Registration No: 2564490

ABC INTERNATIONAL BANK plc

REPORT AND ACCOUNTS

For the year ended 31st December 2012

CONTENTS:

DIRECTORS' REPORT

I am delighted to report a year of outstanding achievement in 2012 by ABC International Bank plc ("ABCIB") In terms of total operating income and profit before tax, the Bank reached all-time record high levels, whilst keeping costs under control and expanding its business in all areas Full details of these results are contained in the Chief Executive Officer's report and Business Review

This performance is even more noteworthy when one considers the continuing political and economic turmoil that affected some of the Bank's key markets in the Middle East and North Africa ("MENA") region in 2012 Some progress towards normality was seen in the three MENA markets most affected by the events of 2011 (Egypt, Libya and Tunisia) but the process of establishing peace, electing new governments and restoring normal economic activity will take some time In Syria, we still see an unresolved conflict, which is affecting sentiment in the wider Levant region Nevertheless, MENA is still an area with good business opportunities for the Bank and with significant potential for the future when stability returns This is particularly relevant to Libya, where ABCIB saw trade flows restored in early 2012 as the country began to rebuild after the 2011 conflict The Bank's long track record in the Libyan market, allied to the shareholding links of ABC Group with the country, puts ABCIB in a strong position to support the renaissance of the country through trade finance, project finance and, in line with Libyan government policy, through Islamic financial services

In the wider international arena, we saw economic uncertainty and recessionary conditions continuing to impact Europe in 2012 This affected the banking and corporate sectors, creating concerns for bankers over country risk and the creditworthiness of individual obligors However, ABCIB's focus on exporting companies and contractors enabled it to continue to grow its European business, as exporters responded to steady demand from the MENA region and other growing markets However, challenges remain for all bankers in creating sustainable growth in 2013, against the background of continuing volatility, both economic and political, in many parts of the world

2012 was a year in which we saw many international banks, both large and small, fined or censured for breaches of sanctions, money-laundering offences or for other serious control failures This has created an unhealthy public mistrust of the banking system and an impression of low moral standards In that context, I want to make it clear that ABCIB maintains high standards of risk management and compliance on all transactions it undertakes All relevant international sanctions are observed and the Bank places great emphasis on ensuring that regulatory and legal requirements are met in full This is particularly important, given the background of volatility in some of the Bank's core business markets The Bank has a cautious risk strategy but benefits from the long history of ABC Group operating in the MENA region and the expertise this provides ABCIB has a proud record of supporting trade flows and other financial transactions between Europe and MENA and maintains an ethical approach to its business, supporting parties on both sides of these transactions

On the regulatory front, ABCIB continued to meet fully the requirements of the FSA and all other relevant regulators The regulatory landscape was relatively stable in 2012 and the Bank has started preparations for the requirements of the Basel III regulations and for the change in structure of the FSA into two separate regulatory bodies in 2013

The Board of Directors is comfortable that the capital adequacy and liquidity position of ABCIB is sound and that the asset quality of the Bank is good The Directors remain confident that ABCIB has adequate resources and management skills to pursue its business plan successfully in 2013 and beyond The financial position of ABCIB is good and the parent Bank injected an additional £30 million of Tier 1 capital into ABCIB in December 2012, to fund continued expansion of the business and maintain healthy capital ratios This is a tangible demonstration of how ABCIB benefits from financial and business support from its parent Bank In addition, the Bank enjoys a very close business relationship with the major shareholders of Arab Banking Corporation (BSC) ("ABC") Accordingly, the Directors have no hesitation in adopting the going concern basis in preparing the annual report and accounts

During the year, the Bank made significant investment in development of the skills of its people Training has always been an important matter in ABCIB but, in 2012, the Bank participated in three major ABC Group initiatives to improve skills a "Critical Role Competency Analysis" was undertaken on key functions and jobholders, a leadership development programme was introduced, and an extensive credit risk training scheme was implemented for personnel involved in business generation, as well as those in specialist risk functions These initiatives will continue in 2013

Full details of the Board of Directors are shown on page 5. On 10th July 2012, Mr William Playle, the Chief Executive Officer of the Bank, was elected to the Board and was appointed as Managing Director There were no other changes in the memberships of the Board or its Committees

ABCIB Group had 189 permanent employees as at 31st December 2012 I want to thank the management and staff of the Bank for their dedication and hard work in delivering record results this year, and I also thank the Board of Directors and Shareholders for their guidance and continued support

ABCIB did not declare nor pay a dividend in 2012

It is ABCIB's policy to pay its suppliers within the agreed period from the date of their invoice

None of the Directors had an interest in ABCIB shares during 2012, and no option to purchase shares has been granted to any Director

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that
There is no relevant information of which ABCIB's auditors are unaware, and they have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant information, and to establish that the auditor is aware of that information

RE-APPOINTMENT OF AUDITOR

In accordance with Section 487 (2) of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the re-appointment of Ernst & Young LLP as auditor of ABCIB

Hassan A Juma
Chairman

15 FEB 2013

Board of Directors

HASSAN ALI JUMA
BRC # ∞*
Chairman of the Board
Fellow of the Chartered Institute of
Management Accountants (FCMA), U K
Mr Juma was appointed as Chairman of the Board of Directors of ABCIB on 11th March 2011, prior to which he served as a director from 2001 -2008 and as Deputy Chairman from 2008-2011 Mr Juma has been President & Chief Executive of ABC since 1st April 2008 He previously served as Chief Executive Officer of National Bank of Bahrain ("NBB") from 1984 and Managing Director of NBB from 1997 He was formerly Chairman of Bahrain Telecommunications Company and Umniah Mobile Company, Jordan and a director of National Bank of Bahrain Mr Juma has been a Director of ABC since 1994 and is also Chairman of Arab Banking Corporation – Egypt (S A E), Chairman of Arab Banking Corporation – (Jordan) and Chairman of Arab Financial Services Company BSC (c) Mr Juma has more than 36 years experience in Commercial Banking

ABDULLAH SAUD AL HUMAIDHI
AC RC CAC # ∞*
Deputy Chairman of the Board
Mr Al Humaidhi was appointed to ABCIB Board of Directors in 2008 and as Deputy Chairman on 11th March 2011 Mr Al Humaidhi is also Chairman and Managing Director of Commercial Facilities Company, Kuwait, Member of the Board and the Executive Committee of Kuwait Investment Authority and Vice Chairman of the Public Institution for Social Security, a director of the Board of First National Bank S A L , Lebanon and a Member of the Board of Kuwait Chamber of Commerce & Industry Mr Al Humaidhi, who has also been a director of ABC since 2001, has over 25 years experience in banking and investment

HILAL MISHARI AL MUTAIRI
BRC CAC # ∞*
Director
Mr AL Mutairi was appointed as a director of ABCIB in 2001 Mr Al Mutairi also serves as Deputy Chairman of Arab Banking Corporation (B S C) and is a director of Kuwait Investment Authority His previous offices include First Vice Chairman, Kuwait Chamber of Commerce & Industry, Minister of Trade and Industry of Kuwait, General Manager of Kuwait Investment Company and Chairman of Kuwait Clearing Company Mr AL Mutairi has more than 36 years of commercial and financial industry experience

DAVID THOMAS R. CARSE, OBE
AC BRC RC ι #*
Director
Mr Carse was appointed as an independent director of ABCIB in 2007 and also serves as Chairman of the Audit Committee and a Member of the Board Risk and Remuneration Committees Mr Carse is also a Non-Executive director of CAF Bank Limited and formerly served as Deputy Chief Executive of Hong Kong Monetary Authority and was the Director General of Jersey Financial Services Commission Mr Carse has a banking career that spans over 40 years

FLORENCE HADI EID
BRC CAC # ι
Director
Ph D, Organisation Economics, Massachusetts Inst of Technology
Ms Eid was appointed to the Board of ABCIB in 2010 as an independent director Ms Eid is the Founder & CEO of Arabia Monitor, a research advisory firm focused on MENA and sits in the Board of Trustees of the American University in Paris Formerly, Ms Eid worked at the World Bank and currently holds a number of visiting professorships at INSEAD and HEC, Paris

ANGUS GILLIES MACLENNAN
AC RC # ι
Director
Mr MacLennan was appointed as independent director of ABCIB in 2010 Mr MacLennan is also the Chairman of the Advisory Board, Institute of Risk Standards & Qualifications, Chairman of An Teallach Energy Company Limited, Vice Chairman and director of the Eve Appeal Ltd and Senior Independent director of Vocalink Holdings plc Mr MacLennan has had a banking career that spans over 35 years

WILLIAM PLAYLE
ABCIB, Managing Director & Chief Executive Officer is an attendee at the following board committees BRC, AC, RC, CAC
Mr Playle was appointed as Chief Executive Officer of ABCIB in January 2012 Previously, he served as Deputy CEO since October 2011 and Head of Risk Management since May 2002
Mr Playle is also a director on the Board of the Arab Bankers' Association UK Prior to joining ABCIB, Mr Playle occupied senior positions with Sanwa International plc, as Chief Credit Officer, and Barclays Capital, as director and Head of Credit Risk Management Mr Playle has extensive Business, Risk and General Management experience across various banking sectors that spans over 35 years

DAVID THOMAS HOLDEN
Company Secretary
Barrister-at-Law (Lincoln's Inn)
Mr David Holden joined the Legal department of ABCIB as a lawyer in 1994 Prior to this he had been assistant lecturer (Maitre Assistant) in English law at the University of Paris X, Nanterre, France for four years, following which he qualified at the Bar of England and Wales and practiced as a barrister in chambers at 3 Paper Buildings, Inner Temple, specialising in commercial and banking law He became Head of Legal Services at ABCIB in 2002 and was appointed Company Secretary in 2007 He has had 20 years' experience in the law relating to financial institutions and banking

AC	*Member of the Audit Committee*
BRC	*Member of the Board Risk Committee*
RC	*Member of the Remuneration Committee*
CAC	*Member of the Charitable Appeals Committee*
*	*Chairman of Board Committee*
#	*Non-Executive*
$	*Executive*
ι	*Independent Director*
∞	Non-independent Director

CHIEF EXECUTIVE OFFICER'S REPORT & BUSINESS REVIEW

OVERVIEW OF THE YEAR

2012 was a year of remarkable success for the Bank Conditions remained challenging in our core markets in MENA but the Bank's strong business model and diverse customer base, contributed to achievement of record high levels for a number of key business indicators

Total operating income was a record high of £67 3 million, with net interest income (excluding equity earnings) contributing £39 5 million and net fee/commission income of £28 4 million Net interest income grew by 34%, reflecting the underlying expansion of the Bank's asset book Fee/commission income recovered from the lower levels of 2011, which were mainly caused by reduced trade finance flows from Libya Net profit before tax for 2012 was a record high of £31 8 million and a retained profit of £27 7 million was added to reserves to improve the Bank's already healthy capitalisation

The total assets of the Bank showed steady growth in 2012 from £2,820 million to £3,338 million Loans and advances rose by 22% to £1,492 million, demonstrating the expansion of the Bank's support for its customers in all business areas

The Bank's liquidity position was consistently positive throughout 2012 and ABCIB was in full compliance with FSA liquidity rules Capital adequacy remained high, despite the expansion of the Bank's asset portfolio, with the year-end capital ratio at 16 5%, and the Tier 1 ratio at 15 5%

As set out in the review below, all business areas of the Bank performed well in 2012, with particularly strong performance in the key product line, Trade Finance The Bank was pleased to assist the regeneration of Libya, after the troubles of 2011, and a significant volume of new trade business was handled on behalf of Libyan customers The Bank's long experience and deep expertise in the Libyan market enabled us to assist European exporters and Libyan buyers in restoring trade links Despite weak global trade conditions generally, our relationships with a wide spectrum of European exporting customers allowed the Bank to capitalise on new business both in the MENA region and, in some cases, in other developing markets

The renaissance of the Bank's Islamic Financial Services business continued strongly in 2012 with the team establishing its expertise and attracting new business from some major, high-profile Islamic investors In Treasury, good performance was seen, notwithstanding markets that suffered from Eurozone volatility and government liquidity intervention The Project & Structured Finance team performed ahead of plan, even though the market for new business in the MENA region was somewhat flat in 2012

In terms of the principal risks faced by ABCIB in its activities, the key banking risks are all part of the business mix from which the Bank derives its earnings The governance of risk and compliance issues is discussed elsewhere in this report in more detail The nature of the Bank's activities dictates that credit risk and operational risk are most prominent, whilst market risk is less of a concern, in view of the very limited trading undertaken by the Bank's Treasury Considering the developing nature of the MENA markets in which ABCIB takes a significant proportion of its risk, the assessment, management, control and mitigation of risk takes high importance within the Bank Likewise compliance issues pose challenges to the Bank and are given priority in transaction assessment Senior management of the Bank and the Board of Directors pay close attention to risk and compliance issues and the Bank promotes a culture of risk awareness at all levels, including amongst personnel involved primarily in business generation The Bank has a good track record in risk and compliance management and a cautious approach to these areas is central to the Bank's strategy

Whilst the Bank's performance figures tell the positive growth story for ABCIB, this success was hard-earned and was the result of great efforts by our people at all levels, in both business areas and in support functions I want to express my thanks to all the personnel of ABCIB, across all its branches and offices for their important contribution to the Bank's success in 2012

BUSINESS REVIEW

TRADE FINANCE

The global operating environment remained rather unsettled in 2012, with performance varying widely both between and within regions Our two main areas of operation – the EU and MENA – proved no exception to this The fragility of the southern Eurozone continued to cause concern whilst, within MENA, stresses became apparent in those countries implementing deep political and economic reform The situation in Syria, meanwhile, deteriorated markedly as the year progressed

Against this challenging background, the Trade Finance team adopted a focused and pro-active business stance, which paid handsome dividends Strong support for recovering regional markets such as Libya and Egypt together with robust contributions from traditional and less volatile markets, such as Algeria and Turkey helped achieve record results, with total operating profit 20% ahead of 2011 Intensification and streamlining of the working relationship between ABCIB's European network and ABC Group entities also helped to produce business opportunities Strategic efforts to broaden geographical and product coverage continued to provide a valuable diversification of revenue streams and, against the generally uncertain market environment, results also benefited to some degree from an added risk premium element in pricing

All product areas and offices within Trade Finance successfully navigated the difficult operating environment in 2012 to contribute to the unit's record outturn Overall, the business continued to build its market share and reputation, furthering ABCIB's strategic aim of becoming the 'Bank of choice' for companies undertaking business with the MENA region

Whilst continuing to offer a full range of traditional trade finance products, success in the marketing and provision of receivables financing services – including to a number of iconic, globally renowned exporting groups – once again made a noteworthy contribution to profits A decision to expand the Commodities team also yielded positive results over the year, producing a significant increase in business volumes, particularly in soft commodity financing During the year a strategic decision was made to expand Trade Finance's geographical footprint by establishing a dedicated desk within the Bank's sister operation, Banco ABC Brasil, to specifically market the trade finance product range to Brazilian companies trading with MENA As a result, important new opportunities for financing soft commodity exports to the MENA region have already arisen Throughout all the various business activities, the ability to respond flexibly and individually tailor products to clients' needs, incorporating insurance solutions and other structural risk mitigants as and when appropriate, continued to prove a major competitive advantage

For a second successive year, the activities of the Risk Distribution team have resulted in more than USD1 billion of assets being sold into the secondary market All areas of Trade Finance benefited from the team's activities which have allowed a more seamless matching of available financial resources to client's business needs, whilst at the same time providing the Bank with a valuable degree of operational risk mitigation Building on the team's successful track record and market knowledge, a Secondary Loans Unit was established during the year with a view to opportunistically invest and trade secondary market loans – many linked to the MENA region – and the unit has already begun to provide a useful degree of diversification to Trade Finance's traditional income streams

ISLAMIC FINANCIAL SERVICES

2012 was a buoyant year for Islamic Financial Services ("IFS"), having originated, structured and distributed in excess of US$ 700 million of new Islamic finance transactions in the UK and Turkey The core of the IFS business model is to provide Islamic banking solutions to UK, Arab World and European customers, financing niche opportunities, focusing on real estate finance, leasing and corporate finance activities

As a result of the turmoil in the Arab World in 2011/12, IFS benefited from an increased transfer of capital from GCC investors seeking security in the central London property market In 2012, IFS originated, structured and acted as the investment agent for a number of large commercial and residential development projects in prime central London with a total value in excess of US$ 500 million As consequence of these deals, IFS has also, for the first time, utilised the ABC Group's Shariah compliant derivative products (Tabdeel profit rate SWAP and Mua'wama foreign exchange hedge) IFS also continues to provide relationship-driven Islamic mortgage finance to high net worth investors, helping them acquire property, either as an investment or for their personal use

Turkey remains a core market for IFS and in 2012 IFS, working alongside the Bank's Turkish office, continued to originate, structure and distribute Islamic finance to Turkish corporates In 2012, the total value of Turkish assets booked and distributed to Islamic investors exceeded US$ 200 million

PROJECT & STRUCTURED FINANCE

The Bank's Project & Structured Finance Europe Team ("P&SF") maintained steady progress toward developing new business opportunities in MENA markets and core sectors Activity included the refinancing of a major real estate development in Libya, and providing a structured finance solution for a major North Africa corporate in the petrochemical sector, both of which demonstrate good recovery from the upheavals of 2011 in the Arab World

ABCIB remains very selective in what opportunities to pursue in the region, but there are clearly significant prospects, particularly in the re-emergent Libyan market, which we have been monitoring carefully throughout 2012 We also have recently undertaken a major advisory assignment in the telecom sector with a dominant regional operator which will generate revenue in the coming year 2012 more generally saw a significant recovery in enquiry levels for our advisory and structuring skills across the region, in core sectors such as oil and gas and selectively in certain MENA real estate projects

TREASURY

ABCIB's Treasury operations, including those of the European branches, are centralised in London with liquidity and risk run solely from this centre The Treasury is part of the Bahrain and London twin-hub approach for Global Treasury management in the ABC Group. The twin-hub approach has helped to strengthen relationships with financial institutions and customers through coordinated calling programmes and regular interaction, enabling Treasury to leverage its expertise in asset and liability management Treasury aims to provide a customer focused service, whilst some trading activity is conducted in money markets and foreign exchange

Treasury continues to be focused on managing the Bank's liquidity position and, whenever possible, extending the tenors of money market deposits The Bank's deposit base continues to provide a very stable source of funding When not used for funding our commercial assets, any excess liquidity is lent into the money markets for short term periods to creditworthy institutions at competitive market rates ABCIB remains fully compliant with the FSA's liquidity regime and maintains a liquidity buffer portfolio of US Treasuries, UK Gilts and funds deposited at the European Central Bank

In terms of business results, Treasury has performed extremely well during the year with profits again increasing year on year The Bank's Money Market books were well positioned at the start of 2012 to benefit from the low interest rate environment in all the major currencies Foreign Exchange dealing has grown, as the Bank's major Libyan counterparties returned to the international markets in 2012 Treasury continued to work closely with other business units of ABCIB to gain deposits, foreign exchange and derivative business from the Bank's customer base

THE YEAR AHEAD

Trade prospects look bright for 2013 A broader-based global recovery is increasingly expected and MENA seems likely to benefit from still relatively buoyant oil price levels and – Syria apart – from the positive results of developing reforms in transitional states
In strategic terms, the Bank remains committed to its mission of providing a quality service as a European-based financial institution delivering expertise in the MENA region The Bank intends to capitalise on its firmly established reputation as a pro-active supporter of trade flows to the region and will continue to explore opportunities for expanding both geographical and product coverage Management will remain focused on the development of the key business lines, supporting existing customers and seeking new opportunities There are already promising signs that 2013 will be another year of growth for the Bank

15 FEB 2013

William J Playle

Managing Director & Chief Executive Officer

CORPORATE GOVERNANCE AND RISK MANAGEMENT

THE BOARD OF DIRECTORS

The Board is collectively responsible for determining that ABCIB is managed in such a way as to ensure a proper balance between short term objectives and the achievement of long term value The Board sets ABCIB's strategic aims, values and standards and its directors are tasked with taking decisions objectively and acting in a way which they consider, in good faith, will promote the success of ABCIB for the benefit of its stakeholders as a whole As well as carrying out its statutory duties and regulatory accountabilities, the Board ensures that ABCIB's management is capably executing its responsibilities, regularly monitoring and challenging the effectiveness of management policies and decisions including the execution of its strategies The Board adheres to its statement of Corporate Governance Principles and Guidance which is regularly reviewed and is informed by the prevailing Corporate Governance Code in the UK and the Corporate Governance Charter of the Central Bank of Bahrain The Board conducts an annual performance assessment of itself by questionnaire which is reviewed by the Audit Committee of the Board The Board met on seven occasions during 2012

GOVERNANCE COMMITTEES

The Board has three principal committees, the Board Risk Committee, the Audit Committee and the Remuneration Committee which are described in more detail below

The Management Committee ("MANCOM") is the highest-level management decision-making committee of ABCIB, reporting through the Chief Executive Officer to the Board of Directors The Assets and Liabilities Committee ("ALCO"), and the Information Technology Steering Committee ("ITSC") are the principal committees reporting to MANCOM ALCO is chaired by the Chief Executive Officer and it focuses on the funding of ABCIB's assets, liquidity, interest rates, trading risks, and the investment of ABCIB's capital ITSC, chaired by the Head of Operations, oversees enhancements to ABCIB's core IT and communications systems

BOARD RISK COMMITTEE

The Board Risk Committee ("BRC") is chaired by Mr Hassan Juma and three other non-executive directors sit on this committee Mr Hassan Juma is also the President and Chief Executive of ABC Group, and member of the ABC Group BRC and the ABC Group Audit Committee

The BRC meets at least three times per year and has overall responsibility for risk policy, within the parameters set for the ABC Group Its responsibilities include setting and reviewing all risk policies and reviewing ABCIB's risk strategy and risk appetite, return expectations and asset allocation limits, principally in terms of country, industry, ratings and tenor BRC oversees all classes of risk, including credit risk, market risk and operational risk BRC reviews risk levels in relation to individual borrowers/counterparties, industry sectors, countries, regions and products The Committee also sets market risk and trading limits and parameters for investment portfolios and trading It delegates authority to senior management to conduct business within the terms of the risk strategy

AUDIT COMMITTEE

The Audit Committee meets at least four times a year to give the Board of Directors an independent assessment of the adequacy of ABCIB's policies on internal and external financial reporting, controls and compliance The Committee is chaired by Mr David Carse ABCIB has an established internal audit function, with the Head of Internal Audit reporting jointly to the Chairman of the Audit Committee and to the ABC Group Chief Internal Auditor A risk-based audit approach is adopted which ensures that key risk areas are reviewed and assessed regularly They include lending activity and the credit process, IT systems and support functions Where necessary, this work is carried out in coordination with ABC Group Audit and external specialists

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Mr Abdullah Al-Humaidhi, who is also Chairman of the Compensation Committee of the parent Bank ABC The committee meets at least four times a year to review the Bank's compensation policy and the overall remuneration of ABCIB's senior managers The committee is constituted in a way to exercise competent and independent judgement on the remuneration practices of the Bank, taking into account the implications for the risk management of the Bank, its capital and liquidity The committee is responsible for ensuring that ABCIB complies with the FSA Remuneration Code, introduced in December 2010

RISK MANAGEMENT

All areas of risk fall under the management and control of the ABCIB Head of Risk Management, who reports jointly to the Chairman of the BRC and to the ABCIB CEO There is also a functional reporting line to the ABC Group Chief Credit & Risk Officer Currently the Head of Risk role is vacant and the risk management duties are carried out by the senior functional managers within the team (the Head of Credit, the Head of Operational Risk and the Head of Regulatory Risk) The Risk Management Department is overseen both by the ABC Group Chief Credit & Risk Officer and by one of ABCIB Deputy Chief Executive Officers, who is Acting Head of Risk Management until the role is filled permanently

CREDIT RISK

Credit risk is managed by the Credit Committee ("IBCC"), which is the main credit risk decision-making forum of ABCIB Chaired by the ABCIB Acting Head of Risk Management, IBCC members include the Chief Executive Officer, Deputy Chief Executive Officers and the ABC Group Chief Credit & Risk Officer IBCC credit decisions are overseen by the BRC

The ABCIB credit policies and procedures govern all aspects of the credit risk process, including risk approval and control All credit applications from ABCIB's business units and branches are reviewed by the Risk Management Department in London and approved (or otherwise) by the IBCC and, if required, by the parent Bank's Credit Committee All limits, including those for Banks and sovereign entities, are subject to an assessment of all relevant risk factors at least annually

The treatment of large exposures and provisions for doubtful loans are governed by ABCIB's Large Exposure Policy Statement and its Credit Risk Provisioning Policy, both approved by the BRC Where monies are overdue (as defined by the policy document), or where there is doubt that they will be received by ABCIB, all loans to that customer are automatically placed onto a non-accrual basis unless a specific exemption is given by the IBCC The carrying amount of the financial asset or financial liability is adjusted if ABCIB revises its estimates of payments or receipts The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense

The quality of the risk portfolio is considered to be good, reflecting a conservative risk approach in recent years The weighted average risk rating of ABCIB's risk asset book is equivalent to investment grade ABCIB's non-performing loans fell slightly from £8 4 million at the end of 2011 to £8 million at the end of 2012 Specific provisions at year-end amounted to £6 5 million representing 81% of loans classified by the Bank as "doubtful" We remain comfortable with the coverage level taking into account collateral held

ABCIB has prudent policies and procedures to build up reserves against possible losses in the asset portfolio Specific provisions are in place to deal with exposures classified as impaired or where losses are expected In addition, ABCIB maintains a collective impairment reserve to cover an identified part of the portfolio where observable data indicates that impairment may have occurred even though there is not yet any specific evidence of impairment of any individual loan within that group of assets This reserve stood at £2 million at year-end

LIQUIDITY RISK

ABCIB's approach to managing liquidity risk, and the responsibilities of management, are covered in the Bank's Liquidity Policy, which has been written in line with the revised FSA rules for liquidity implemented during 2010 Liquidity risk is managed closely, with daily monitoring and stress testing to ensure adequacy of funding and a buffer of liquidity on hand During the market turmoil in recent years, ABCIB successfully positioned itself to maintain a surplus of funding and had no need to resort to emergency measures This demonstrates the robust management of liquidity in the Bank and the strong relationship with key depositors

MARKET RISK, OPERATIONAL RISK, AND OTHER RISK

ABCIB uses the Value at Risk ("VaR") method of risk management of currency, interest rate and traded credit exposures on a daily basis All market risk is managed in London and overseen on a global basis by ABC Bahrain The Head of Risk Management, the Head of Treasury and the Head of Internal Controls review the level of market risk every day and all treasury counterparty risks are monitored on a real-time basis Treasury operations are governed by the Trading Book Policy Statement

Derivative instruments are used by ABCIB as hedges against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base Contracts for futures, forward rate agreements, and interest rate and currency swap agreements are most commonly used to this effect Any open positions are relatively small and are re-valued on a regular basis Trading on the spot and forward foreign exchange markets is mainly client driven Trading is kept within a modest VaR limit and other market risk parameters, as determined by ALCO

Operational risk is managed by the Head of Risk Management and the Head of Operational Risk ABCIB has an operational risk framework in place with recording of risks and controls and loss data capture A full assessment of operational risks and controls for every business unit, branch and support department is carried out and updated annually

Documentary and legal risk is managed by the effective use of ABCIB's internal counsel and external advisors

COMPLIANCE

ABCIB's Compliance Policy Framework as approved by the Board of Directors is subject to regular review The Bank applies a risk-based approach to compliance with resource and effort appropriately focused in areas of higher risk The Head of Compliance and Bank Money Laundering Reporting Officer ("MLRO") reports to the Deputy Chief Executive Officer and the Board and is a member of MANCOM and a co-opted attendee of the Audit Committee Compliance policies and procedures, including those concerning money-laundering prevention and sanctions, conform to FSA and other relevant regulatory/legal requirements The European branch General Managers have responsibility over local matters of regulatory compliance, including that of money laundering prevention and sanctions in accordance with the Bank's Compliance Policy Framework and local laws and regulations Each European branch has the support of a local MLRO reporting jointly to the branch General Manager and the Head of Compliance and Bank MLRO

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors have responsibility for the maintenance and integrity of the Annual Report and Accounts as they appear on the Bank's website Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdiction

ERNST & YOUNG

Ernst & Young LLP
1 More London Place
London SE1 2AF

Tel 020 7951 2000
Fax 020 7951 1345
www ey com/uk

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABC INTERNATIONAL BANK PLC

We have audited the financial statements of ABC International Bank plc ("the Bank") for the year ended 31 December 2012, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 44. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Director's Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report, the Chief Executive Officer's Report & Business Review and the Corporate Governance and Risk Management review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- Give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

ERNST & YOUNG

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Peter Wallace (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
19 February 2013

ABC International Bank plc

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2012

	Notes	2012 £000	2011 £000
Interest receivable and similar income arising from debt securities and certificates of deposit purchased	4	6,205	7,423
Other interest receivable	4	59,245	50,767
		65,450	58,190
Interest payable	3	(25,937)	(28,680)
Net Interest Income		39,513	29,510
Fees and commissions receivable	4	39,164	33,193
Fees and commissions payable	4	(10,797)	(9,840)
Dealing profits	39	336	311
(Loss)/ Profit on sale of investment securities	4	(2,253)	5,057
Other operating income	5	1,321	1,944
		27,771	30,665
Total operating income		67,284	60,175
Administrative expenses	6	(40,011)	(35,235)
Depreciation and amortisation		(445)	(352)
Provisions (net)	7	4,962	(4,041)
		(35,494)	(39,628)
Profit on ordinary activities before tax	8	31,790	20,547
Tax charge on ordinary activities	9	(4,066)	(3,239)
Profit for the financial year		27,724	17,308

The results for the years ended 31st December 2012 and 31st December 2011 are derived from continuing operations

ABC International Bank plc
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31st December 2012

	Notes	2012 £000	2011 £000
Profit for the financial year		**27,724**	17,308
Actuarial loss recognised on defined benefit pension scheme	43	**(3,267)**	(3,757)
Deferred tax credit relating to pension schemes		**481**	575
Change in fair value of available for sale investments and loans and advances	31	**17,311**	(6,229)
Corporation tax relating to change in fair value of available for sale investments and loans and advances		**(2,548)**	1,036
Total recognised profits since last annual report		**39,701**	**8,933**

ABC International Bank plc **Registration No 2564490**
BALANCE SHEET
As at 31st December 2012

	Notes	2012 £000	2011 £000
Assets			
Cash and balances at central banks		**70,228**	61,192
Certificates of deposit purchased	10	**311,140**	120,000
Due from banks	12	**955,140**	831,188
Loans and advances to customers	13	**1,492,192**	1,223,504
Financial investments - available-for-sale	17	**362,774**	474,614
Tangible fixed assets	20	**1,052**	978
Deferred tax asset	21	**11,335**	7,971
Other assets	22	**79,476**	55,040
Prepayments and accrued income	23	**54,796**	45,557
Total assets		**3,338,133**	2,820,044
Liabilities			
Deposits from banks and other financial institutions	24	**2,422,055**	1,831,184
Deposits from customers	25	**261,015**	188,139
Other liabilities	26	**68,374**	58,447
Accruals and deferred income	27	**21,239**	11,682
Term borrowing	28	**59,455**	303,062
Pension scheme liability	43	**5,814**	3,593
		2,837,952	2,396,107
Subordinated liabilities	29	**114,626**	107,921
Called up share capital	30	**212,296**	182,296
Profit and loss account		**175,421**	153,193
Fair value reserve		**(2,162)**	(19,473)
Equity shareholders' funds	31	**385,555**	316,016
Capital resources		**500,181**	423,937
Total liabilities and shareholders' funds		**3,338,133**	2,820,044

MEMORANDUM ITEMS

Contingent liabilities

	Notes	2012 £000	2011 £000
Acceptances and endorsements		**40,629**	38,122
Guarantees and letters of credit		**1,744,265**	1,246,097
		1,784,894	1,284,219

Commitments

	Notes	2012 £000	2011 £000
Other commitments	33	**292,649**	203,203

1 9 FEB 2013

Chairman

1. Accounting policies

1.1 Basis of preparation

The financial statements of ABC International Bank plc ("ABCIB") are prepared under the historical cost convention except for available-for-sale investments and derivative financial assets and liabilities that have been measured at fair value The financial statements are prepared in accordance with the Companies Act 2006 relating to banking companies, and UK Generally Accepted accounting standards The accounting policies adopted are consistent with those used in the previous financial year

ABCIB is not required to prepare group accounts since it qualifies for the exemptions available under Section 402 of the Companies Act 2006 In addition, there is no requirement to prepare a statement of cash flows in accordance with Financial Reporting Standard 1

ABCIB undertakes business in several countries in the MENA region in which serious social and political unrest has occurred over the course of the year ended 31st December 2012 Whilst the level of unrest and consequent political uncertainty have abated in many of those countries, ABCIB continues closely to monitor developments and has taken steps to mitigate any adverse impact on its operations

At the time of approval of these financial statements, the Board was satisfied that the capital and liquidity position of ABCIB remained satisfactory, and that ABCIB, with the support of the ABC BSC Group, has liquid resources to enable it to meet its obligations for the foreseeable future, including its prospective flow of new business

Given all of the above, these financial statements are prepared on the going concern basis

1.2 Significant accounting judgements and estimates

In the process of applying ABCIB's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements The most significant uses of judgements and estimates are as follows

Fair value of financial instruments

The fair values of financial assets and financial liabilities recorded on the balance sheet are mainly derived from observable market data from active markets

Impairment losses on loans and advances

ABCIB reviews its problem loans and advances at each reporting date to assess whether a provision for impairment should be recorded in the profit and loss account In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision

In addition to the specific provision against individually significant loans and advances, ABCIB maintains a collective impairment reserve to cover an identified part of the portfolio where observable data indicates that impairment is probable to have occurred even though there is not yet any specific evidence of impairment of any individual loan within that group of assets

Credit facilities subject to collective impairment provisions represent on-balance sheet exposures not subject to specific provision, with an internal credit risk rating of 7+ to 10 and with an original maturity of more than 6 months Standard & Poor equivalent rates (1 - 4 = > BBB-, 5 - 7 = B- to BB- and 7 - 10 = < BB-)

Impairment of equity investments

ABCIB treats investment securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists The determination of what is 'significant' or 'prolonged' requires judgement ABCIB treats 'significant' generally as 20% or more and 'prolonged' greater than 6 months In addition, ABCIB evaluates other factors, such as share price volatility where practical

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies In assessing the recoverability of deferred tax assets, management considers forecast profits for three years

Pensions

The cost of the defined benefit pension plan is determined using actuarial valuations The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and future pension increases Due to the long term nature of these plans, such estimates are subject to significant uncertainty See note 43 for the assumptions used

1. Accounting policies (continued)

1.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below

a. Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to 'Other operating income' in the profit and loss account

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions except in the case of non-monetary items that form part of effective hedging relationships which are translated at rates of exchange at the balance sheet date Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

b. Financial Instruments - Initial recognition and subsequent measurement

i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i e the date ABCIB commits to purchase or sell the asset Derivatives are recognised on a trade date basis

ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics All financial instruments are measured initially at their fair value plus, in the case of financial assets not at fair value through profit and loss, any directly attributable incremental costs of acquisition or issue

iii) Derivatives recorded at fair value through profit and loss

Derivatives include interest rate swaps, cross currency swaps and forward foreign exchange contracts Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair values are negative Changes in the fair value of derivatives held for trading are included in 'Dealing profits'

iv) Financial assets designated at fair value through profit and loss

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on a different basis, or
- The assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded

Financial assets designated at fair value through profit and loss are recorded in the balance sheet at fair value Changes in fair value are recorded in 'Other operating income' Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Other operating income' when the right to the payment has been established

v) Due from banks and loans and advances to customers

'Due from banks' and 'loans and advances to customers' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investments - available-for-sale' or 'Financial assets designated at fair value through profit or loss' After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate The amortisation is included in 'Interest and similar income' in the profit and loss account The losses arising from impairment are recognised in the profit and loss account in 'Provisions'

vi) Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit and loss, held to maturity or loans and advances They include equity instruments, investments in mutual funds and money market and other debt instruments

After initial measurement, available-for-sale financial investments are subsequently measured at fair value Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve' When a security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account in 'Other operating income' Where ABCIB holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate Dividends earned whilst holding available-for-sale financial investments are recognised in the profit and loss account as 'Other operating income' when the right to receive payment has been established The losses arising from impairment of such investments are recognised in the profit and loss account in 'Provisions' and removed from the available-for-sale reserve

vii) Debt issued and other borrowed funds

Issued financial instruments or their components, which are not designated at fair value through profit or loss are classified as liabilities under 'Debt issued and other borrowed funds', where the substance of the contractual arrangement results in ABCIB having an obligation either to deliver cash or another financial asset to the holder This includes mainly deposits from banks and other financial institutions, deposits from customers, term borrowing and subordinated liabilities

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate

1. Accounting policies (continued)

c. Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models

d. Impairment of financial assets

ABCIB assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payment, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults

i) Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, ABCIB first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant If ABCIB determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the profit and loss account Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to ABCIB If, in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account If a future write-off is later recovered, the recovery is credited to 'Provisions'

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of ABCIB's internal credit grading system that considers credit risk characteristics such as asset type industry, geographical location, collateral type, past-due status and other relevant factors

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

ii) Available-for-sale financial investments

For available-for-sale financial investments, ABCIB assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired

In the case of equity investments classified as available-for-sale, objective evidence will include a significant or prolonged decline in the fair value of the investment below its cost Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account - is removed from equity and recognised in the profit and loss account Impairment losses on equity investments are not reversed through the profit and loss account, and increases in their fair values after impairment are recognised directly in equity

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest receivable and similar income arising from debt securities and certificates of deposit purchased' If, in a subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account

e. Hedge accounting

ABCIB makes use of derivative instruments to manage exposures to interest rates, foreign currency and credit risks In order to manage particular risks, ABCIB applies hedge accounting for transactions which meet the specified criteria

At inception of the hedge relationship, ABCIB formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item The hedges are formally assessed each quarter A hedge is regarded as highly effective if the changes in fair values or cash flows attributable to the hedged risk during the period for which it is designated are expected to offset in a range of 80% to 125%

For designated and qualifying fair value hedges the change in the fair value of a hedging derivative is recognised in the profit and loss account in 'Other operating income' Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recognised as part of the carrying value of the hedged item and is also recognised in the profit and loss account in 'Other operating income'

1. Accounting policies (continued)

Fair value hedges

If the hedging instrument expires or is sold terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting the hedge relationship is terminated For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the term of the original hedge If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit and loss account

f. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet

g. Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to ABCIB and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

i) Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period where appropriate to the net carrying amount of the financial asset or the financial liability The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses The carrying amount of the financial asset or financial liability is adjusted if ABCIB revises its estimates of payments or receipts The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income is then recognised using the effective interest rate applied to the new carrying amount

ii) Fee and commission income

ABCIB earns fee and commission income from a diverse range of services it provides to its customers Fees earned for the provision of services over a period of time are accrued over that period These fees include commission income and asset management, custody and other management and advisory fees Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan

iii) Dividend income

Revenue is recognised when ABCIB's right to receive the payment is established

iv) Dealing income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets held for trading This includes any ineffectiveness recorded in respect of hedging transactions

h. Financial guarantees

In the ordinary course of business, ABCIB gives financial guarantees consisting of letters of credits, guarantees and acceptances Financial guarantees are initially recognised in the financial statements at fair value (equivalent to the premium received) in 'Other liabilities' Subsequent to initial recognition, ABCIB's liability under each guarantee is measured at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee

Any increase in the liability relating to financial guarantees is taken to the profit and loss account in 'provisions' The premium received is recognised in the profit and loss account in 'Fees and commission receivable' on a straight line basis over the life of the guarantee

i. Subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less impairment losses Reversals of impairment losses are recognised in the profit and loss account if there has been a change in the estimates used to determine the recoverable amount of the investment

j. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses Such cost includes costs directly attributable to making the asset capable of operating as intended
Depreciation is provided on all fixed assets at rates calculated to write off the cost less estimated residual value on prices prevailing at the date of acquisition of each asset evenly over its expected useful life as follows

Leasehold improvements	- lower of lease term or 10 years
Motor vehicles, office equipment including computer hardware and software	- 3 - 5 years
Office furniture	- 5 years

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

1. Accounting policies (continued)

k. Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions

-Deferred tax assets are recognised only to the extent that the Directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

-Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

l. Leases

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee ABCIB has entered into operating leases where rentals payable are charged to the profit and loss account on a straight-line basis over the lease term

m. Pension benefits

i) Defined benefit pension plan

ABCIB participates in a defined benefit pension scheme, which requires contributions to be made to a separately administered fund The cost of providing benefits under the defined benefit scheme is determined separately using the projected unit credit actuarial valuation method

The scheme was closed to new members in June 2004 from which time membership of a defined contribution pension scheme is available to all employees The Scheme was closed to the future accrual benefits on 30th September 2010

The cost of providing benefits under the defined benefit scheme is determined separately using the projected unit credit actuarial valuation method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the scheme assets reflects the gain or loss which is recognised in the profit and loss account

The interest element of the defined benefit cost represents the change in present value of scheme obligations relating to the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligations during the year The expected return on scheme assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid during the year The difference between the expected return on scheme assets and the interest costs is recognised in the profit and loss account

Actuarial gains and losses are recognised in full in the statement of recognised gains and losses in the period in which they occur

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA- or equivalent status), less any past service cost not yet recognised and less the fair-value of scheme assets out of which the obligations are to be settled directly Fair value is based on market price information and in the case of quoted securities is the published mid-market price The value of a net benefit pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme

ii) Defined contribution pension scheme

ABCIB also operates a defined contribution pension scheme The contribution payable to a defined contribution scheme is in proportion to the services rendered to ABCIB by the employees and is recorded as an expense under 'Staff costs' in the profit and loss account Unpaid contributions are recorded as a liability

n. Provisions

Provisions are recognised when ABCIB has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

2. Segmental reporting

ABCIB has more than one business segment Trade and Commodity Finance, Project and Structured Finance, Treasury and Others including Islamic Financial Services and Head Office Analysis of the business segments is included in note 44 The ultimate origin of all income is determined to be the UK Accordingly no geographical segmental information is disclosed

3. Interest payable

Interest payable includes £6,705,023 in respect of interest on the subordinated liability (2011 £6,286,733)

4. Analysis of the profit and loss account by classification

2012

	Trading	Loans and receivables	Available-for sale and held to maturity	Financial liabilities at amortised cost	Non financial Instruments	Total
	£000	£000	£000	£000	£000	£000
Interest receivable and similar income from debt securities and certificates of deposit purchased	-	4,103	2,102	-	-	6,205
Other interest receivable and similar income	-	59,245	-	-	-	59,245
Interest payable	-	-	-	(25,937)	-	(25,937)
Net Interest income/ (expense)	-	63,348	2,102	(25,937)	-	39,513
Fees and commissions receivable	-	39,164	-	-	-	39,164
Fees and commissions payable	-	-	-	(10,797)	-	(10,797)
Dealing profits (including exchange differences)	336	-	-	-	-	336
Loss on sale of investment securities	-	-	(2,253)	-	-	(2,253)
Other operating income	-	-	-	-	1,321	1,321
Total operating income/ (expense)	336	102,512	(151)	(36,734)	1,321	67,284

Loss on sale of investment securities represents the loss on EFG Hellas Available For Sale securities which were partly provided for in previous years

2011

	Trading	Loans and receivables	Available-for-sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Interest receivable and similar income from debt securities and certificates of deposit purchased	-	3,187	4,236	-	-	7,423
Other interest receivable and similar income	-	50,767	-	-	-	50,767
Interest payable	-	-	-	(28,680)	-	(28,680)
Net Interest income/ (expense)	-	53,954	4,236	(28 680)	-	29,510
Fees and commissions receivable	-	33,193	-	-	-	33,193
Fees and commissions payable	-	-	-	(9,840)	-	(9,840)
Dealing profits (including exchange differences)	311	-	-	-	-	311
Profit on sale of investment securities	-	-	5,057	-	-	5,057
Other operating income	-	-	-	-	1,944	1,944
Total operating income/ (expense)	311	87,147	9,293	(38,520)	1,944	60,175

5. Other operating income

	2012	2011
	£000	£000
Rental income	277	277
Trade finance fees	1,025	1,681
Islamic banking income	92	34
Profit on disposal of fixed assets	5	29
Other	(78)	(77)
	1,321	1,944

6. Administrative expenses

	2012 £000	2011 £000
a) Staff costs		
Salaries	21,615	19,655
Social security costs	4,024	3,389
Pension costs (note 43)		
- Defined benefit scheme	188	(15)
- Defined contribution schemes	1,165	1,200
Redundancy cost	190	-
	27,182	24,229
Other administrative expenses	12,829	11,006
	40,011	35,235

Other administrative expenses include premises rent and related utilities cost professional fees, office system and supplies including maintenance contracts and others

	2012 Number	2011 Number
The average monthly number of employees (excluding Directors) during the year	184	184

b) **Directors' emoluments**
The aggregate emoluments of the Directors of ABC International Bank plc for the year were

	2012 £000	2011 £000
Aggregate emoluments in respect of qualifying services	957	1,976
Bank's contribution towards pension scheme in respect of qualifying services	-	38
Number of Directors accruing benefits under defined contribution scheme	-	1
In respect of the highest paid Director		
Aggregate emoluments in respect of qualifying services	548	1,090

7. Provisions

	2012 £000	2011 £000
The net credit/ (charge) for the year in respect of provisions is made up as follows		
Loans and advances to banks	(299)	-
Loans and advances to customers	751	(120)
Collective impairment provision	6,200	(3,950)
Financial investments - available-for-sale	-	19
Off-balance sheet	(1,875)	-
Recoveries in respect of advances previously written off	185	10
	4,962	(4,041)

8. Profit on ordinary activities before tax

		2012 £000	2011 £000
Profit is stated after (charging)/crediting			
Foreign currency gains, net		382	314
Auditors' remuneration	audit of the financial statements	(291)	(251)
	taxation services	(109)	(161)
Operating lease rentals	hire of equipment	(76)	(31)
	land and buildings	(3,083)	(2,972)
Income from listed securities		6,205	7,423

9. Taxation

	2012 £000	2011 £000
Analysis of tax charge for the year		
Current tax		
UK corporation tax	(4,529)	(3,123)
Foreign tax	(2,739)	(1,927)
Total current tax	(7,268)	(5,050)
Deferred tax		
Recognition of brought forward losses	3,202	1,811
Total deferred tax	3,202	1,811
Total tax charge for the year	(4,066)	(3,239)

9. Taxation (continued)

	2012 £000	2011 £000
Factors affecting tax charge for the year		
The differences are explained below		
Profit on ordinary activities before tax	31,790	20,547
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	(7,789)	(5,445)
Effect of		
Disallowed expenses and non-taxable income	(1,688)	(1,714)
Capital allowance in excess of depreciation	7	54
Branch losses utilised	2,734	1,908
Group relief	255	268
Double tax relief	1,694	1,590
Foreign tax	(2,739)	(1,926)
Pension deduction	199	215
Others	58	-
Current tax charge	(7,268)	(5,050)

10. Certificates of deposit purchased

	2012 £000	2011 £000
Analysed by maturity		
within three months	61,140	120,000
between three months and one year	250,000	-
	311,140	120,000

11. Analysis of assets and liabilities by classification

2012

	Financial investments held to maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Cash and balances at central banks	-	70,228	-	-	-	70,228
Certificates of deposit purchased	-	311,140	-	-	-	311,140
Due from banks	-	955,140	-	-	-	955,140
Loans and advances to customers	-	1,469,064	23,128	-	-	1,492,192
Financial investments - available-for-sale	-	-	362,774	-	-	362,774
Tangible fixed assets	-	-	-	-	1,052	1,052
Deferred tax asset	-	-	-	-	11,335	11,335
Other assets	-	-	-	-	79,476	79,476
Prepayments and accrued income	-	-	-	-	54,796	54,796
Total assets	-	2,805,572	385,902	-	146,659	3,338,133
Deposits from banks and other financial institutions	-	-	-	2,422,055	-	2,422,055
Deposits from customers	-	-	-	261,015	-	261,015
Other liabilities	-	-	-	-	68,374	68,374
Accruals and deferred income	-	-	-	-	21,239	21,239
Term borrowing	-	-	-	59,455	-	59,455
Pension scheme liability	-	-	-	-	5,814	5,814
Total liabilities	-	-	-	2,742,525	95,427	2,837,952

11. Analysis of assets and liabilities by classification (continued)

2011

	Financial investments - held to maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Cash and balances at central banks	-	61,192	-	-	-	61,192
Certificates of deposit purchased	-	120,000	-	-	-	120,000
Due from banks	-	831,188	-	-	-	831 188
Loans and advances to customers	-	1,195,809	27,695	-	-	1,223,504
Financial investments - available-for-sale	-	-	474,614	-	-	474,614
Tangible fixed assets	-	-	-	-	978	978
Deferred tax asset	-	-	-	-	7,971	7,971
Other assets	-	-	-	-	55,040	55,040
Prepayments and accrued income	-	-	-	-	45,557	45,557
Total assets	-	2,208,189	502,309	-	109,546	2,820,044
Deposits from banks and other financial institutions	-	-	-	1,831,184	-	1,831,184
Deposits from customers	-	-	-	188,139	-	188,139
Other liabilities	-	-	-	-	58,447	58,447
Accruals and deferred income	-	-	-	-	11,682	11,682
Term borrowing	-	-	-	303,062	-	303,062
Pension scheme liability	-	-	-	-	3,593	3,593
Total liabilities	-	-	-	2,322,385	73,722	2,396,107

12. Due from banks

	2012	2011
	£000	£000
Repayable		
on demand	**35**	31,379
within three months	**520,513**	527,583
between three months and one year	**379,642**	267 518
between one and five years	**54,830**	8,709
after five years	**1,677**	1,945
	956,697	837,134
Allowance for impairment losses (note 15)	**(1,557)**	(5,946)
	955,140	831,188
Included in the above are balances due from ABC Group undertakings of	**82,203**	26 086

13. Loans and advances to customers

	2012 £000	2011 £000
Repayable		
on demand	4	95,750
within three months	812,796	574,339
between three months and one year	408,937	314,545
between one and five years	217,497	175,304
after five years	59,929	73,107
	1,499,163	1,233 045
Allowance for impairment losses (note 15)	(6,971)	(9,541)
	1,492,192	1,223,504
Included in the above are balances due from ABC Group undertakings of	41,611	40,432

Included in the above are available-for-sale loans amounting to £23 127,649 (2011 - £27,695,000)

ABCIB assesses at each balance sheet date whether there is any objective evidence that loans to ABC Group undertakings are impaired A specific loan of £38 2 million to ABC Investment Holdings Limited ("ABCIH") a subsidiary of ABCIB, is secured on the freehold of a property, being the Headquarters of ABCIB, 100% owned by ABCIH and leased to ABCIB on a long leasehold In assessing whether the value of the security is sufficient to support the loan value, ABCIB assesses the carrying value of the building The higher of value in use and fair value less costs to sell has been used to determine if any impairment exists Following this impairment assessment, the value in use was determined to be in excess of the carrying value and as such impairment was ignored In performing this assessment the cash flows generated from this asset for the remainder of its useful economic life were used Modest growth rate has been applied to cashflows over the remaining useful life of the asset beyond the current planning cycle up to 2015 The rate used to discount these cashflows was 14% pre-tax cost of equity which is within the range of cost of equity for the banking institutions akin to ABCIB for each individual cash generating unit in the Bank

ABCIB defines forbearance as a temporary deferral of payments prior to an agreement or formal restructure being reached between ABCIB and customers At the year end, ABCIB had two loans totalling £6 million which were subject to forbearance

14. Loans and advances which were past due

	2012		2011	
	Loans and advances to banks £000	Loans and advances to customers £000	Loans and advances to banks £000	Loans and advances to customers £000
Past due over 3 years	1,676	6,376	1,783	6 650
	1,676	6,376	1,783	6,650
Loans and advances by credit quality				
Loans and advances				
- neither past due nor impaired	955,021	1,492,787	835 351	1,226,395
- past due but not impaired	-	882	496	899
- impaired	1,676	5,494	1,287	5,751
	956,697	1,499,163	837,134	1,233,045

Impaired loans and advances	2012 £000	2011 £000
Total impaired loans and advances to		
- banks	1,676	1,287
- customers	5,494	5,751
	7,170	7,038

15. Movements in allowance for impairment losses

	Individually assessed		Collectively assessed		
	Banks £000	Customers £000	Banks £000	Customers £000	Total £000
Brought forward 1st January 2012	1,287	6,000	4,659	3,541	15,487
Provision for the year	367	-	-	-	367
Decrease	(68)	(751)	(4,659)	(1,541)	(7,019)
Foreign currency translation adjustment	(29)	(278)	-	-	(307)
Carried forward 31st December 2012	1,557	4,971	-	2,000	8,528

16. Movements in provision for suspended interest

	2012 £000	2011 £000
Brought forward 1st January	1,969	1,964
Interest suspended less recoveries during the year	34	(5)
Foreign currency translation adjustment	(89)	10
Carried forward 31st December	1,914	1,969
Loans and advances where interest is suspended at year end		
Before allowance for impairment losses	8,052	8,433
After allowance for impairment losses	1,524	1,935

17. Financial investments - available-for-sale

	2012 £000	2011 £000
Listed (Debt investments)	362,774	474,614
	362,774	474,614
Due within one year	252,837	330,600
Due between one and two years	57,857	31,750
Due between two and five years	52,080	100,886
Due over five years	-	11,378
	362,774	474,614

All available-for-sale financial investments are debt instruments which are issued by Governments and non-public corporate bodies

The movement on available-for-sale financial investments is as follows

	2012 £000	2011 £000
At 1st January	474,614	285,939
Additions	222,235	272,609
Repayments and disposals	(332,964)	(71,292)
Fair value movement	17,027	(6,311)
Exchange movements	(18,138)	(6,331)
At 31st December	362,774	474,614

The net unamortised discount at 31st December 2012 was £103,587 (2011 £256,388)
The net unamortised premium at 31st December 2012 was £613,684 (2011 £517,953)
Fair value has been determined by reference to quoted market prices

18. Interest in subsidiaries and associated undertakings

ABCIB owns the following investment in subsidiaries and associated companies in addition to those disclosed in note 20

	Nature of business	Country of registration	Ownership %
Bronco Fund LLC	Property	USA	43%

The investment in Bronco Fund LLC amounts to £3 7 million which is provided for in full in the accounts

ABCIB does not have significant influence over Bronco Fund LLC As a result Bronco Fund LLC is transferred to financial investments - available-for-sale

19. Shares in group undertakings

ABCIB owns the following investments in subsidiaries

	Nature of business	Country of registration	Ownership %
Alphabet Nominees Limited	Nominee company	England	100%
Abcint Nominees Limited	Nominee company	England	100%
ABCIB Islamic Asset Management Limited	Advisory services	England	100%
ABCIB Leasing Limited	Asset trading company	England	100%
ABC Investment Holdings Limited	Property holding company	England	100%

20. Tangible fixed assets

	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1st January 2012	755	1,012	9,225	199	11,191
Additions	-	16	469	43	528
Disposals	-	-	-	(31)	(31)
Exchange differences and other adjustments	(30)	(14)	(313)	(2)	(359)
At 31st December 2012	**725**	**1,014**	**9,381**	**209**	**11,329**
Depreciation					
At 1st January 2012	645	853	8,578	137	10,213
Charge for the year	41	45	327	32	445
Disposals	-	-	-	(31)	(31)
Exchange differences and other adjustments	(23)	(27)	(302)	2	(350)
At 31st December 2012	**663**	**871**	**8,603**	**140**	**10,277**
Net book value					
At 31st December 2012	**62**	**143**	**778**	**69**	**1,052**
At 31st December 2011	110	159	647	82	978

21. Deferred tax asset

	2012 £000	2011 £000
At 1st January	**7,971**	6,019
Recognised during the year	**3,364**	1,952
At 31st December	**11,335**	7,971
The major components of the deferred tax asset are as follows		
Unutilised tax losses arising on P&L results	**3,786**	3,735
Asset in respect of sub-debt deduction	**7,268**	3,750
Asset in respect of accelerated capital allowances	**161**	226
Asset in respect of pension deduction	**120**	260
	11,335	7,971

There is an unrecognised deferred tax asset of £3 5 million based on a tax rate of 23% (2011 £7 3million) arising due to brought forward tax losses, accelerated capital allowances sub-debt deduction and pension scheme deduction Management has performed a review of recoverability of deferred tax assets considering forecast profits for the next three years The assumptions used in preparing these forecasts have been subject to a series of stress tests to ensure the forecasts fall within a reasonable range of outcomes

The UK Government has announced its intention to reduce the rate of corporation tax to 21% with effect from April 2014 The maximum effect on the recognised deferred tax asset of the reduction in the UK corporation tax rate to 21% is expected to be £227k (equivalent to 2% of the closing gross amounts)

22. Other assets

	2012 £000	2011 £000
Positive mark to market of derivatives	**51,565**	44,493
Fair value adjustment on hedged items	**492**	54
Other	**27,419**	10,493
	79,476	55,040

23. Prepayments and accrued income

	2012 £000	2011 £000
Prepayments and accrued income	**3,326**	1,544
Interest receivable	**51,470**	44,013
	54,796	45,557

24. Deposits from banks and other financial institutions

	2012 £000	2011 £000
Repayable		
on demand	**818,164**	526,911
within three months	**1,206,961**	1,077,657
between three months and one year	**315,410**	226,616
between one and five year	**81,520**	-
	2,422,055	1,831,184
Included in the above are balances due to ABC Group undertakings of	**504,648**	85,751

25. Deposits from customers

	2012 £000	2011 £000
Repayable		
on demand	**177,317**	104,345
within three months	**80,891**	80,028
between three months and one year	**2,807**	3,766
	261,015	188,139
Included in the above are balances due to ABC Group undertakings of	**5,183**	2,824

26. Other liabilities

	2012 £000	2011 £000
Negative mark to market of derivatives	3,923	1,493
Fair value adjustment on hedged items	48,103	42,879
Tax and social security costs	6,536	2,468
Other	9,812	11,607
	68,374	58,447

The amounts above described as 'other' represent standard operational liabilities incurred during the normal course of business

27. Accruals and deferred income

	2012 £000	2011 £000
Interest payable	3,321	2,549
Accruals and deferred income	17,918	9,133
	21,239	11,682

28. Term borrowing

	2012 £000	2011 £000
Repayable		
within one year	59,455	277 938
between two and five years	-	25,124
	59,455	303,062
Included in the above are balances due to ABC Group undertakings of	59,455	189,691

Interest on all term borrowing is calculated by reference to LIBOR plus margins which are repriced monthly

29. Subordinated liabilities

The following loans are unsecured and are subordinated in right of payment to the ordinary creditors, including depositors

	2012 £000	2011 £000
GBP85 0 million Zero Coupon Bond	72,126	68,459
GBP16 3 million Zero Coupon Bond	14,388	13,043
GBP16 4 million Zero Coupon Bond	14,190	13,303
GBP15 6 million Zero Coupon Bond	13,922	13,116
	114,626	107,921

On 12th December 2005 ABCIB issued a Subordinated zero coupon bond for £50 million repayable at par of £85 0 million on 14th December 2015

On 21st December 2007 ABCIB issued a Subordinated zero coupon bond for £10 million repayable at par of £16 3 million on 31st December 2014

On 30th June and 4th September 2008 ABCIB issued two Subordinated bonds for £10 million each repayable at par of £16 4million and £15 6million on 31st December 2014

The subordinated liabilities are due to the Ultimate Parent Undertaking

30. Called up share capital

	Authorised £000	Issued £000
Ordinary shares of £1 each		
At 1st January 2012	300,000,000	182,296,000
Issued during the year	-	30,000,000
At 31st December 2012	300,000,000	212,296,000

The adequacy of ABCIB's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Financial Services Authority (FSA) in supervising banks

ABCIB's policy is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times The principal forms of capital are called up share capital, equity shareholders' funds and subordinated debt

The FSA supervises ABCIB and as such receives information on the capital adequacy of ABCIB The FSA requires each bank to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance transactions ABCIB complied in full with the FSA's capital adequacy requirements during 2012 and 2011

ABCIB's capital is divided into two tiers

Tier 1 capital comprises equity shareholders' funds

Tier 2 capital comprises subordinated liabilities and allowance for collective impairment losses

Subordinated Liabilities may not exceed 50% of Tier 1 capital

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined accordingly Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees

Banking book off-balance sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible collateral or guarantees Trading book risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate position risks, and counterparty risk

30. Called up share capital (continued)

Capital structure

	2012 £000	2011 £000
Tier 1 Capital	390,100	335,490

Composition of regulatory capital

	2012 £000	2011 £000
Tier 1 capital	390,100	335,490
Tier 1 Capital Ratio	15 5%	14 6%
Tier 2 capital	26,905	48,335
Total regulatory capital	417,005	383,825
Risk-weighted assets		
Banking book	2,493,441	2,252,488
Trading book	27,223	47,548
Total	2,520,664	2,300,036
Risk-weighted assets included in the totals above in respect of		
-contingent liabilities	578,988	514,962
-commitments	107,834	79,908
Risk Asset Ratio	%	%
Total capital	16 5	16 7

Tier 1 Capital incorporates the profit for the respective years

31. Equity Shareholders' funds

	Ordinary share capital £000	Profit and loss account £000	Fair value reserve £000	Total £000
Brought forward at 1st January 2012	182,296	153,193	(19,473)	316,016
Profit for the year	-	27,724	-	27,724
New capital issued	30,000			30,000
Actuarial loss recognised in pension scheme (net of deferred tax) (note 44)	-	(2,948)	-	(2,948)
Net unrecognised loss on available-for-sale investments and loans and advances	-	-	17,311	17,311
Corporation tax relating to change in value of available-for-sale investments and loans and advances		(2,548)		(2,548)
Carried forward at 31st December 2012	212,296	175,421	(2,162)	385,555

Shareholders' funds are all attributable to equity interests for 2012 and 2011

The fair value reserve comprises changes in fair value of available-for-sale investments and available-for-sale loans and advances, adjusted by the related deferred tax asset

32. Transactions with directors and officers

The aggregate amounts outstanding at 31st December under transactions arrangements and agreements made by ABCIB for Directors and for officers, within the meaning of Schedule 9 to the Companies Act 2006, of ABCIB were nil (2011 - nil)

33. Contingent liabilities and commitments

Contract or underlying principal amount	2012 £000	2011 £000
Formal standby facilities, credit lines and other commitments to lend		
Less than one year	139,802	113 021
Over one year	152,847	90,182
	292,649	203,203

At 31st December ABCIB was committed to making the following annual payments in respect of operating leases

	2012 Land and buildings £000	2012 Other £000	2011 Land and buildings £000	2011 Other £000
Leases which expire				
within two years	-	4	145	29
within two to five years	-	74	731	18
between five and ten years	2,506	-	2,089	-

34. Financial Instrument Contracts

a) Derivative financial instruments

Derivative contracts are financial instruments that derive their value from an underlying rate or price ABCIB has entered into various derivative contracts as principal either as trading or hedging transactions Trading transactions include all customer and proprietary transactions and related hedges Hedging transactions comprise derivatives used to hedge specific interest rate mismatches and foreign exchange exposures A description of ABCIB's use of derivative instruments and an outline of its approach to risk management have been included in the Chief Executive Officer's Report for the year

The accounting treatment explained in Note 1 3(e) 'Hedge accounting' varies according to the nature of the item hedged and in compliance with the hedge criteria Hedges entered into by ABCIB which provide economic hedges but do not meet the hedge accounting criteria are treated as 'Derivatives held or issued for trading purposes'

Netting has not been taken into consideration in the figures given below None of these amounts are intended to give an indication of possible future gains or losses Fair values are the amounts at which an asset or liability could be exchanged in an arm's length transaction between informed parties, other than in a forced sale

Forward and future contracts are contractual agreements to buy and sell a specified financial instrument at a specific price and date in the future Forwards are customised contracts transacted in the over-the-counter market Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts

In addition to derivative financial instruments, ABCIB uses foreign currency borrowings as hedges of certain foreign currency denominated equity investments (note 19)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured The notional amounts indicate the volume of transactions at the year end and are indicative of neither the market risk nor the credit risk

Fair value has been determined using discounted cash flow models applying risk adjusted interest rates as appropriate

	2012 FV -Assets £000	2012 FV - Liabilities £000	2012 Notional amount £000	2011 FV -Assets £000	2011 FV - Liabilities £000	2011 Notional amount £000
i) Derivatives held for trading						
Forward foreign exchange contracts & Interest rate swaps						
Total at 31st December	1,733	1,702	235,683	231	56	233,816
ii) Derivatives held as fair value hedges						
Interest rate swaps & Swaptions						
Total at 31st December	49,832	2,221	189,753	44,262	1,437	171,744

ABCIB uses interest rate swap contracts to hedge against loans and advances to customers, deposits from customers and subordinated liabilities The fair value of the hedging instruments is disclosed above The main counterparty to these swaps contracts is the ultimate parent company

iii) Hedged items						
Loans and advances to customers	1,729	2,221	109,753	1,505	1,437	91 744
Deposits from customers and subordinated liabilities	48,103	-	80,000	42,757	-	80,000
	49,832	2,221	189,753	44,262	1,437	171,744

Deposits from customers and subordinated liabilities represent amounts due to the ultimate parent company The critical terms of all hedging instruments and hedged items are matched

Fair value adjustments in relation to hedged items are recorded under Other assets (note 22) and Other liabilities (note 26) respectively

i) Fair Values

ABCIB's trading book comprises solely foreign currency derivatives, which have been included in the balance sheet at fair value and disclosed in part (a)(i) of this note

34. Financial Instrument Contracts (continued)
ii) Interest rate repricing

The table below summarises the non-trading book mismatches of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instrument matures Short-term debtors and creditors are included in the table below

2012	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	Total £m
Assets							
Cash and balances at central banks	70 2	-	-	-	-	-	70 2
Certificates of deposit purchased	61 2	117 0	133 0	-	-	-	311 2
Due from banks	698 0	118 2	125 1	15 4	-	(1 6)	955 1
Loans and advances to customers	1,039 7	318 1	126 8	14 6	-	(7 0)	1,492 2
Financial investments - available-for-sale	344 2	18 6	-	-	-	-	362 8
Other assets, prepayments and deferred tax asset	-	-	-	-	-	145 6	145 6
Fixed assets	-	-	-	-	-	1 1	1 1
Total assets	2,213 3	571 9	384 9	30 0	-	138 1	3,338 2
Liabilities and shareholders' funds							
Deposits from banks and other financial institutions	2,025 3	284 3	31 0	81 5	-	-	2,422 1
Deposits from customers	258 3	2 4	0 3	-	-	-	261 0
Other liabilities, accruals and pension liability	-	-	-	-	-	95 4	95 4
Term borrowing and subordinated liabilities	59.5	-	-	114.6	-	-	174 1
Shareholders' funds	-	-	-	-	-	385 6	385 6
Total liabilities and shareholders' funds	2,343 1	286 7	31 3	196.1	-	481 0	3,338 2
Net position	(129 8)	285 2	353 6	(166 1)	-	(342 9)	
Off balance sheet	(6 6)	11 4	-	(4 8)	-	-	
Interest rate sensitivity gap	(136 4)	296 6	353 6	(170 9)	-	(342 9)	
Cumulative gap	(136 4)	160 2	513 8	342 9	342 9	-	

2011	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	Total £m
Assets							
Cash and balances at central banks	61 2	-	-	-	-	-	61 2
Certificates of deposit purchased	120 0	-	-	-	-	-	120 0
Due from banks	584 0	127 5	117 8	7 1	-	(5 2)	831 2
Loans and advances to customers	848 1	197 6	163 8	11 3	0 9	1 8	1,223 5
Financial investments - available-for-sale	399 1	71 3	-	-	-	4 2	474 6
Financial investments - held to maturity	-	-	-	-	-	-	-
Other assets, prepayments and deferred tax asset	-	-	-	-	-	108 6	108 6
Fixed assets	-	-	-	-	-	1 0	1 0
Total assets	2,012 4	396 4	281 6	18 4	0 9	110 3	2,820 0
Liabilities and shareholders' funds							
Deposits from banks and other financial institutions	1,605 7	173 6	51 9	-	-	-	1,831 2
Deposits from customers	184 3	2 8	1 0	-	-	-	188 1
Other liabilities, accruals and pension liability	-	-	-	-	-	73 7	73 7
Term borrowing and subordinated liabilities	303 0	-	-	108 0	-	-	411 0
Shareholders' funds	-	-	-	-	-	316 0	316 0
Total liabilities and shareholders' funds	2,093 0	176 4	52 9	108 0	-	389 7	2,820 0
Net position	(80 6)	220 0	228 7	(89 6)	0 9	(279 4)	
Off balance sheet	13 2	-	60 3	(73 5)	-		
Interest rate sensitivity gap	(67 4)	220 0	289 0	(163 1)	0 9	(279 4)	
Cumulative gap	(67 4)	152 6	441 6	278 5	279 4	-	

35. Fair value of other financial instruments

The table below shows a comparison by class of the carrying amounts and fair values of ABCIB's financial instruments that are carried in the financial statements The table does not include the fair values of non-financial assets and non-financial liabilities

		2012			2011		
	Measurement level	Carrying amount £000	Fair value £000	Unrecognised gain/(loss) £000	Carrying amount £000	Fair value £000	Unrecognised gain/(loss) £000
Financial assets							
Certificates of deposit purchased	1	311,140	311,140	-	120,000	120,000	-
Due from banks	n/a*	932,077	930,694	(1,383)	831,188	836,458	5,270
Loans and advances to customers	n/a	1,492,192	1 499,523	7,331	1,223,504	1,241,159	17,655
Due from banks - available for sale	n/a	23,063	23,128	65	-	-	-
Financial investments - available-for-sale	1	362,774	362,774	-	474,614	474,614	-
Financial liabilities							
Deposits from banks and other financial institutions	n/a	2,422,055	2 417,291	4,764	1,831,184	1,825,316	5,868
Deposits from customers	n/a	261,015	260 967	48	188,139	188,049	90
Term borrowing	n/a	59,455	59,147	308	303,062	297,305	5,757
Subordinated liabilities	n/a	114,626	125,488	(10,862)	107,921	118,550	(10,629)
				271			24,011

* These assets and liabilities are carried at amortised cost basis

The financial assets and financial liabilities are classified into levels 1 to 3 using fair value hierarchy that reflects the significant inputs used in making the measurement Level 1 financial instruments have quoted prices in an active market for identical assets or liabilities Level 2 instruments have inputs other than quoted prices included within level 1 that are observable for assets or liabilities either directly or indirectly Level 3 financial instruments have inputs that are not based on observable market data The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value This assumption is also applied to demand deposits without a specific maturity, and variable rate financial instruments of high credit quality

The fair value of variable rate financial assets and liabilities is estimated using present value approaches where future cash flows from the asset or liability are estimated and then discounted using risk-adjusted interest rates estimated at 1 62% based on USD LIBOR and USD A rated bond spread

The fair value of fixed rate financial assets and liabilities carried at amortised cost not hedged through fair value hedges is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity For quoted debt issued, the fair values are calculated based on quoted market prices

36. Market and liquidity risk

Market risk and liquidity risk are defined as follows

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates, asset prices or foreign exchange rates in the trading book This risk can arise from market making, dealing, and position taking in bonds, securities, currencies or derivative instruments

Liquidity risk is the risk that ABCIB, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost

ABCIB adopts an enterprise-wide coordinated approach to risk management and seeks to achieve the highest possible standards in overall risk management, monitoring and control

The corporate governance framework for risk management ensures appropriate controls, appropriate senior management oversight and thorough risk analysis and reporting conducted by an independent risk management team with the capabilities and resources to evaluate and monitor risk exposures and limits

Management of market risk and liquidity risk are the day-to-day responsibility of the Treasurer with the oversight of the Head of Risk Management The Treasurer ensures that all of ABCIB's obligations are met when due and that market risk and position limits are respected at all times Compliance with market risk limits is monitored by the Internal Control Department, which reports to the Head of Risk Management

The Board Risk Committee oversees the market risk management process Market risk management and liquidity risk issues are also reviewed at the monthly Asset and Liability Management Committee ("ALCO"), the members of which include senior management of ABCIB, chaired by the Chief Executive Officer ALCO reports via the Management Committee to the Board All market risk limits (including Value at Risk limits) are agreed by the Board Risk Committee and ALCO

ABCIB uses a comprehensive, aggregated risk measurement system based on a Value at Risk ("VaR") methodology as the basis for monitoring and controlling market risk End of day position data from the dealing system are interfaced directly to the VaR model where risk sensitivities and valuations are computed VaR is calculated by the "historical simulation" methodology using a one-day risk horizon and a 99th percentile, single-tailed confidence interval Daily losses are anticipated to exceed the VaR once every hundred business days, on average For information purposes, there is also a daily calculation of the consolidated VaR for the entire asset/ liability book of ABCIB, including the banking and trading books The VaR model is used for internal risk management purposes only and it is not used for calculating market risk exposure reported to the FSA for capital adequacy purposes Thus, the FSA has not reviewed ABCIB's model

To ensure that the VaR model provides a fair assessment of the risk, a back testing sensitivity analysis is in place to compare VaR predictions to profit/ loss outcomes Additionally, a series of stress-testing scenarios are performed on the trading book to assess the effect on the market risk of severe market conditions Stress-testing and back testing are reviewed by the Board Risk Committee

The limitations to VaR are recognised within ABCIB at all levels The key limitations are the use of historical data as an estimator for future price action and the assumption that open positions can be hedged within the specified one-day holding period Therefore, ABCIB subdivides market risk into key types for which foreign exchange risk, bond price risk and interest rate risk are the material categories Risk management for each category is fine-tuned by employing suitable sensitivity limits such as Basis Point Value limits (which measure the potential change in portfolio fair value for an instantaneous 0 01% rise in interest rates), stop-loss limits and open position limits

Currently, ABCIB has a low risk appetite for market risk and trading is confined to standard market instruments with limited use of derivatives and no approved limits for option risk

36. Market and liquidity risk (continued)

ABCIB's VaR exposures	2012 Maximum £000	2012 Minimum £000	2011 Maximum £000	2011 Minimum £000
Trading	59	-	218	-
Banking	14,920	748	14,003	2,116

Liquidity risk

Liquidity Risk is defined as the risk to ABCIB's earnings, capital and solvency, arising from inability to meet contractual payment and other financial obligations on their due date, or inability to fund (at a reasonable cost) the asset book and business needs of the bank (and, by extension, the needs of its customers) This risk may or may not arise due to issues specifically related to the bank itself

ABCIB is fully compliant with the FSA liquidity rules introduced in 2010 and implementation of the FSA compliant liquidity buffer began in January 2011

ABCIB manages its liquidity risk actively, in view of the bank's reliance on funding from connected parties, customers and bank correspondents These deposits tend to be short-term but the bank has lengthened its deposit profile and diversified its funding through its medium-term funding facility from other banks The bank's approach to liquidity ensures that risks are mitigated by

- No reliance on the general interbank market for funding
- No reliance on volatile retail or corporate deposits
- Ability to source funding from Arab World correspondent banks
- Ability to source deposits from the ABC shareholders
- Maintaining a reserve of marketable securities for sale or Repo in need, in line with the FSA "buffer" requirements

Liquidity, or availability of sufficient financial resources, is a core component of ABCIB's management framework In order to avoid unnecessary exposure to short-term funding as a means to meet its cashflow obligations, ABCIB uses a funding gap management process, maintains a system of highly liquid supplementary liquidity and operates a contingency funding plan

Funding projections are made daily using data compiled by Internal Control Department and reported to the Treasurer who has responsibility for day-to-day liquidity management ABCIB's approach to liquidity monitoring involves a limit structure to control liquidity mismatches in particular time periods from "next day" through to "over 1 year" The time bands have specific limits set on the maximum mismatch allowable in the periods "sight to 8 days" and "sight to one month" of 0% and -5% respectively Liquidity mismatches are calculated on the basis of the aggregate across all ABCIB branches of all assets and all liabilities, together with an allowance of 15% of undrawn commitments

Funding gap control is supplemented by other analyses such as stress tests (including using prescribed risks from the FSA liquidity rules) and asset and liability concentration reports in order to ensure clear and timely communication of the structure and requirements of ABCIB's funding operation ALCO has primary responsibility for monitoring liquidity risk management

There is an extensive daily reporting process for liquidity risk management, including stress tests, detailed deposit maturity information and asset drawdown analyses Senior management of ABCIB is actively involved in assessment and management of the bank's liquidity on a day-to-day basis to ensure that liquidity is available to support the business plan at all times

Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2012 based on contractual undiscounted repayment obligations Repayments which are subject to notice are treated as if notice were to be given immediately However, ABCIB expects that many customers will not request repayment on the earliest date ABCIB could be required to pay and the table does not reflect the expected cash flows indicated by ABCIB's deposit retention history

2012	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Total £000
Financial Liabilities				
Deposits from Banks, Customers, Term borrowing and subordinated liabilities	2,318,334	345,197	215,601	2,879,132

2011	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Total £000
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	1,812,528	476,250	159,590	2,448,368

37. Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed Country risk (cross border or transfer risk), which is closely related to credit risk, is also included as part of credit risk management Country risk encompasses the risk of loss caused by changes in foreign exchange controls and political or economic situations

The main purpose of credit risk management is to maintain a sound and well-spread portfolio of credit risk assets, to ensure returns are commensurate with risk and to keep credit risk exposure to a permissible level relative to capital

ABCIB has in place well defined policies and procedures for the identification, measurement and control of credit risk Embedded within these policies and procedures is a framework of management responsibilities ABCIB s credit management policy comprises clearly stated basic operating concepts, policies and standards

The Board Risk Committee oversees the credit risk management process The corporate governance framework for credit risk management ensures appropriate controls, appropriate senior management oversight and thorough risk analysis and reporting conducted by a credit risk management team with the capabilities and resources to evaluate and monitor the exposures and limits

ABCIB assesses the credit risk posed by each customer using an internal rating system and quantifies that risk for control purposes The rating system sets a grading based on the creditworthiness of the obligor, taking into account financial and non-financial factors A financial modelling system is used to derive the financial component of the obligor rating from financial accounts and peer group analysis The risk asset portfolio is analysed and reviewed on the basis of ratings distribution Obligor ratings are also a key input to ABCIB's risk adjusted return on capital assessment model

The risk asset portfolio is reviewed daily by the Head of Risk Management using a number of different portfolio measures, such as geographical distribution, industry sector, maturity, risk rating, product type and large exposures A selection of portfolio reports are also reviewed at every Board Risk Committee meeting

The business model of ABCIB is relatively straightforward and non-complex The dominant business line is Trade Finance, within which transactions tend to be short-term and routine and market-standard in nature with a low loss probability and inherent structural and documentary protections for ABCIB The dominance of the Trade Finance business within ABCIB gives a short-term bias to the risk asset portfolio which means that ABCIB's exposure to longer-term credit risk is moderate and relatively easily managed ABCIB does not undertake complex structured transactions and does not provide general working capital finance to borrowers The risk asset portfolio is substantially transaction-based or project-related, meaning that ABCIB's exposure to the general weakening of corporate credit risk covenants is modest In addition to the management of credit risk, ABCIB holds collateral against a proportion of the exposures in the form of cash bank guarantees and export credit agencies cover

Industry exposure

The table below analyses the industrial spread of certificates of deposits purchased, due from banks, loans and advances to customers, financial investments - available-for-sale and financial investments - held to maturity

	2012 £000	2012 %	2011 £000	2011 %
Financial institutions	1,791,937	57 4%	1,653,115	62 4%
Manufacturing	440,777	14 1%	380,999	14 4%
Construction	104,547	3 3%	47,050	1 8%
Trade	112,577	3 6%	21,863	0 8%
Governments	221,111	7 1%	4 243	0 2%
Other services	450,297	14 5%	542,036	20 6%
	3,121,246	100 0%	2,649,306	100 0%

Country exposure

The table below analyses the geographical spread of certificate of deposits purchased, due from banks, loans and advances to customers, financial investments - available-for-sale and financial investments - held to maturity

	2012 £000	2012 %	2011 £000	2011 %
United Kingdom	496,072	15 8%	327,019	12 3%
Turkey	441,101	14 1%	408 469	15 4%
Germany	365,929	11 7%	222,089	8 4%
USA	322,382	10 3%	426,875	16 1%
France	180,170	5 8%	170,758	6 4%
UAE	133,169	4 3%	80,051	3 0%
Bahrain	113,482	3 6%	49,081	1 9%
Saudi Arabia	99,465	3 2%	145,318	5 5%
Algeria	88,504	2 8%	33,799	1 3%
Egypt	85,006	2 7%	107,238	4 0%
Netherlands	62,175	2 0%	41,687	1 6%
Belgium	61,969	2 0%	-	0 0%
Japan	61,853	2 0%	-	0 0%
Switzerland	59,490	1 9%	45,915	1 7%
Italy	37,907	1 2%	33,919	1 3%
India	38,603	1 2%	-	0 0%
Libya	36,990	1 2%	68,371	2 6%
Morocco	32,784	1 1%	-	0 0%
Denmark	30,332	1 0%	-	0 0%
Oman	22,743	0 7%	26 889	1 0%
Qatar	21,907	0 7%	-	0 0%
Austria	19,660	0 6%	58,305	2 2%
South Africa	16,089	0 5%	-	0 0%
Ireland	13,150	0 4%	27,710	1 0%
Others	280,314	9 0%	375,813	14 2%
	3,121,246	100 0%	2,649,306	100 0%

37. Credit risk (continued)

Maximum exposure to credit risk without taking into account collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements

	2012 £000	2011 £000
Certificates of deposit purchased	311,140	120,000
Due from banks	955,140	831,188
Loans and advances to customers	1,492,192	1,223,504
Financial investments - available-for-sale	362,774	474,614
Other assets	51,565	44,493
	3,172,811	2,693,799
Contingent liabilities	1,784,894	1 284,219
Commitments	292,649	203,203
	2,077,543	1,487,422

Collateral held as security	2012 £000	2011 £000
Cash collateral		
Loans and advances to customers	64,052	44,200
Contingent liabilities	831,559	211,799
Banks and Credit Agencies		
Due from banks	4,495	8,532
Loans and advances to customers	150,836	199,580
Contingent liabilities	223,734	349,779
Commitments	20,351	28,931

Risk concentration against individual counterparties	2012 £000	2011 £000
Largest exposure to individual Bank before collateral *	315,379	182,794
Largest exposure to individual Bank after collateral	16,546	110,701
Largest exposure to individual customer before collateral	70,225	80,780
Largest exposure to individual customer after collateral	70,225	80,780
Central Bank liquidity Buffer before collateral	249,514	273,346
Central Bank liquidity Buffer after collateral	249,514	273,346

* represents balance with a Central Bank

Credit quality per class of financial assets	Loans and receivables 2012 £000	Financial Investments available- for sale 2012 £000	Total 2012 £000
Due from banks			
Investment grade	509,562	-	509,562
Sub investment grade	445,578	-	445,578
Borrowers requiring caution	-	-	-
Total	955,140	-	955,140
Loans and advances to customers			
Investment grade	522,894	-	522,894
Sub investment grade	948,980	-	948,980
Borrowers requiring caution	20,318	-	20,318
Total	1,492,192	-	1,492,192
Financial investments - available-for-sale			
Investment grade	-	353,613	353,613
Other Non-Investment grade	-	9,161	9,161
Total	-	362,774	362,774
Certificates of deposit			
Investment grade	311,140	-	311,140
Total	311,140	-	311,140

37. Credit risk (continued)

Credit quality per class of financial assets	Loans and receivables	Financial investments - available- for-sale	Total
	2011	2011	2011
	£000	£000	£000
Due from banks			
Investment grade	479,935	-	479,935
Sub investment grade	351,253	-	351,253
Borrowers requiring caution	-	-	-
Total	831,188	-	831,188
Loans and advances to customers			
Investment grade	215,963	-	215,963
Sub investment grade	969,607	-	969,607
Borrowers requiring caution	37,934	-	37,934
Total	1,223,504	-	1,223,504
Financial investments - available-for-sale			
Investment grade	-	463,655	463,655
Other Non-Investment grade	-	10,959	10,959
Total	-	474,614	474,614
Certificates of deposit			
Investment grade	120,000	-	120,000
Total	120,000	-	120,000

Borrowers requiring caution is an internal grading category which refers to obligors which need to be monitored with special attention primarily due to problematic or poor performance

38. Effective average interest rate

The effective average interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument This rate is the historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or an instrument carried at fair value

The effective average interest rates of ABCIB for various products denominated in Pound Sterling, US Dollar and Euro (major dealing currencies) are as follows

	2012			2011		
	GBP	**USD**	**EUR**	GBP	USD	EUR
Due from banks and loans and advances to customers	**2 35%**	**2 22%**	**1 17%**	1 84%	2 41%	3 29%
Financial investments - available-for-sale	**-**	**0 63%**	**0 44%**	-	0 88%	1 69%
Deposits from banks and other financial institutions	**0 59%**	**0 53%**	**0 12%**	0 90%	0 49%	1 08%
Deposits from customers	**0 31%**	**0 65%**	**0 29%**	0 87%	0 41%	0 94%
Term borrowing	**0 12%**	**-**	**1 38%**	0 25%	0 99%	2 67%

Currency risk

Derivative instruments are used by ABCIB to hedge the risk of treasury losses arising out of mismatches in currencies of its asset and liability base Any open positions are relatively small and are re-valued on a regular basis Trading on the spot and forward foreign exchange markets is primarily client driven

	2012	2011
39. Dealing profits	**£000**	£000
Dealing profits are analysed as follows		
Foreign exchange gains and losses from financial assets and liabilities not at fair value through profit and loss	383	314
Interest rate products	(47)	(3)
	336	311

40. Assets, liabilities and shareholders' funds in foreign currencies	**2012**	2011
	£000	£000
Denominated in sterling	742,096	608,465
Denominated in US dollars	1,513,245	1,686,928
Denominated in other currencies	1,082,792	524,651
Total assets	3,338,133	2,820,044
Denominated in sterling	742,097	608,465
Denominated in US dollars	1,509,812	1,686,928
Denominated in other currencies	1,086,224	524,651
Total liabilities and shareholders' funds	3,338,133	2,820,044

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £1,052,000, which have been included as part of assets denominated in Sterling

The above summary should not be considered as an indication of ABCIB's exposure to foreign exchange risk due to the existence of compensating forward contracts held for hedging purposes as disclosed in note 35

41. Ultimate parent undertaking and parent undertakings

The ultimate parent undertaking is the Arab Banking Corporation (B S C) incorporated in the Kingdom of Bahrain Copies of the group accounts of Arab Banking Corporation (B S C) may be obtained from Arab Banking Corporation House 1-5 Moorgate, EC2R 6AB

42. Related party transactions

Related parties represent the ultimate parent undertaking, major shareholders and entities controlled, jointly controlled or significantly influenced by such parties

The parent undertaking is Arab Banking Corporation (B S C) incorporated in the Kingdom of Bahrain The ultimate parent undertaking is the Central Bank of Libya

The year end balances in respect of related parties included in the financial statements are as follows

	2012	2011
	£000	£000
Due from banks	86,917	32,851
Loans and advances to customers	76,611	75,432
Deposits from banks and other financial institutions	1,954,876	1,473 812
Deposits from customers	95,188	84,993
Term borrowing	59,455	303,062
Subordinated liabilities	114,626	107 921

The income and expenses in respect of related parties in the financial statements are as follows

Interest receivable	6,811	6,814
Interest payable	17,661	17,299

43. Pensions

ABCIB participates in a contributory defined benefit pension scheme known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme ("the Scheme"), providing benefits based on final pensionable salary The assets of the Scheme are held separately from those of ABCIB and are administered by the Trustees of the Scheme who include employees of ABCIB The Scheme is now closed to new entrants and the current active members are 48 The Scheme was closed to the future accrual benefits on 30th September 2010 All active members at this date became deferred members All employees are offered membership of a defined contribution scheme ABCIB expects to contribute £1,033 750 to the Scheme during the year to 31st December 2013

The valuation has been based on the most recent actuarial valuation carried out as at 30th September 2011, using the projected unit credit actuarial valuation method The market value of the assets as at 30th September 2011 was sufficient to cover 73% of the then current value of the benefits accrued to that date, representing a gross Scheme deficit of £9,144,000

The September 2011 valuation was updated by an independent actuary, to take account of the requirements of FRS 17 (using the projected unit method) in order to assess the liabilities of the scheme at 31st December 2012 and 31st December 2011 The actuaries assessed the value of the Scheme's liabilities as at 30th September 2012 on curtailment Scheme assets are stated at their market values at the respective balance sheet dates

The main assumptions used by the actuary to assess the value of the liabilities were

	2012	2011
	% per annum	% per annum
Inflation	**2 90**	3 10
Rate of increase in salaries	**n/a**	n/a
Rate of increase of inflation linked pensions in payment	**2 90**	3 10
Rate of increase for deferred pensions	**2 50**	2 50
Discount rates	**4 45**	4 90

The mortality rate is in accordance with Tables of Mortality PNA00 with allowance for future improvements in line with the CMI 2011model with a long term improvement rate of 1 25% per annum The discount rate is calculated using the yield on AA- rated corporate bonds of terms greater than 15 years duration, but making an allowance for the difference in duration of the corresponding iBoxx Sterling over 15 year index and the duration of the Scheme's liabilities

The fair value of assets and expected rate of return on assets were	**2012**	**2012**	2011	2011
		Long term rate of return		Long term rate of return
	Fair value	**expected**	Fair value	expected
	£m	**%**	£m	%
Total value of assets	**26 9**	**5 1**	25 4	4 9

Movement in scheme deficit	**2012**	2011	2010	2009
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	**(3,593)**	(1,200)	(7,077)	(2,411)
Contribution paid	**915**	915	4,250	910
Current service cost	**-**	-	(513)	(445)
Other finance income/ (charge)	**(188)**	15	(350)	(733)
Gain on curtailment	**-**	-	1 450	-
Actuarial (losses)/ gains	**(3,267)**	(3,757)	2,342	(5,014)
Deficit in the plan at 31st December	**(6,133)**	(4,027)	102	(7,693)
Movement in deferred tax asset through STRGL	**481**	575	(425)	616
Movement in deferred tax asset through profit and loss account	**(162)**	(141)	(877)	-
Net pension liability at 31st December	**(5,814)**	(3,593)	(1,200)	(7,077)

Amount (debited)/ credited to other financial charges	**2012**	2011
	£000	£000
Expected return on pension scheme assets	**1,256**	1,432
Interest on pension scheme liabilities	**(1,444)**	(1,417)
	(188)	15

Amount recognised in the Statement of Recognised Gains and Losses	**2012**	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Actual less expected return on assets	**(223)**	(263)	140	701	(2,159)
Experience gain/ (loss) on liabilities	**422**	(159)	528	(39)	1,943
Changes in assumptions underlying present value of liabilities	**(3,466)**	(3,335)	1,674	(5,676)	3,889
Actuarial (loss)/ gain recognised in the Statement of Total Recognised Gains and Losses	**(3,267)**	(3,757)	2,342	(5,014)	3,673

% of Scheme asset value at balance sheet date represented by	**2012**	2011	2010	2009	2008
	%	%	%	%	%
Actual less expected return on assets	**(0 8)**	(1 0)	0 6	3 9	(11 9)

% of Scheme liability value at balance sheet date represented by	**2012**	2011	2010	2009	2008
	%	%	%	%	%
Experience gain/ (loss) on liabilities	**1 3**	(0 5)	2 1	(0 1)	9 0
Changes in assumptions underlying present value of liabilities	**(10 3)**	(11 2)	6 7	(21 3)	18 1
Actuarial (loss)/ gain recognised in the Statement of Total Recognised Gains and Losses	**(9 7)**	(12 7)	9 4	(18 8)	17 1

44. Operating segment information

For management purposes, ABCIB is organised into business units based on their products and has four reportable operating segments as follows

Trade Finance
Project and Structured Finance
Treasury
Others including Head Office & Islamic financial services

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment Segment performance is evaluated based on operating profit and loss account

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties

Year ended 31st December 2012	**Trade Finance £000**	**Project Finance £000**	**Treasury** £000	**Others** £000	**Total** £000
Profit and loss account					
Net interest income	20 692	4,324	9,313	5 184	39,513
Net fees and commission	26,126	934	(426)	1,733	28,367
Other income	735	-	(1,636)	305	(596)
Total operating income	47,553	5,258	7,251	7,222	67,284
Administrative expenses	(17,477)	(2,507)	(2,186)	(18,286)	(40,456)
Provisions	1,359	3	3,679	(79)	4,962
Profit/ (loss) on ordinary activities before tax	31,435	2,754	8,744	(11,143)	31,790
Tax charge on ordinary activities	(476)	-	-	(3,590)	(4,066)
Segment profit/ (loss)	30,959	2,754	8,744	(14,733)	27,724
Operating assets	1,242,151	294,454	966,043	835,485	3,338,133
Operating liabilities	949,553	45,158	1,753,523	589,899	3,338,133

Year ended 31st December 2011	Trade Finance £000	Project Finance £000	Treasury £000	Others £000	Total £000
Profit and loss account					
Net interest income	14,716	4,494	7,399	2,901	29,510
Net fees and commission	22,251	639	(35)	498	23,353
Other income	2,069	10	5,223	10	7,312
Total operating income	39,036	5,143	12,587	3,409	60,175
Administrative expenses	(16,468)	(2,425)	(2,022)	(14 672)	(35,587)
Provisions	(845)	(119)	(2,302)	(775)	(4,041)
Profit on ordinary activities before tax	21,723	2,599	8,263	(12,038)	20,547
Tax charge on ordinary activities	(191)	-	-	(3,048)	(3,239)
Segment profit/ (loss)	21,532	2,599	8,263	(15,086)	17,308
Operating assets	1,050,790	342,705	762,503	664,045	2,820,044
Operating liabilities	611,557	38,222	1,448,562	721,702	2,820,044

Substantially all of the assets of ABCIB are held in Europe, but many of our customers are based overseas The analysis below are based on the location of the customers giving rise to the total operating income

	2012 £000	2011 £000
Total Operating Income		
MENA	**20,268**	12,534
Europe	**40,416**	35,012
North and Latin America	**4,006**	8,963
Others	**2,594**	3,666
	67,284	60,175