minutes of previous Audit, Risk and ExCo Committees.

The Board has put in place clear escalation procedures 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 is accompanied by an appropriate risk mitigation plan if considered necessary, or, if not, undergoes formal risk acceptance. The Board agrees on a final Risk Mitigation Plan and its implementation is overseen by the Chief Risk Officer and ExCo.

Various responsibilities are delegated to the Board's Committees and ExCo 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

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 meets at least four times per year. The Audit Committee comprises:

Chairman – Independent Non-Executive Director – Mr Ian Schmiegelow

Shareholder representatives – Mr Riyad Taweel, Mr Nidal Ahmad and Mr Raed Al-Massis (appointed Feb 2020)

Risk Committee

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

Chairman – Independent Non-Executive Director – Mr Nabil Hamadeh

Shareholder representatives – Mr Nidal Ahmad and Mr Basel Araj (appointed Feb 2020)

Independent Non – Executive Director – Mr Ian Schmiegelow

The Executive Committee

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

As of 31st December 2019 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 Steve Dry – Head of Structured Property Finance

Mr David Lavers – Head of Treasury

Mr Rajesh Khosla left the Bank at the end of January 2020 and was replaced as Chief Risk Officer by Mr Andrei Fetin, who was appointed to the Executive Committee in April 2020. Mr Hichem Turki, Head of Private Banking was appointed to the Executive Committee in December 2020.

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, Committee 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 approved 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 ensure 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 Bank conducts liquidity and capital stress testing to assess whether the Bank's liquidity and capital positions are adequate to withstand crisis situations.

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

The Risk Appetite Statement sets out appropriate escalation procedures and necessary measures when the defined risk appetite is exceeded.

2. OVERVIEW OF RISK MANAGEMENT

2.4 Capital Adequacy

Capital management

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, ExCo considers current and expected market conditions, the control environment and the risk appetite of the Bank. It then proposes 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, securities 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 three-year time horizon.

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 2.5% of total risk weighted assets at 31st December 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 the rate of 1% of total risk weighted assets from November 2018. For JIB the overall countercyclical capital buffer is 0.65% of total risk weighted assets at 31st December 2019. The buffer was reduced to 0% on 11th March 2020 as part of the coordinated response to the economic shock from Covid-19.

3. SUMMARY OF KEY CAPITAL RATIOS

KEY METRICS

	2019	2018
	£m	£m
Common Equity Tier 1 (CET1)	88.9	84.5
Tier 1	88.9	84.5
Total capital	88.9	84.5
Total risk-weighted assets (RWA)	397.8	383.1
	%	%
Common Equity Tier 1 ratio (%)	22.35	22.05
Tier 1 ratio (%)	22.35	22.05
Total capital ratio (%)	22.35	22.05
	%	%
	£m	£m
Leverage ratio exposure measure	389.1	392.2
Leverage ratio (%)	22.85	21.53
LCR ratio (%)	373.86	223.56

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

OWN FUNDS DISCLOSURE

	2019	Regulation (EU)
	£m	No.575/2013
		Article Reference
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
1	65.3	26 (1), 27, 28, 29, EBA list 26 (3)
2	22.7	26 (1) (3)
3	1.0	26 (1)
6	89.0	
COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS		
7	0.1	
29	88.9	
COMMON EQUITY TIER 1 CAPITAL (CET 1)		
44	~	
45	88.9	
TIER 1 CAPITAL (T1= CET1 +AT1)		
58	~	
59	88.9	
TOTAL REGULATORY CAPITAL (T1 +T2)		
60	397.8	
CAPITAL RATIOS AND BUFFERS		
	%	
61	22.35	92 (2) (a) (465)
62	22.35	92 (2) (b) (465)
63	22.35	92 (2) ©
64	3.15	
65	2.50	
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)		
	£m	CRD 128,129,140
75	1.7	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

2019	CARRYING VALUE OF ITEMS:				
	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
ASSETS					
Cash and balances at central banks	0.1	0.1	~	~	~
Nostros	5.3	5.3	~	~	~
Loans and advances to shareholder banks	58.8	58.8	~	~	~
Loans and advances to other banks	39.8	39.8	~	~	~
Loans and advances to customers	152.7	152.7	~	~	~
Investments in debt securities	120.9	120.9	~	~	~
Tangible fixed assets	1.7	1.7	~	~	~
Other assets	0.5	0.5	0.3	0.3	~
– of which sundry receivables	0.2	0.2	~	~	~
– of which derivatives at fair value	0.3	0.3	0.3	0.3	~
Deferred tax asset	1.7	1.7	~	~	~
Prepayments and accrued income investments	2.2	2.2	~	~	~
As at 31 December	383.7	383.7	0.3	0.3	~

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

2018	CARRYING VALUE OF ITEMS:				
	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
ASSETS					
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	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	2.3	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

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 2019 and 31 December 2018.

	ITEMS SUBJECT TO:			
	Total £m	Credit risk framework £m	Counterparty credit risk framework £m	Market risk framework £m
2019				
Asset carrying value amount under scope of regulatory consolidation	383.7	383.7	0.3	~
Liabilities carrying value amount under regulatory scope of consolidation	~	~	~	~
Total net amount under regulatory scope of consolidation	383.7	383.7	0.3	~
Off-balance sheet amounts	21.0	21.0	~	~
Differences due to treatment of credit risk mitigation (CRM) rules	-21.0	-21.0	~	~
Other differences	1.3	1.3	~	~
Net exposure amounts (post CRM and application of CCF) considered for regulatory purposes at 31 December	385.0	385.0	0.3	~

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

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
	2019	2018	2019
Credit risk (excluding counterparty credit risk) (CCR)	352.4	335.4	28.2
– of which standardised approach (SA)	352.4	335.4	28.2
Counterparty credit risk	~	0.2	~
– of which standardised approach for counterparty credit risk (SA-CCR)	~	0.2	~
Credit valuation adjustment (CVA)	~	0.1	~
– of which standardised method	~	0.1	~
Market risk	22.1	23.3	1.8
– of which foreign exchange risk	22.1	23.3	1.8
Operational risk	23.3	24.1	1.9
– of which Basic Indicator Approach	23.3	24.1	1.9
Total	397.8	383.1	31.9

Total RWA's have increased by £14.7m (3.8%) to £397.8m from £383.1m with Credit risk RWA's increasing by £17m (5.1%) to £352.4m from £335.4m due to an overall net increase in credit risk exposures from a reduction in holdings of LAB assets held for liquidity purposes and bank exposures.

Market risk RWA's have decreased by £1.2m to £22.1m from £23.3m.

Operational RWA's have decreased marginally by £0.8m to £23.3m from £24.1m caused by an overall decrease 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	383,726
Adjustments for derivative financial instruments	60
Adjustments for off-balance sheet items (conversion to CCF amounts)	5,335
Other adjustments	~
Leverage ratio exposure measure	389,122

4. CAPITAL RESOURCES, REQUIREMENTS AND LEVERAGE

LEVERAGE RATIO COMMON DISCLOSURE

	2019		2018	
	Fully loaded £m	Transitional £m	Fully loaded £m	Transitional £m
Total Assets as per published accounts (excluding derivatives)	383.7	383.7	387.2	387.2
Replacement cost associated with all derivative transactions	~	~	0.2	0.2
Add-on amounts for Potential Future Exposure associated with all derivative transactions	0.1	0.1	0.1	0.1
Total derivative exposures	0.1	0.1	0.3	0.3
Other off-balance sheet exposures				
Off-balance sheet exposures at gross notional amount	46.2	46.2	38.7	38.7
Adjustments for conversion to credit equivalent amounts	(40.9)	(40.9)	(34.0)	(34.0)
Total other off-balance sheet exposures	5.3	5.3	4.7	4.7
Total leverage ratio exposure	389.2	389.2	392.2	392.2
Tier 1 capital	88.9	88.9	84.5	84.5
Leverage ratio total exposure measure	389.2	389.2	392.2	392.2
Leverage ratio	22.85%	22.85%	21.53%	21.53%
TOTAL OTHER OFF-BALANCE SHEET EXPOSURE				
Undrawn lending facilities	39.2	39.2	31.0	31.0
Adjustments for conversion to credit equivalent amounts	(35.3)	(35.3)	(27.9)	(27.9)
Trade Finance contingents	7.1	7.1	7.7	7.7
Adjustments for conversion to credit equivalent amounts	(5.7)	(5.7)	(6.1)	(6.1)
Net amount	5.3	5.3	4.7	4.7

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 reflects 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 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 where the 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 system 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 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 (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.

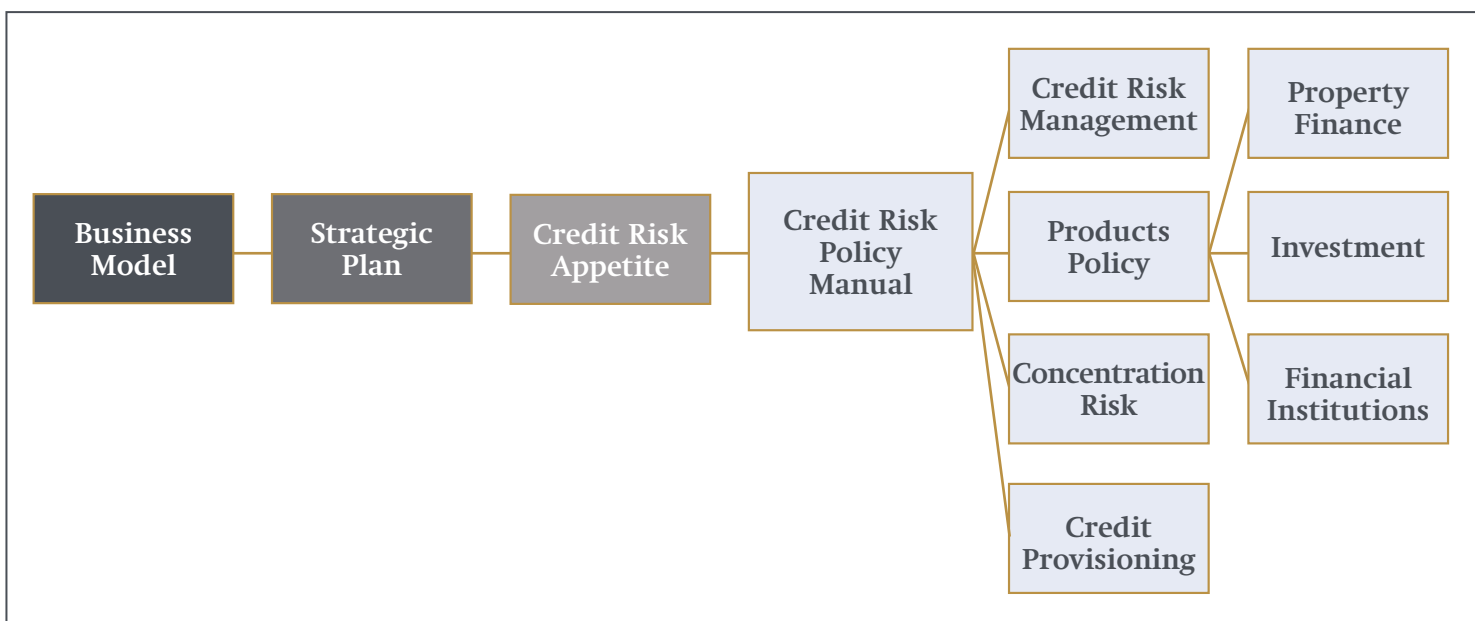
Credit policies

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 are 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 policies. 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 is responsible for the independent reviewing 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 periodically reviews the adequacy of the credit risk management framework and reports 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 are reported and acted upon on a timely basis.

At a minimum, the Bank’s Credit Risk Exposures in relation to this Credit Risk Appetite Statement are reported in detail to ExCo on a monthly basis.

A summary of the key/significant credit risks are presented to the Risk Committee of the 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 1st January 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 affects 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 measured at amortised cost - Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows which 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 shows 'forbearance' and works 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 considers 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			
	Defaulted exposures £m	Non-defaulted exposures £m	Allowances/ impairments £m	Net values £m
2019				
Loans	~	251.4	0.1	251.3
Securities	~	121.3	0.4	120.9
Off-balance sheet exposures	~	46.3	1.1	45.2
Total	~	419.0	1.6	417.4

	GROSS CARRYING VALUES OF			
	Defaulted exposures £m	Non-defaulted exposures £m	Allowances/ impairments £m	Net values £m
2018				
Loans	~	245.0	0.1	244.9
Securities	~	125.8	0.4	125.4
Off-balance sheet exposures	~	39.7	1.0	38.7
Total	~	410.5	1.5	409.0

The credit quality of the Bank’s assets is the same compared to the prior year with a small increase in impairments by £0.1m year on year which is predominantly due to changes in exchange rates.

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	2019	2018
	£m	£m
At 1 January	~	1.3
(Charge)/Credit to profit and loss	~	0.2
Other adjustments	~	(1.5)
As at 31 December	~	~

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	2019	2018
	£m	£m
At 1 January	(0.5)	(0.2)
- Expected credit losses (ECL)	(0.2)	(0.2)
- Lifetime ECL	0.1	(0.1)
- Credit impairment	~	~
As at 31 December	(0.6)	(0.5)

The movement in collective provisions of £(0.1)m during the year relates to the expected credit losses under IFRS9 across the whole portfolio.

MOVEMENT IN DEFAULTED ASSETS	2019	2018
	£m	£m
Defaulted loans and debt securities at end of the previous reporting period	~	1.3
Loans and debt securities that have defaulted since the last reporting period	~	~
Returned to non-defaulted status	~	~
Amounts repaid	~	(0.4)
Other changes	~	(0.9)
As at 31 December	~	~

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.

	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
2019							
Loans	78.3	172.9	172.9	~	~	~	~
Debt securities	120.9	~	~	~	~	~	~
As at 31 December	199.2	172.9	172.9	~	~	~	~
of which defaulted	~	~	~	~	~	~	~
	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
2018							
Loans	59.7	184.4	184.4	~	~	~	~
Debt securities	125.4	~	~	~	~	~	~
As at 31 December	185.1	184.4	184.4	~	~	~	~
of which defaulted	~	~	~	~	~	~	~

During 2019 unsecured exposures rose from £185.1m to £199.2m primarily as a result of the increase in the Bank's lending to its shareholder banks. Secured lending fell from £184.4m to £172.9m as the Bank experienced net redemptions within the property development portfolio. No loans were classified as defaulted.

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.

2019	Exposure value £m	Average exposure value £m	RWA's £m	Capital requirement £m
Central Government or Central Bank	81.8	84.4	22.6	1.8
Regional Government or Local Authorities	~	~	~	~
Multilateral Development Banks	~	~	~	~
Institutions	22.1	21.0	13.1	1.1
Corporates	50.8	47.0	44.2	3.5
Retail	~	~	~	~
Secured by mortgages on immoveable property	72.1	78.6	57.3	4.6
Items associated with high risk	100.2	99.3	150.2	12.0
Exposures in default	~	~	~	~
Claims on institutions and corporates with short term credit assessment	51.7	60.1	55.6	4.4
Other items	6.3	7.1	9.4	0.8
As at 31 December	385.0	397.5	352.4	28.2

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 BY GEOGRAPHICAL REGION

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

2019	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	~	48.6	12.5	10.2	4.0	1.5	81.8
Regional Government or Local Authorities	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	11.5	~	2.0	8.9	~	4.3	~	26.7
Corporates	~	~	5.1	19.7	16.3	6.3	4.4	51.8
Retail	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	67.9	~	~	~	~	~	4.2	72.1
Items associated with high risk	118.0	~	~	~	~	~	1.8	119.8
Claims on institutions and corporates with short term credit assessment	15.0	~	5.7	14.0	16.7	0.3	~	51.7
Other items	6.3	~	~	~	~	~	~	6.3
As at 31 December	223.7	~	61.4	55.1	43.2	14.9	11.9	410.2

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY GEOGRAPHICAL REGION

	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
2018								
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 WEIGHTED ASSETS BY GEOGRAPHICAL REGION

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

2019	United Kingdom £m	Europe £m	Americas £m	Africa & Middle East £m	Jordan £m	Asia £m	Other £m	Total £m
Central Government or Central Bank	~	~	1.2	8.4	10.2	2.0	0.8	22.6
Regional Government or Local Authorities	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~
Institutions	5.7	~	1.0	4.2	~	2.2	~	13.1
Corporates	~	~	5.1	17.5	15.3	3.1	3.2	44.2
Retail	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	53.3	~	~	~	~	~	3.9	57.2
Items associated with high risk	147.6	~	~	~	~	~	2.7	150.3
Claims on institutions and corporates with short term credit assessment	13.3	~	7.1	10.0	25.1	0.1	~	55.6
Other items	9.4	~	~	~	~	~	~	9.4
As at 31 December	229.3	~	14.4	40.1	50.6	7.4	10.6	352.4

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK WEIGHTED ASSETS 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 EXPOSURE BY INDUSTRY SECTOR

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

2019	Government/ Public administration £m	Financial £m	Property £m	Other £m	Total £m
Central Government or Central Bank	81.8	~	~	~	81.8
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~
Institutions	~	26.8	~	~	26.8
Corporates	~	29.5	~	22.3	51.8
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	72.1	~	72.1
Items associated with high risk	~	~	119.7	~	119.7
Claims on institutions and corporates with short term credit assessment	~	51.7	~	~	51.7
Other items	~	~	~	6.3	6.3
As at 31 December	81.8	108.0	191.9	28.6	410.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE 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 MATURITY

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

2019	Less than 1yr £m	Between 1-5yrs £m	More than 5yrs £m	Undated £m	Total £m
Central Government or Central Bank	57.2	10.7	13.9	~	81.8
Regional Government or Local Authorities	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~
Institutions	12.7	12.4	1.6	~	26.8
Corporates	32.2	17.2	2.4	~	51.8
Retail	~	~	~	~	~
Secured by mortgages on immoveable property	33.4	38.7	~	~	72.1
Items associated with high risk	71.0	48.8	~	~	119.7
Claims on institutions and corporates with short term credit assessment	46.4	~	~	5.3	51.7
Other items	~	~	2.1	4.2	6.3
As at 31 December	252.9	127.8	20.0	9.6	410.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY MATURITY

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 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	
	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density %
2019						
ASSET CLASSES						
Central Government or Central Bank	81.8	~	81.8	~	22.6	28
Regional Government or Local Authorities	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~
Institutions	20.9	5.9	20.9	1.2	13.1	60
Corporates	50.6	1.2	50.6	1.2	44.2	87
Retail	~	~	~	~	~	75
Secured by mortgages on immoveable property	72.1	~	72.1	~	57.3	79
Items associated with high risk	80.6	39.2	80.6	19.6	150.2	150
Claims on institutions and corporates with short term credit assessment	51.7	~	51.7	~	55.6	107
Other assets	6.3	~	6.3	~	9.4	149
As at 31 December	364.0	46.3	364.0	21.0	352.4	92

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	
	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density %
2018						
ASSET CLASSES						
Central Government or Central Bank	93.8	1.0	93.8	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
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	384.3	17.0	335.4	84

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.

2019	RISK WEIGHTINGS									Total credit exposure amount (post CCF and CRM) £m
	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Others £m	
ASSET CLASS										
Central Government or Central Bank	52.1	~	4.4	~	7.3	~	18.0	~	~	81.8
Regional Government or Local Authorities	~	~	~	~	~	~	~	~	~	~
Multilateral Development Banks	~	~	~	~	~	~	~	~	~	~
Institutions	~	~	~	~	17.8	~	9.0	~	~	26.8
Corporates	~	~	~	~	13.2	~	38.6	~	~	51.8
Retail	~	~	~	~	~	~	~	~	~	~
Secured by mortgages on immoveable property	~	~	~	22.8	~	~	49.3	~	~	72.1
Items associated with high risk	~	~	~	~	~	~	~	119.8	~	119.8
Claims on institutions and corporates with short term credit assessment	~	~	3.5	~	11.0	~	12.9	24.3	~	51.7
Other assets	0.1	~	~	~	~	~	4.1	~	2.1	6.3
As at 31 December	52.2	~	7.9	22.8	49.3	~	131.9	144.1	2.1	410.3

5. SOURCES OF RISK

5.1 Credit Risk

CREDIT RISK EXPOSURE BY RISK WEIGHT

2018	RISK WEIGHTINGS									Total credit exposure amount (post CCF and CRM) £m
	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Others £m	
ASSET CLASSES										
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

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. The Bank defines an exposure as a NPA if it is classified as 'grade 9 or 10'. The credit score is recorded in the Bank's Credit Limit Monitoring System.

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:

	2019 £m	2018 £m
OECD	248.9	283.7
Jordan	77.6	44.0
Arab/Middle East	28.0	46.8
Other	29.2	12.7
Total	383.7	387.2

The following industry concentrations are considered significant:

	2019 £m	2018 £m
Government/Quasi-Government	81.2	87.6
Banks	121.6	102.9
Property lending	152.7	168.2
Other	28.2	28.5
Total	383.7	387.2

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 which 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 on all parties and legally enforceable in all relevant jurisdictions.
- Ensuring 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.

	2019				2018			
	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	~	0.1	0.1	~	0.2	0.1	0.3	0.2
By exposure class:								
- of which institutions	~	0.1	0.1	~	0.2	0.1	0.3	0.2
By product:								
- of which Derivatives	~	0.1	0.1	~	0.2	0.1	0.3	0.2
By Region:								
- of which Europe	~	0.1	0.1	~	0.2	0.1	0.3	0.2
- of which Middle East	~	~	~	~	~	~	~	~
As at 31 December	~	0.1	0.1	~	0.2	0.1	0.3	0.2

Replacement cost

The cost of replacing the derivative position if the counterparty were to default and all outstanding transactions were closed out as soon as possible.

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.

	EAD (post-CRM) £m	RWA £m
2019		
All portfolios subject to the Standardised CVA capital charge	0.1	~
By product:		
– of which Derivatives	0.1	~
By region:		
– of which Europe	0.1	~
As at 31 December	0.1	~
2018		
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

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 ExCo (ALCO) 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 regular 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.

	2019		2018	
	RWAs £m	Capital requirement £m	RWAs £m	Capital requirement £m
Outright products:				
– Foreign exchange risk	22.1	1.8	23.3	1.9
As at 31 December	22.1	1.8	23.3	1.9

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.

2019	US\$m	£m	% CHANGE IN US\$/£ EXCHANGE RATE			
			-10% £m	-20% £m	+10% £m	+20% £m
US DOLLARS						
Total assets	227.4	172.2	191.4	215.3	156.6	143.5
Total liabilities	(262.1)	(198.5)	(220.6)	(248.2)	(180.5)	(165.4)
Forward contracts	5.5	4.1	4.6	5.2	3.8	3.5
Net	(29.2)	(22.2)	(24.6)	(27.7)	(20.1)	(18.4)
Movement	~	~	(2.4)	(5.5)	2.1	3.8

2019	EURm	£m	% CHANGE IN EURO/£ EXCHANGE RATE			
			-10% £m	-20% £m	+10% £m	+20% £m
EUROS						
Total assets	8.2	7.0	7.7	8.7	6.3	5.8
Total liabilities	(11.4)	(9.7)	(10.7)	(12.1)	(8.8)	(8.0)
Forward contracts	3.2	2.7	3.0	3.4	2.5	2.2
Net	~	~	~	~	~	~
Movement	~	~	~	~	~	~

5. SOURCES OF RISK

5.3 Market Risk

2018	US\$m	£m	% CHANGE IN US\$/£ EXCHANGE RATE			
			-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

Interest rate risk

Interest 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.

The 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:

	2019		2018	
	Gap £m	£'000	Gap £m	£'000
POUNDS STERLING				
Up to 15 days	83.5	1,438	75.78	1,282
15 days to 1 month	13.2	248	16.85	316
1 - 2 months	9.6	168	22.26	390
2 - 3 months	26.4	418	20.88	331
3 - 4 months	(22.7)	(321)	(20.82)	(295)
4 - 5 months	(2.4)	(30)	(3.07)	(38)
5 - 6 months	(5.8)	(63)	(2.27)	(25)
6 - 9 months	(6.6)	(50)	(10.15)	(76)
9 - 12 months	(6.7)	(17)	(10.16)	(25)
Total	88.5	1,791	89.30	1,860

5. SOURCES OF RISK

5.3 Market Risk

Interest rate risk

SENSITIVITY OF PROJECTED NET INTEREST INCOME

US DOLLARS	2019		2018	
	Gap US\$m	US\$'000	Gap US\$m	US\$'000
Up to 15 days	(9.6)	(188)	(0.79)	(16)
15 days to 1 month	(21.6)	(405)	(24.74)	(464)
1 - 2 months	(5.4)	(94)	(34.78)	(609)
2 - 3 months	(6.6)	(105)	1.15	18
3 - 4 months	(65.5)	(928)	(70.19)	(994)
4 - 5 months	3.8	47	4.90	61
5 - 6 months	16.8	182	12.49	135
6 - 9 months	(0.7)	(5)	16.35	123
9 - 12 months	(14.2)	(35)	(2.91)	(7)
Total	(103.0)	(1,531)	(98.52)	(1,753)

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 years' 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 and 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's 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, processes 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.

Additionally, the Board promotes a strong risk culture and solid ethical core values that support and provide appropriate standards 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 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 exposures 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 risk 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.

	2019		2018	
	RWAs £m	Capital requirements £m	RWAs £m	Capital requirements £m
Basic Indicator Approach	23.3	1.9	24.1	1.9
Standardised Approach	~	~	~	~
Advanced Measurement Approach	~	~	~	~
	23.3	1.9	24.1	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 £491,270 for 2019, (2018: £456,585) 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 is required to 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 HQLA to cover potential cash outflows during the first 30 days of a liquidity stress event.

As at 31 December 2019 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 an O-SII it has disclosed the simplified template as detailed below:

	TOTAL WEIGHTED VALUE (AVERAGE) £m			
QUARTER ENDING	31.03.19	30.06.19	30.09.19	31.12.19
Liquidity buffer	71.4	47.6	66.4	54.6
Total net cash outflows	13.4	13.4	15.1	13.2
LCR ratio	532%	356%	437%	419%

	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
LCR ratio	475%	439%	389%	330%

The disclosed values above are the simple average of LCR monthly reporting figures 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.

	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
2019				
Assets of the reporting institution	~	~	383.0	120.2
Equity instruments	~	~	~	~
Debt securities	~	~	120.2	120.2
Other assets	~	~	262.9	~
Collateral received	~	~	~	~
	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
2018				
Assets of the reporting institution	~	~	389.0	124.8
Equity instruments	~	~	~	~
Debt securities	~	~	124.8	124.8
Other assets	~	~	264.2	~
Collateral received	~	~	~	~

7. REMUNERATION POLICY

Purpose

Jordan International Bank is a Proportionality Level Three firm.

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

The Policy and the Bank's incentive structures ensure 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.

Basic salary (fixed remuneration) is determined on the basis of the role and position of the individual employee, experience, relevant professional qualifications, seniority, responsibility, job complexity and local market conditions. Adjustments to individuals' 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 to fulfil the basic requirements of the employee's role. All employees 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 also the way in which the duties and tasks have been completed.

Any award of variable pay is always 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 is 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 Executive Directors, Senior Managers and material risk takers are considered and approved by sub group of the Board. Such decisions on fixed and variable remuneration are 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'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 and these key responsibilities are taken in to consideration when calculating any financial remuneration.

7. REMUNERATION POLICY

Remuneration awarded during the year 2019

All pay is in £	Senior Management	Other Material Risk Takers	Total
Number of Employees	8	14	22
Total Fixed Remuneration	£954,429	£884,387	£1,838,816
Total Variable Remuneration	£171,000	£139,000	£310,000
Total Remuneration	£1,125,429	£1,023,387	£2,146,816

Remuneration by business area

FUNCTION	Total Remuneration	No. of staff
Property Lending	£535,431	3
Trade Finance	£108,800	2
Treasury	£255,428	3
Finance/Risk	£321,650	2
Operations	£156,710	4
Other	£768,797	8
Total	£2,146,816	22

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).