Registration No: 2564490

# ABC INTERNATIONAL BANK PLC

# ANNUAL REPORT

# and

# FINANCIAL STATEMENTS 2013

# Contents

# Directors' Report

It gives me great pleasure to present my first Directors' Report as Chairman of ABC International Bank plc ('ABCIB')

I am happy to report that ABCIB enjoyed a good year in 2013, with total operating income up 19% to £80 million, a record high for the Bank There were many positive trends in the Bank's performance The Trade Finance and Islamic Financial Services businesses delivered particularly strong growth in revenue and operating profitability, with Treasury continuing the good level of earnings seen in recent years However, the Project & Structured Finance business saw profitability fall in difficult operating conditions

Net profit for the year was down to £20 million This mainly reflects the need to raise a large credit provision for a specific loan and, also, an increase in the Bank's collective impairment provision to account for the impact of volatility in Egypt on the Bank's credit portfolio Despite these charges, the Bank recorded a high level of net profit for the year and maintained a strong capital adequacy ratio Full details of these results are contained in the Chief Executive Officer's Report and Business Review

These good results were achieved against the backdrop of continuing economic and political volatility in several of the core Middle East and North Africa ('MENA') markets of the Bank ABCIB showed its ability to operate successfully in these conditions, making good use of its experience in MENA to support both its European customer base and its network of bank and corporate customers in the Arab World Supporting trade flows with Libya continued to be a strong feature of the Bank's business activity in 2013 and this is a market which holds much future potential for ABCIB, in all of its main business lines, as the country progresses towards stability European markets remained subdued throughout 2013 but ABCIB's focus on exporting companies has ensured that business levels have continued to grow

In the field of bank regulation, ABCIB saw the new UK regime implemented in 2013, with the bank now regulated by both the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') The bank works closely with all relevant regulatory authorities and aims to meet all regulatory requirements in full at all times

Turning to the area of corporate governance, there were some changes in ABCIB during the year On 9th May 2013, Mr Hassan Juma resigned as Chairman of the Board of ABCIB, following his retirement from his position as President and Chief Executive of Arab Banking Corporation (B S C ) ("ABC") The Board expresses its thanks to Mr Juma and appreciation for his work in guiding the Bank successfully through the past three years as Chairman and for his contribution of nine years as a non-executive Director of the Bank before that It is my privilege to have been elected as Chairman of the Board of ABCIB in place of Mr Juma

Dr Khaled Kawan and Dr Yousef Al-Awadi joined the Bank as Directors in May 2013 I welcome them to the Board and look forward to the benefits the Bank will gain from their experience and knowledge of banking and financial markets On the same date, Dr Kawan and Dr Al Awadi both joined the Bank's Audit Committee and the Board Risk Committee (with Dr Kawan elected as Chairman of the latter committee) Mr Abdallah Al Humaidhi resigned from the Audit Committee upon their appointment There were no other changes in the memberships of the Board or its Committees

Full details of the Board of Directors are shown on page 9 None of the Directors had an interest in ABCIB shares during 2013, and no option to purchase shares has been granted to any Director

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 acceptable The overall financial position of ABCIB is good and the Bank enjoys very close business facilitation and funding relationships with its parent bank, ABC The Directors remain confident that ABCIB has adequate resources and management skills to pursue its business plan successfully in 2014 and beyond Accordingly, the Directors are happy to adopt the going concern basis in preparing the annual report and financial statements

## RISK MANAGEMENT APPROACH

The financial risk management objectives of the Bank centre around credit risk, liquidity risk, market risk and operational risk The objectives of the Bank are 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 The ABCIB credit policies govern all aspects of the credit risk process Detailed analysis of the various types of risk is included in the Corporate Governance And Risk Management section of the Annual Report In addition, management of market risk and liquidity risk ensures that all of ABCIB's obligations are met when due and that market risk and position limits are respected at all times 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

The Bank uses the Value at Risk ('VaR') method of risk management of currency, interest rate and traded credit exposures on a daily basis Derivative instruments such as interest rate and currency swap agreements 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 Trading on the spot and forward foreign exchange markets is mainly client driven The Bank's Liquidity Policy is in line with the PRA rules and liquidity is managed on a daily basis

ABCIB uses interest rate swap contracts to hedge against loans and advances to customers, deposits from customers and subordinated liabilities The main counterparty to these swaps contracts is the ultimate parent company 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 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' Further details are provided in note 1 3(e)

A further 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 in addition to further information being provided in notes 34 to 37

## 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 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

## OTHER DECLARATIONS

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

ABCIB did not declare nor pay a dividend in 2013

The Bank maintains a Directors' and Officers' Liability Insurance policy In accordance with the Bank's Articles of Association, the Board may also indemnify a Director from the assets of the Bank against any costs or liability incurred as a result of their office, to the extent permitted by law Neither the insurance policy nor any indemnities that may be provided by the Bank provide cover for fraudulent or dishonest actions by the Directors However, costs may be advanced to Directors for their defence in investigations or legal actions

ABCIB had 205 permanent employees as at 31st December 2013 I want to thank the management and staff of the Bank for their dedication and hard work in delivering good results this year, and I also thank the Board of Directors and Shareholders for their guidance and continued support

Approved by the Board and authorised for issue on 14th February 2014

**Saddek El Kaber**
Chairman
14 February 2014

## Strategic Report

The dırectors present theır strategıc report for ABCIB for the year ended 31 December 2013

**Revıew of the business**

In 2013 total operatıng ıncome was very strong durıng the year, but the Bank's performance was negatıvely ımpacted by a large credıt rısk provısıon

The key financıal and other performance ındicators durıng the year were as follows

| | **2013** | 2012 | Change |
|---|---|---|---|
| | **£'000** | £'000 | % |
| Net ınterest ıncome | 40,512 | 39,513 | 3 |
| Fees and commıssıon (net) | 39,469 | 28,367 | 39 |
| Total operatıng ıncome | 80,354 | 67,284 | 19 |
| Profit after tax | 20,450 | 27,724 | -26 |
| Equıty shareholders' funds | 407,062 | 385,555 | 5 |
| Average number of employees | 197 | 184 | 7 |

Condıtıons remaıned challengıng ın core markets ın the MENA regıon but the Bank's strong busıness model and dıverse customer base, contrıbuted to the achıevement of record hıgh levels for a number of key busıness ındıcators
Net profit before tax for 2013 was £28 mıllıon and a retaıned profıt of £20 mıllıon was added to reserves to ımprove the Bank's already healthy capıtalısatıon

The total assets of the Bank dropped ın 2013 from £3,338 mıllıon to £2,898 mıllıon whıch was maınly due to the sale of the majorıty of the Bank's holdıngs of certıficates of deposıt whıch was partly compensated by an ıncrease ın funds due from banks to £1 3 bıllıon from £1 bıllıon

The Bank's lıquıdıty posıtıon was consıstently posıtıve throughout 2013 and ABCIB was ın full complıance wıth regulatory lıquıdıty rules Capıtal adequacy remaıned hıgh wıth the year-end capıtal ratıo at 20%, and the Tıer 1 ratıo at 19 4%

As set out ın the Busıness Revıew, all areas of the Bank performed well ın 2013, wıth partıcularly strong performance ın the key product lıne, Trade Fınance Despıte volatıle global trade condıtıons generally, the Bank's relatıonshıps wıth a wıde spectrum of European exportıng customers allowed ABCIB to capıtalıse on new busıness both ın the MENA regıon and, ın some cases, ın other developıng markets

The development of the Bank's Islamıc Fınancıal Servıces busıness contınued ın 2013 wıth the team establıshıng ıts expertıse and attractıng new busıness from some major, hıgh-profile Islamıc ınvestors In Treasury, good performance was seen, notwıthstandıng markets that suffered from Eurozone volatılıty and government lıquıdıty ınterventıon

In terms of the prıncıpal rısks faced by ABCIB ın ıts actıvıtıes, the key bankıng rısks are all part of the busıness mıx from whıch the Bank derıves ıts earnıngs The governance of rısk and complıance ıssues ıs dıscussed elsewhere ın thıs report ın more detaıl The nature of the Bank's actıvıtıes dıctates that credıt rısk and operatıonal rısk are most promınent, whılst market rısk ıs less of a concern, ın vıew of the very lımıted tradıng undertaken by the Bank's Treasury Consıderıng the developıng nature of the MENA markets ın whıch ABCIB takes a sıgnıficant proportıon of ıts rısk, the assessment, management, control and mıtıgatıon of rısk takes hıgh ımportance wıthın the Bank Lıkewıse, complıance ıssues are gıven prıorıty ın transactıon assessment Senıor management of the Bank and the Board of Dırectors pay close attentıon to rısk and complıance ıssues and the Bank promotes a culture of rısk awareness at all levels, especıally amongst personnel ınvolved prımarıly ın busıness generatıon The Bank has a good track record ın rısk and complıance management and a cautıous approach to these areas ıs central to the Bank's strategy

In terms of strategy, ABCIB remains committed to its mission to be the MENA bank of choice for European customers  The significant increases in revenue over the past two years have demonstrated that the Bank has made tangible progress in meeting its mission  There is a strong credit and compliance culture in the Bank and the Bank has talented teams in both business development and support disciplines  The Board is optimistic that ABCIB has all necessary elements in place to continue profitable growth in 2014 and beyond

Approved by the Board and authorised for issue on 14th February 2014

**Saddek El Kaber**
Chairman
14 February 2014

## Financial Highlights

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| ***Earnings - £'000*** | | | | | |
| Net interest income | 40,512 | 39 513 | 29,510 | 25 167 | 26,782 |
| Fees and Other operating income | 39,469 | 28,367 | 30,665 | 30,690 | 27 370 |
| Total operating income | 80 354 | 67,284 | 60,175 | 55,857 | 54,152 |
| Profit before provision and tax | 39,322 | 26,828 | 24,588 | 24,550 | 16,818 |
| Impairment provision - net | (10,901) | 4,962 | (4,041) | (5,012) | (4,514) |
| Profit before tax | 28,421 | 31,790 | 20,547 | 19,538 | 12,304 |
| Net profit for the year | 20,450 | 27 724 | 17,308 | 13,748 | 12,024 |
| ***Financial Position £'million*** | | | | | |
| Total assets | 2 898 | 3,338 | 2 820 | 3,328 | 2,492 |
| Loans and advances to customers | 1,060 | 1,492 | 1,224 | 1,127 | 1,089 |
| Due from banks | 1,280 | 955 | 831 | 1,516 | 557 |
| Financial investments - available for sale | 349 | 363 | 475 | 286 | 384 |
| Shareholders' funds | 407 | 386 | 316 | 307 | 287 |
| ***Ratios (%)*** | | | | | |
| ***Profitability*** | | | | | |
| Cost Income ratio | 51% | 60% | 59% | 56% | 69% |
| Net profit as % of average shareholders' funds | 5 2% | 7 9% | 5 6% | 4 6% | 4 4% |
| Net profit as % of average assets | 0 7% | 0 9% | 0 6% | 0 5% | 0 5% |
| ***Capital*** | | | | | |
| Risk weighted assets (£'million) | 2,098 | 2 521 | 2,300 | 2,249 | 2,100 |
| Capital base (£'million) | 420 | 417 | 384 | 380 | 378 |
| Risk asset ratio - Tier 1 | 19 4% | 15 5% | 14 6% | 14 2% | 14 6% |
| Risk asset ratio - Total | 20 0% | 16 5% | 16 7% | 16 9% | 18 0% |
| Average shareholders' funds as % of average total assets | 12 7% | 11 4% | 10 1% | 10 2% | 10 5% |
| Loans and advances to customers as a multiple of shareholders' funds (times) | 2 6 | 3 9 | 3 9 | 3 7 | 3 8 |
| Total debt as a multiple of shareholders' funds (times) | 5 5 | 7 0 | 6 4 | 8 3 | 6 2 |
| Term borrowing (including Subordinated debt) as a multiple of shareholders' funds (times) | 0 4 | 0 5 | 1 3 | 1 4 | 1 3 |
| ***Assets*** | | | | | |
| Loans and advances to customers as % of total assets | 36 6% | 44 7% | 43 4% | 33 9% | 43 7% |
| Financial investments - available for sale as % of total assets | 12 0% | 10 9% | 16 8% | 8 6% | 15 4% |
| Impaired loans as % of gross loans | 1 3% | 0 3% | 0 3% | 0 3% | 0 5% |
| Loan loss provision as % of impaired loans | 67 9% | 118 9% | 220 0% | 153 4% | 113 4% |
| Loan loss provision as % of gross loans | 0 9% | 0 3% | 0 7% | 0 4% | 0 5% |
| ***Liquidity*** | | | | | |
| Deposits to loan cover (times) | 2 1 | 1 8 | 1 7 | 2 3 | 1 6 |
| ***Capitalisation*** | | | | | |
| Authorised | 300 0 | 300 0 | 300 0 | 300 0 | 300 0 |
| Issued Subscribed and fully paid-up | 212 3 | 212 3 | 182 3 | 182 3 | 182 3 |

# Board of Directors

## H.E Mr. Saddek El Kaber

Chairman of the Board

Governor of the Central Bank of Libya, Mr El Kaber is also Chairman of Arab Banking Corporation B S C and Chairman of Arab Banking Corporation-Egypt Previously, Mr El Kaber was the Deputy Chief Executive Officer of ABC International Bank plc, U K , and Chairman and General Manager of UMMA Bank, Libya Mr El Kaber held key positions in a number of banks and financial institutions in the past including Deputy Chairman of the Board of Arab Banking Corporation-Algeria and Director of Arab Financial Services Company He was appointed chairman of the Board of ABC International Bank plc on 9th May 2013 Mr El Kaber has more than 35 years of experience in international finance and banking

## Mr. Abdallah Al Humaidhi RC* CAC # ∞

Deputy Chairman

Vice Chairman and Managing Director, 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, a director of the Board of Kuwait Petroleum Corporation Mr Al Humaidhi is also a Member of the Board of the Kuwait Chamber of Commerce & Industry and a Director of the Board of Arab Banking Corporation (B S C ) Mr Al Humaidhi was appointed to the Board of Directors of ABC International Bank plc in 2008 and as Deputy Chairman on 11th March 2011 Mr Al Humaidhi has more than 30 years of experience in the banking and investment sectors

## David Thomas R. Carse, OBE AC * BRC RC # ✓

Director

Mr Carse was appointed as an Independent Director of ABC International Bank plc 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 the Jersey Financial Services Commission

Mr Carse has a banking career that spans over 40 years

## Dr. Yousef Al Awadi, KBE AC BRC # ∞

Director

Chief Executive Officer of YAA Consultancy, Kuwait Previously he was the Chief Executive Officer of Gulf Bank, Kuwait, and President and CEO of the Kuwait Investment Office, London Dr Al Awadi is also a Director of Arab Banking Corporation (B S C), a Director of Fidelity International Funds and a Director of Kuwait Energy plc, Jersey Dr Al Awadi has formerly served as a member of the International Advisory Board of Goldman Sachs and the Higher Planning Council in Kuwait, in addition to board directorships of many public and private sector entities regionally and internationally He joined the Board of ABC International Bank plc on 17th May 2013 and has more than 35 years of experience in banking, international finance and investment management In January 2005 Dr Al Awadi was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire KBE

## Mr. Hilal Al-Mutairi BRC CAC* # ∞

Director

Member of the Board of Directors and Executive Committee of Kuwait Investment Authority Mr Al Mutairi is also a Director and Deputy Chairman of Arab Banking Corporation (B S C) His past key positions 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 He has been a Director of ABC International Bank plc since 2001 and has more than 35 years of commercial and financial industry experience

## Mr. Hassan Ali Juma

Former Director

Former Chairman of the Board

Resigned 9th May 2013

## Dr. Florence Eid-Oakden [BRC CAC # i]

Director

CEO and Chief Economist of Arabia Monitor Dr Eid has been a professor of economics and finance at the American University of Beirut and a visiting professor at INSEAD and HEC Paris Formerly Head of MENA research at JP Morgan, she has also worked with the World Bank on Latin America & North Africa and on the buy side as a hedge fund investment professional She serves on the Advisory Board of the Al Faisal University College of Business, Saudi Arabia, and has been a Trustee of the American University in Paris Dr Eid was appointed to the Board of ABC International Bank plc in 2010 and holds a Ph D in Organization Economics from the Massachusetts Institute of Technology (MIT) with a joint Harvard-MIT doctoral committee She is fluent in Arabic, English, French and Spanish

## Dr. Khaled Kawan [AC BRC* # ∞]

Director

Dr Kawan is the Group Chief Executive Officer of Arab Banking Corporation (B S C) He joined the Board of ABC International Bank plc on 28th May 2013 Previously, Dr Kawan was Group Legal Counsel until December 2009, when he was appointed Deputy Chief Executive of ABC (B S C) Prior to that he had been practicing with a prime French Law firm in Paris Dr Kawan also represents the ABC Group as Chairman on the Boards of ABC Islamic Bank E C , Arab Financial Services B S C.(c) and Arab Banking Corporation Egypt S A E

## Angus MacLennan [AC RC # i]

Director

Mr MacLennan was appointed as Independent Director of ABC International Bank plc in 2010 Mr MacLennan is the CEO of Llamabrook PLC, Vice Chairman and Director of the Eve Appeal Ltd and Non-Executive Director of Vocalink Holdings plc Mr MacLennan has a banking career that spans over 35 years

## William Playle [$]

ABC International Bank plc, Managing Director & Chief Executive Officer

Mr Playle was appointed as Chief Executive Officer of ABC International Bank plc in January 2012 and as Managing Director Previously, he served as Deputy CEO since October 2011 and Head of Risk Management since May 2002

Mr Playle is an attendee at the BRC, AC, RC and CAC of ABC International Bank Plc

Prior to joining ABC International Bank, 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 Holden

Company Secretary
Barrister-at-Law (Lincoln's Inn)

Mr David Holden joined the Legal Department of ABC International Bank plc ("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 |
| i | Independent Director |
| ∞ | Non-independent Director |

## Chief Executive Officer's Report & Business Review

ABCIB had another successful year in 2013, producing a record high level of total operating income for the second consecutive year Although market and political conditions in the MENA region remained a challenge during the year, the Bank continued to develop rewarding business opportunities

Profitability was impacted in 2013 by the need to raise credit provisions against a facility for a commodities trading client and it was also necessary to increase the Bank's collective impairment provision in response to the deteriorating situation seen in Egypt during the year Despite these unexpected charges, the Bank's net profit remained strong

Progress during the year was strongly underpinned by the Bank's pragmatic and prudently calibrated regional risk appetite Together with the close co-ordination and support of colleagues throughout ABCIB's European offices and the wider ABC Group (ABC (B S C ) and subsidiaries) network in MENA, ABCIB was able to remain largely 'open for business' throughout the region, although international sanctions continued to be a constraint on activities in certain transactions Even in countries such as Libya, Egypt and Tunisia, which continued to experience instability stemming from difficult and prolonged political and economic transitions, the Bank remained active in financing trade at a time when many competitors drastically curtailed their operations This ability to continue to support core exporting clients and make a real contribution to economic recovery in these countries were key determinants in allowing ABCIB to expand its overall business volumes It has undoubtedly provided a competitive business advantage looking forward and further enhanced ABCIB's reputation as the 'bank of choice' for companies doing business with the MENA region

There have been many successes and many challenges in 2013 and I am grateful for the hard work, dedication and initiative shown by our people, in all offices, in both business areas and in support functions The Bank's strategy places great emphasis on teamwork and customer service, and the performance of the Bank in 2013 is reflective of the quality of our people and their commitment

**TRADE FINANCE**

Trade Finance business generated a record £51 6 million total operating income in 2013, with all product areas and geographies performing strongly The results were all the more remarkable given the hesitant recovery in the European Union, where the bulk of the Bank's exporting clients are based, and the highly challenging operating conditions that prevailed in a number of core MENA markets

The Bank continued to strengthen its Trade Finance product range and associated financing capabilities during the year Further progress was made in its highly successful Trade and Receivables Discounting product line whilst Commodity Finance operations benefited from closer co-operation with ABC's Group network, including Banco ABC Brasil, and new resources were dedicated to securing business opportunities with European Export Credit Agencies (ECAs) Trade Finance marketing efforts intensified during the year and the Bank sponsored two highly successful and high profile conferences in London and Moscow, the former focusing on financing UK exports to Libya and the latter on Russian exporting opportunities throughout MENA

For the third year in succession Trade Finance's Risk Distribution activities topped the $1 billion mark, reaching $1 7 billion An increasingly important bank-wide tool both in ensuring the most efficient use of the Bank's capital and mitigating risk, it has also proved an adept way of creating capacity in the Bank's balance sheet for new business assets, enhancing the ability to accommodate the growing trade finance requirements of an expanding exporter client base

On balance, further upside potential in Trade Finance business flows in 2014 is anticipated although the outlook is not without a degree of uncertainty and 'event' risk surrounding the prolonged and challenging transition of the "Arab Spring" countries

**TREASURY**

ABCIB's Treasury operations, including those of the European branches, are centralised in the London head quarters and this in turn is part of the Bahrain and London twin-hub approach for Global Treasury management in the ABC Group

The main focus of Treasury is to manage the Bank's liquidity position and its deposit base to provide a stable source of funding for the Bank's commercial activities Any excess funding is lent in the money markets Treasury also endeavours to provide Bank customers with a tailored service, offering a wide range of products, and to enhance the Bank's revenue streams with positioning in both money markets and foreign exchange

Recent increased regulatory requirements have impelled Treasury's resources further into managing the PRA liquidity buffer ABCIB remains fully compliant with the PRA's liquidity regime and maintains a liquidity buffer portfolio of US Treasuries, UK Gilts, funds deposited at the European Central Bank and some other eligible securities

In 2013, Treasury delivered another year of very good performance with strong net profit above budget despite the prevailing difficult trading environment Foreign Exchange activity saw significant growth in 2013 and with increased positioning this has resulted in increased revenues Generating profit from the money market books was more difficult in 2013, in line with the continuing low interest rate environment

In 2014, Treasury will continue to work closely with other business units of ABCIB to gain deposits, foreign exchange and derivative business from the Bank's wide customer base Liquidity management will remain a priority activity

**PROJECT & STRUCTURED FINANCE**

The Bank's Project & Structured Finance European Team ("P&SFE") maintained steady progress towards developing new business opportunities in MENA markets and core sectors Activity included the financing of a power project in Tunisia, refinancing of a telecom deal in Turkey, and providing financial advisory services to a major telecom company in Algeria The team was also consistently contemplating opportunities in the power, oil & gas sectors that continue to make a slow recovery from the upheavals of 2011 in the Arab World

Results in 2013 were adversely impacted by some prepayments on existing assets, slower than expected progress on new transactions and difficulties with some existing projects in Egypt

P&SFE remains very selective in what opportunities to pursue in the region, but there are clear prospects, particularly in the re-emergent Libyan market Notwithstanding their current political and economic status, Egypt and Morocco showed continuing project activity, which P&SFE tracked and assessed

2013, more generally, saw a noteworthy recovery in enquiry levels for P&SFE's financial advisory skills across the region as well as Export Credit Agency backed projects, in core sectors such as telecom, oil and gas & power and this is taken as a positive indication for business opportunities in 2014

## ISLAMIC FINANCIAL SERVICES

2013 proved to be another outstanding year for Islamic Financial Services ("IFS") with gross revenues nearly doubling year on year

Having positioned IFS as the market leader in Sharia compliant finance for Gulf Arab investors looking to transfer capital into the London property market and into Turkey, IFS continued to build on this position by originating, structuring and distributing a number of high value and complex transactions

Most notably in 2013, IFS increased the Bank's funding to South Bank Tower, a £650 million residential and commercial development on London's South Bank This transaction won the Euromoney Islamic Real Estate deal of the year award IFS also provided acquisition finance for major Bahraini and Saudi investors to finance their purchase of an office building to be converted to a £360 million development of high quality residential apartments near Regent's Park

In addition to the real estate activities in London, working alongside the Bank's Turkish office, IFS underwrote $134 million of Turkish corporate finance which was originated, structured and distributed by IFS The team also acted as an investment agent for these facilities

IFS offers a wide range of Sharia compliant funding alternatives, including currency and rate hedging products and structured and trade finance solutions for clients within the Bank's network and on a wider scale the ABC Group through identifying cross selling activities

Real Estate and Turkish Corporate Finance activities remain the core business for IFS and the outlook for 2014 seems very positive, with Arab Investors and Turkish corporates continuing to make specific demand for IFS products

## THE YEAR AHEAD

In 2014, the Bank intends to retain maximum flexibility in its responsiveness to the changing business environment, from both a geographic and a product perspective ABCIB aims to secure its reputation for being a pro-active bank and to maintain its position as a market-leading provider of bespoke financial services to companies doing business with the MENA region, and beyond

Confidence is high that 2014 will be another year of growth for the Bank Regional challenges will remain part of the landscape but the Bank sees good opportunities in all business areas

**Mr. William J. Playle**
Managing Director & Chief Executive Officer
14 February 2014

## 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 five occasions during 2013

### 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"), the Sanctions Committee ("SC"), the Information Security Committee ("ISC") 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 Both SC and ISC are chaired by the Deputy Chief Executive Officer SC reviews those transactions that are affected by sanctions measures and ISC oversees data and IT security 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 Dr Khaled Kawan and three other non-executive directors sit on this committee Dr Khaled Kawan is also the Group Chief Executive Officer of Arab Banking Corporation (B S C )

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 The BRC oversees all classes of risk, including credit risk, market risk and operational risk The BRC reviews risk levels in relation to individual borrowers/counterparties, industry sectors, countries, regions and products The Committee also approves 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 (B S C ) 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 all relevant regulatory remuneration codes and requirements

**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 After an extensive search, a new Head of Risk Management was appointed in October 2013

**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 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 supported by cash collateral or 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 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 stand at £30 million Specific provisions at year-end amounted to £17 5 million representing 59% of loans classified by the Bank as non-performing 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 8 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 PRA 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 VaR method of risk management of currency, interest rate and credit exposures on a daily basis All market risk is managed in London and overseen on a global basis by ABC 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, and the Operational Risk Committee reviews all operational risk incidents The Committee is chaired by the Head of Operational Risk 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 FCA 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, Strategic 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 Bank 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 Financial Statements 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 jurisdictions

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## Independent Auditors' Report to the members of ABC International Bank plc

We have audited the financial statements of ABC International Bank plc for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, 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 Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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

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

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

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

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

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

Peter Wallace (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 February 2014

Notes
1 The maintenance and integrity of the ABC International Bank plc's web site is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

**ABC International Bank plc**

**PROFIT AND LOSS ACCOUNT**

**For the year ended 31st December 2013**

| | Notes | 2013 £000 | 2012 £000 |
|---|---|---|---|
| Interest receivable and similar income arising from debt securities and certificates of deposit purchased | 4 | **2,656** | 6,205 |
| Other interest receivable | 4 | **56,384** | 59,245 |
| | | **59,040** | 65,450 |
| Interest payable | 3 | **(18,528)** | (25,937) |
| **Net Interest Income** | | **40,512** | 39,513 |
| Fees and commissions receivable | 4 | **51,719** | 39,164 |
| Fees and commissions payable | 4 | **(12,250)** | (10,797) |
| Dealing profits | 39 | **758** | 336 |
| Profit/ (loss) on sale of investment securities | 4 | **788** | (2,253) |
| Other operating (expense)/ income | 5 | **(1,173)** | 1,321 |
| | | **39,842** | 27,771 |
| Total operating income | | **80,354** | 67,284 |
| Administrative expenses | 6 | **(40,578)** | (40,011) |
| Depreciation and amortisation | | **(454)** | (445) |
| Provisions (net) | 7 | **(10,901)** | 4,962 |
| | | **(51,933)** | (35,494) |
| **Profit on ordinary activities before tax** | 8 | **28,421** | 31,790 |
| Tax charge on ordinary activities | 9 | **(7,971)** | (4,066) |
| **Profit for the financial year** | | **20,450** | 27,724 |

The results for the years ended 31st December 2013 and 31st December 2012 are derived from continuing operations

**ABC International Bank plc**
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
**For the year ended 31st December 2013**

| | Notes | 2013<br>£000 | 2012<br>£000 |
|---|---|---|---|
| Profit for the financial year | | **20,450** | 27,724 |
| Foreign exchange movement | | **(151)** | - |
| Actuarial loss recognised on defined benefit pension scheme | 43 | **(303)** | (3,267) |
| Deferred tax credit relating to pension schemes | | **40** | 481 |
| Change in fair value of available for sale investments and loans and advances | 31 | **1,701** | 17,311 |
| Corporation tax relating to change in fair value of available for sale investments and loans and advances | | **(230)** | (2,548) |
| **Total recognised profits since last annual report** | | **21,507** | **39,701** |

**ABC International Bank plc** **Registration No 2564490**
**BALANCE SHEET**
**As at 31st December 2013**

| | Notes | 2013 £000 | 2012 £000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | **62,178** | 70,228 |
| Certificates of deposit purchased | 10 | **20,000** | 311,140 |
| Due from banks | 12 | **1,279,869** | 955,140 |
| Loans and advances to customers | 13 | **1,060,595** | 1,492,192 |
| Financial investments - available-for-sale | 17 | **349,342** | 362,774 |
| Tangible fixed assets | 20 | **1,255** | 1,052 |
| Deferred tax asset | 21 | **9,366** | 11,335 |
| Other assets | 22 | **57,645** | 79,476 |
| Prepayments and accrued income | 23 | **57,866** | 54,796 |
| **Total assets** | | **2,898,116** | 3,338,133 |
| **Liabilities** | | | |
| Deposits from banks and other financial institutions | 24 | **1,996,260** | 2,422,055 |
| Deposits from customers | 25 | **226,184** | 261,015 |
| Other liabilities | 26 | **63,343** | 68,374 |
| Accruals and deferred income | 27 | **18,053** | 21,239 |
| Term borrowing | 28 | **60,001** | 59,455 |
| Pension scheme liability | 43 | **5,475** | 5,814 |
| | | **2,369,316** | 2,837,952 |
| Subordinated liabilities | 29 | **121,738** | 114,626 |
| Called up share capital | 30 | **212,296** | 212,296 |
| Profit and loss account | | **195,227** | 175,421 |
| Fair value reserve | | **(461)** | (2,162) |
| Equity shareholders' funds | 31 | **407,062** | 385,555 |
| Capital resources | | **528,800** | 500,181 |
| **Total liabilities and shareholders' funds** | | **2,898,116** | 3,338,133 |

MEMORANDUM ITEMS

| | Notes | 2013 £000 | 2012 £000 |
|---|---|---|---|
| **Contingent liabilities** | | | |
| Acceptances and endorsements | | **17,689** | 40,629 |
| Guarantees and letters of credit | | **1,192,656** | 1,744,265 |
| | | **1,210,345** | 1,784,894 |
| **Commitments** | | | |
| Other commitments | 33 | **357,867** | 292,649 |

The financial statements were approved by the Board of Directors and authorised for issue on 14th February 2014 and were signed on its behalf by

S. Elkab

**Saddek El Kaber**
**Chairman**
**14 February 2014**

## 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 social and political unrest has occurred over the course of the year ended 31st December 2013 Whilst the level of unrest and consequent political uncertainty have abated in many of those countries, ABCIB continues to monitor closely 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 Arab Banking Corporation (B S C) ('ABC'), 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 'dealing profits' 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 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) 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'

**v) 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

**vi) 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 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 related interest income or expense and dividends for financial assets held for trading

**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, Islamic Financial Services and others including Head Office Analysis of the business segments is included in note 44

**3 Interest payable**

Interest payable includes £ 7,112,820 in respect of interest on the subordinated liability (2012 £6,705,023)

**4 Analysis of the profit and loss account by classification**

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | - | 1,501 | 1,155 | - | - | 2,656 |
| Other interest receivable and similar income | - | 56,384 | - | - | - | 56,384 |
| Interest payable | - | - | - | (18,528) | - | (18,528) |
| **Net interest income/ (expense)** | - | 57,885 | 1,155 | (18,528) | - | 40,512 |
| Fees and commissions receivable | - | 51,719 | - | - | - | 51,719 |
| Fees and commissions payable | - | - | - | (12,250) | - | (12,250) |
| Dealing profits (including exchange differences) | 758 | - | - | - | - | 758 |
| Profit on sale of investment securities | - | - | 788 | - | - | 788 |
| Other operating expense | - | - | - | - | (1,173) | (1,173) |
| **Total operating income/ (expense)** | 758 | 109,604 | 1,943 | (30,778) | (1,173) | 80,354 |

| | 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

**5 Other operating (expense)/ income**

| | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Rental income | 502 | 277 |
| Loss on sale of loans | (1,982) | - |
| Trade finance fees | 425 | 1 025 |
| Islamic banking income | - | 92 |
| Profit on disposal of fixed assets | 5 | 5 |
| Other | (123) | (78) |
| | (1,173) | 1,321 |

## 6 Administrative expenses

| | 2013 £000 | 2012 £000 |
|---|---|---|
| **a) Staff costs** | | |
| Salaries | 21,765 | 21,615 |
| Social security costs | 4,096 | 4,024 |
| Pension costs (note 43) | | |
| - Defined benefit scheme | 103 | 188 |
| - Defined contribution schemes | 1,357 | 1,165 |
| Redundancy cost | 642 | 190 |
| | 27,963 | 27,182 |
| Other administrative expenses | 12,615 | 12,829 |
| | 40,578 | 40,011 |

| | 2013 Number | 2012 Number |
|---|---|---|
| The average monthly number of employees (excluding Directors) during the year | | |
| Trade Finance | 47 | 44 |
| Islamic | 7 | 5 |
| Project Finance | 5 | 5 |
| Treasury | 5 | 5 |
| Head office and Support | 133 | 125 |
| | 197 | 184 |

**b) Directors' remuneration**

The aggregate remuneration of the Directors of ABC International Bank plc for the year were

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Aggregate remuneration in respect of qualifying services | 1,289 | 957 |
| In respect of the highest paid Director | | |
| Aggregate remuneration in respect of qualifying services | 824 | 548 |

There are no pension contributions for directors (2012 nil)

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

## 7. Provisions

| | 2013 £000 | 2012 £000 |
|---|---|---|
| The net (charge)/ credit for the year in respect of provisions is made up as follows | | |
| Loans and advances to banks | 98 | (299) |
| Loans and advances to customers | (12,195) | 751 |
| Collective impairment provision | (800) | 6,200 |
| Off-balance sheet | 1,929 | (1,875) |
| Recoveries in respect of advances previously written off | 67 | 185 |
| | (10,901) | 4,962 |

## 8 Profit on ordinary activities before tax

| | | 2013 £000 | 2012 £000 |
|---|---|---|---|
| Profit is stated after (charging)/crediting | | | |
| Foreign currency gains, net | | 630 | 383 |
| Auditors' remuneration | audit of the company s financial statements | (258) | (245) |
| | audit of subsidiaries of the company | (8) | (8) |
| | audit of associates of the company | (15) | (15) |
| | audit of related assurance services | (24) | (23) |
| | taxation compliance services | (139) | (109) |
| Operating lease rentals | hire of equipment | (83) | (76) |
| | land and buildings | (2,817) | (3,083) |
| Income from listed securities | | 2,770 | 6,205 |

## 9. Taxation

| | 2013 £000 | 2012 £000 |
|---|---|---|
| **Analysis of tax charge for the year** | | |
| **Current tax** | | |
| UK corporation tax - Current year | (2,079) | (4 529) |
| UK corporation tax - Prior years | 479 | - |
| Foreign tax | (4,075) | (2,739) |
| **Total current tax** | (5,675) | (7,268) |
| **Deferred tax** | | |
| Recognition of brought forward losses & Subordinated liabilities | (1,969) | 3,364 |
| Recognition in respect of pension scheme | (327) | (162) |
| **Total deferred tax** | (2,296) | 3,202 |
| **Total tax charge for the year** | (7,971) | (4,066) |

## NOTES TO THE ACCOUNTS (continued)

### 9. Taxation (continued)

| | 2013 £000 | 2012 £000 |
|---|---|---|
| **Factors affecting tax charge for the year** | | |
| The differences are explained below | | |
| Profit on ordinary activities before tax | 28,421 | 31,790 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23 25% (2012 24 5%) | (6,608) | (7 789) |
| Effect of | | |
| Disallowed expenses and non-taxable income | (61) | (1 688) |
| Capital allowance in excess of depreciation | 22 | 7 |
| Branch losses utilised | 1,302 | 2 734 |
| Group relief | 221 | 255 |
| Double tax relief | 2,595 | 1,694 |
| Foreign tax | (4,075) | (2,739) |
| Pension deduction | 428 | 199 |
| Prior year adjustment | 479 | - |
| Others | 22 | 58 |
| Current tax charge | (5,675) | (7,268) |

### 10 Certificates of deposit purchased

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Analysed by maturity | | |
| within three months | 20,000 | 61,140 |
| between three months and one year | - | 250,000 |
| | 20,000 | 311,140 |

### 11 Analysis of assets and liabilities by classification

2013

| | Loans and receivables £000 | Available-for sale £000 | Financial liabilities at amortised cost £000 | Non financial instruments and others £000 | Total £000 |
|---|---|---|---|---|---|
| Cash and balances at central banks | 62,178 | - | - | - | 62,178 |
| Certificates of deposit purchased | 20,000 | - | - | - | 20,000 |
| Due from banks | 1,245,973 | 33,896 | - | - | 1,279,869 |
| Loans and advances to customers | 1,045,462 | 15,133 | - | - | 1,060,595 |
| Financial investments - available-for-sale | - | 349,342 | - | - | 349,342 |
| Tangible fixed assets | - | - | - | 1,255 | 1,255 |
| Deferred tax asset | - | - | - | 9,366 | 9,366 |
| Other assets | 1,356 | - | - | 56,289 | 57,645 |
| Prepayments and accrued income | - | - | - | 57,866 | 57,866 |
| **Total assets** | 2,374,969 | 398,371 | - | 124,776 | 2,898,116 |
| Deposits from banks and other financial institutions | - | - | 1,996,260 | - | 1,996,260 |
| Deposits from customers | - | - | 226,184 | - | 226,184 |
| Other liabilities | - | - | - | 63,343 | 63,343 |
| Accruals and deferred income | - | - | - | 18,053 | 18,053 |
| Term borrowing | - | - | 60,001 | - | 60,001 |
| Pension scheme liability | - | - | - | 5,475 | 5,475 |
| **Total liabilities** | - | - | 2,282,445 | 86,871 | 2,369,316 |

Others include derivatives as disclosed in note 34

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

2012

| | Loans and receivables | Available-for-sale | Financial liabilities at amortised cost | Non financial instruments and others | Total |
|---|---|---|---|---|---|
| | £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 | 932,012 | 23,128 | - | - | 955,140 |
| Loans and advances to customers | 1,492,192 | - | - | - | 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 |

**12 Due from banks**

| | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Repayable | | |
| on demand | 59 | 35 |
| within three months | 720,931 | 520,513 |
| between three months and one year | 467,408 | 379,642 |
| between one and five years | 91,355 | 54 830 |
| after five years | 1,553 | 1 677 |
| | 1,281,306 | 956 697 |
| Allowance for impairment losses (note 15) | (1,437) | (1,557) |
| | 1,279,869 | 955 140 |
| Included in the above are balances due from ABC Group undertakings of | 126 | 82,203 |

Included in the above are available-for-sale loans amounting to £29 656,000 (2012 - £23,127,649)

**13 Loans and advances to customers**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Repayable | | |
| on demand | 22,559 | 4 |
| within three months | 542,628 | 812,796 |
| between three months and one year | 301,782 | 408,937 |
| between one and five years | 175,954 | 217,497 |
| after five years | 36,595 | 59,929 |
| | 1,079,518 | 1,499,163 |
| Allowance for impairment losses (note 15) | (18,923) | (6,971) |
| | 1,060,595 | 1,492,192 |
| Included in the above are balances due from ABC Group undertakings of | 42,668 | 41,611 |

Included in the above are available-for-sale loans amounting to £19,300,000 (2012 - nil)

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 Management have reviewed indicators of impairment considering internal and external factors such as significant changes that have an adverse effect on the recoverability of the loan, the passage of time, the economic and legal environment in the regions in which ABCIB operates and market factors (such as interest rates) Management have not identified any indicators of impairment

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, none of the loans were subject to forebearance (2012 2 loans totalling £6 million)

**14 Loans and advances which were past due**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | 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 under 1 years | - | 19,880 | - | - |
| Past due over 3 years | 1,553 | 8,537 | 1,676 | 6,376 |
| | 1,553 | 28,417 | 1,676 | 6,376 |
| **Loans and advances by credit quality** | | | | |
| Loans and advances | | | | |
| - neither past due nor impaired | 1,279,753 | 1,051,101 | 955 021 | 1,492,787 |
| - past due but not impaired | - | 929 | - | 882 |
| - impaired | 1,553 | 27,488 | 1,676 | 5,494 |
| | 1,281,306 | 1,079,518 | 956,697 | 1,499,163 |

**Impaired loans and advances**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Total impaired loans and advances to | | |
| - banks | 1,553 | 1,676 |
| - customers | 27,488 | 5,494 |
| | 29,041 | 7,170 |

**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 2013 | 1,557 | 4,971 | - | 2,000 | 8,528 |
| Provision for the year | - | 11,078 | - | 800 | 11,878 |
| Decrease | (98) | (812) | - | - | (910) |
| Transfer from Off-Balance sheet | - | 1,929 | - | - | 1,929 |
| Write-off | - | (117) | - | - | (117) |
| Foreign currency translation adjustment | (22) | (926) | - | - | (948) |
| **Carried forward 31st December 2013** | 1,437 | 16,123 | - | 2,800 | 20,360 |

The decrease relates to a reversal of provisions against two exposures provided for during the year

**16 Movements in provision for suspended interest**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Brought forward 1st January | 1,914 | 1,969 |
| Interest suspended less recoveries during the year | (25) | 34 |
| Foreign currency translation adjustment | 66 | (89) |
| **Carried forward 31st December** | 1,955 | 1,914 |
| **Loans and advances where interest is suspended at year end** | | |
| Before allowance for impairment losses | 29,970 | 8,052 |
| After allowance for impairment losses | 10,257 | 1,524 |

## 17 Financial Investments - available-for-sale

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Listed (Debt investments) | 349,342 | 362,774 |
| | 349,342 | 362,774 |
| Due within one year | 280,721 | 252,837 |
| Due between one and two years | - | 57 857 |
| Due between two and five years | 68,621 | 52 080 |
| | 349,342 | 362,774 |

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| At 1st January | 362,774 | 474,614 |
| Additions | 235,706 | 222,235 |
| Repayments and disposals | (264,637) | (332,964) |
| Fair value movement | 1,692 | 17,027 |
| Exchange movements | 13,807 | (18,138) |
| **At 31st December** | 349,342 | 362,774 |

The net unamortised discount at 31st December 2013 was £57,234 (2012 £103,587)
The net unamortised premium at 31st December 2013 was £650,000 (2012 £813,684)
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 19

| | 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

The fair value of equity investments is not disclosed because they cannot be reliably measured

## 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 2013 | 725 | 1,014 | 9,381 | 209 | 11,329 |
| Additions | - | 648 | 110 | - | 758 |
| Disposals | - | - | - | (31) | (31) |
| Exchange differences and other adjustments | 6 | 9 | 59 | - | 74 |
| **At 31st December 2013** | **731** | **1,671** | **9,550** | **178** | **12,130** |
| Depreciation | | | | | |
| At 1st January 2013 | 663 | 871 | 8,603 | 140 | 10,277 |
| Charge for the year | 40 | 64 | 324 | 26 | 454 |
| Disposals | - | - | - | (23) | (23) |
| Exchange differences and other adjustments | 5 | 105 | 56 | 1 | 167 |
| **At 31st December 2013** | **708** | **1,040** | **8,983** | **144** | **10,875** |
| Net book value | | | | | |
| **At 31st December 2013** | **23** | **631** | **567** | **34** | **1,255** |
| At 31st December 2012 | 62 | 143 | 778 | 69 | 1,052 |

**21 Deferred tax asset**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| At 1st January | 11,335 | 7,971 |
| Recognised during the year | (1,969) | 3,364 |
| **At 31st December** | 9,366 | 11 335 |
| The major components of the deferred tax asset are as follows | | |
| Unutilised tax losses arising on P&L results | 2,384 | 3,786 |
| Asset in respect of sub-debt deduction | 6,725 | 7,268 |
| Asset in respect of accelerated capital allowances | 257 | 161 |
| Asset in respect of pension deduction | - | 120 |
| | 9,366 | 11,335 |

There is an unrecognised deferred tax asset of £2 8 million based on a tax rate of 20% (2012 £3 5million) arising due to brought forward tax losses 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

Deferred tax has been recognised at 20% given this is the enacted rate with effect of April 2015

**22. Other assets**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Positive mark to market of derivatives | 52,855 | 51,565 |
| Fair value adjustment on hedged items | 471 | 492 |
| Other | 4,319 | 27,419 |
| | 57,645 | 79,476 |

**23. Prepayments and accrued income**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Prepayments and accrued income | 3,774 | 3,326 |
| Interest receivable | 54,092 | 51,470 |
| | 57,866 | 54,796 |

**24 Deposits from banks and other financial institutions**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Repayable | | |
| on demand | 117,109 | 818,164 |
| within three months | 1,473,894 | 1,206,961 |
| between three months and one year | 282,521 | 315,410 |
| between one and five year | 122,736 | 81,520 |
| | 1,996,260 | 2 422,055 |
| Included in the above are balances due to ABC Group undertakings of | 243,625 | 504,648 |

**25. Deposits from customers**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Repayable | | |
| on demand | 125,058 | 177,317 |
| within three months | 94,533 | 80,891 |
| between three months and one year | 6,593 | 2,807 |
| | 226,184 | 261 015 |
| Included in the above are balances due to ABC Group undertakings of | 7,148 | 5,183 |

**26 Other liabilities**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Negative mark to market of derivatives | 2,998 | 3,923 |
| Fair value adjustment on hedged items | 50,202 | 48,103 |
| Tax and social security costs | 2,745 | 6 536 |
| Other | 7,398 | 9 812 |
| | 63,343 | 68,374 |

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

**27. Accruals and deferred income**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Interest payable | 2,258 | 3,321 |
| Accruals and deferred income | 15,795 | 17,918 |
| | 18,053 | 21,239 |

**28. Term borrowing**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Repayable | | |
| within one year | 35,000 | 59,455 |
| between two and five years | 25,001 | - |
| | 60,001 | 59,455 |
| Included in the above are balances due to ABC Group undertakings of | 60,001 | 59,455 |

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| GBP85 0 million Zero Coupon Bond | 76,027 | 72 126 |
| GBP16 3 million Zero Coupon Bond | 14,851 | 14,388 |
| GBP16 4 million Zero Coupon Bond | 15,535 | 14,190 |
| GBP15 6 million Zero Coupon Bond | 15,325 | 13,922 |
| | 121,738 | 114,626 |

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 | Issued £'000 |
|---|---|---|
| Ordinary shares of £1 each | | |
| At 1st January 2013 | 300,000,000 | 212,296 |
| At 31st December 2013 | 300,000,000 | 212,296 |

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 Prudential Regulation Authority (PRA) 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 PRA supervises ABCIB and as such receives information on the capital adequacy of ABCIB The FSA/ PRA require 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 regulatory capital adequacy requirements during 2013 and 2012

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 and interest rate position risks, and counterparty risk

**30 Called up share capital (continued)**

**Capital structure**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Tier 1 Capital | 407,523 | 390,100 |

**Composition of regulatory capital**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Tier 1 capital | 407,523 | 390,100 |
| Tier 1 Capital Ratio | 19 4% | 15 5% |
| Tier 2 capital | 12,373 | 26,905 |
| **Total regulatory capital** | 419,896 | 417,005 |
| **Risk-weighted assets** | | |
| Banking book | 2,061,719 | 2,493 441 |
| Trading book | 36,276 | 27,223 |
| Total | 2,097,995 | 2,520,664 |
| **Risk-weighted assets included in the totals above in respect of** | | |
| -contingent liabilities | 380,709 | 578,988 |
| -commitments | 148,918 | 107,834 |
| **Risk Asset Ratio** | % | % |
| Total capital | 20 0 | 16 5 |

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 2013 | 212,296 | 175,421 | (2,162) | 385,555 |
| Profit for the year | - | 20,450 | - | 20,450 |
| Foreign Exchange movement | - | (151) | - | (151) |
| Actuarial loss recognised in pension scheme (net of deferred tax) (note 44) | - | (263) | - | (263) |
| Net unrecognised loss on available-for-sale investments and loans and advances | - | - | 1,701 | 1,701 |
| Corporation tax relating to change in value of available-for-sale investments and loans and advances | - | (230) | - | (230) |
| **Carried forward at 31st December 2013** | 212,296 | 195,227 | (461) | 407,062 |

Shareholders' funds are all attributable to equity interests for 2013 and 2012

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 2013 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 (2012 - nil)

**33 Commitments**

| Contract or underlying principal amount | 2013 £000 | 2012 £000 |
|---|---|---|
| Formal standby facilities, credit lines and other commitments to lend | | |
| Less than one year | 220,066 | 139,802 |
| Over one year | 137,801 | 152,847 |
| | 357,867 | 292,649 |

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

| | 2013 Land and buildings £000 | 2013 Other £000 | 2012 Land and buildings £000 | 2012 Other £000 |
|---|---|---|---|---|
| Leases which expire | | | | |
| within two years | - | 61 | - | 4 |
| within two to five years | - | 24 | - | 74 |
| between five and ten years | 2,296 | - | 2,506 | - |

**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 18)

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

| | 2013 FV -Assets £000 | 2013 FV - Liabilities £000 | 2013 Notional amount £000 | 2012 FV -Assets £000 | 2012 FV - Liabilities £000 | 2012 Notional amount £000 |
|---|---|---|---|---|---|---|
| **i) Derivatives held for trading** | | | | | | |
| Forward foreign exchange contracts & Interest rate swaps | | | | | | |
| **Total at 31st December** | 1,176 | 1,050 | 670,697 | 1,733 | 1,702 | 235 683 |
| **ii) Derivatives held as fair value hedges** | | | | | | |
| Interest rate swaps & Swaptions | | | | | | |
| **Total at 31st December** | 51,679 | 1,948 | 210,885 | 49,832 | 2 221 | 189 753 |

ABCIB uses interest rate swap contracts to hedge against interest rate movements in relation to certain 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

| **iii) Hedged items** | | | | | | |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 1,741 | 1,948 | 130,885 | 1,729 | 2,221 | 109,753 |
| Deposits from customers and subordinated liabilities | 49,938 | - | 80,000 | 48,103 | - | 80,000 |
| | 51,679 | 1,948 | 210,885 | 49,832 | 2,221 | 189,753 |

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 The fair value measurement of the financial instruments above fall within measurement level 2 (2012 - level 2) There have been no transfers between levels 1 and 2

The gain on the hedging instruments was £1 8 million (2012 - £5 6 million) for the assets and £0 3 million (2012 - loss £0 8 million) for the liabilities

The loss on the hedged items was £1 8 million (2012 - £5 6 million) for the assets and £0 3 million (2012 - gain £0 8 million) for the liabilities The net impact of these gains and losses in the income statement (Other operating income) was nil (2012 - nil)

**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

**2013**

| | 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 | 62 2 | - | - | - | - | - | 62 2 |
| Certificates of deposit purchased | 20 0 | - | - | - | - | - | 20 0 |
| Due from banks | 1,065 4 | 87 5 | 94 3 | 34 1 | - | (1 4) | 1,279 9 |
| Loans and advances to customers | 767 4 | 178 6 | 108 6 | 24 4 | 0 1 | (18 6) | 1,060 5 |
| Financial investments - available-for-sale | 249 8 | 54 5 | 45 0 | - | - | - | 349 3 |
| Other assets, prepayments and deferred tax asset | - | - | - | - | - | 124 9 | 124 9 |
| Fixed assets | - | - | - | - | - | 1 3 | 1 3 |
| Total assets | 2,164 8 | 320 6 | 247 9 | 58 5 | 0 1 | 106 2 | 2,898 1 |
| **Liabilities and shareholders' funds** | | | | | | | |
| Deposits from banks and other financial institutions | 1,836 5 | 90 6 | 69 2 | - | - | - | 1,996 3 |
| Deposits from customers | 219 6 | 0 6 | 6 0 | - | - | - | 226 2 |
| Other liabilities, accruals and pension liability | - | - | - | - | - | 86 9 | 86 9 |
| Term borrowing and subordinated liabilities | 48 3 | - | 48 4 | 85 0 | - | - | 181 7 |
| Shareholders' funds | - | - | - | - | - | 407 1 | 407 1 |
| Total liabilities and shareholders' funds | 2,104 4 | 91 2 | 123 6 | 85 0 | - | 493 9 | 2,898 1 |
| Net position | 60 4 | 229 4 | 124 3 | (26 5) | 0 1 | (387 8) | |
| Off balance sheet | 18 9 | 5 6 | (19 9) | (4 6) | - | - | |
| Interest rate sensitivity gap | 79 3 | 235 0 | 104 4 | (31 1) | 0 1 | (387 8) | |
| Cumulative gap | 79 3 | 314 3 | 418 7 | 387 6 | 387 7 | - | |

**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 | - | |

**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

| | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | Measurement level | Carrying amount | Fair value | Unrecognised gain/(loss) | Carrying amount | Fair value | Unrecognised gain/(loss) |
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| **Financial assets** | | | | | | | |
| Certificates of deposit purchased | n/a | 20,000 | 20,000 | - | 311 140 | 311,140 | - |
| Due from banks | n/a* | 1,245 973 | 1,246,151 | 178 | 932 077 | 930,694 | (1,383) |
| Loans and advances to customers | n/a | 1,045 462 | 1,049 597 | 4 135 | 1 492 192 | 1,499,523 | 7,331 |
| Due from banks - available for sale | 1 | 33 896 | 33 896 | - | 23,063 | 23,128 | 65 |
| Loans and advances to customers - available for sale | 1 | 15 133 | 15 133 | - | - | - | - |
| Financial investments - available-for-sale | 1 | 349 342 | 349,342 | - | 362,774 | 362,774 | - |
| **Financial liabilities** | | | | | | | |
| Deposits from banks and other financial institutions | n/a | 1,996,260 | 1 993,432 | 2,828 | 2,422,055 | 2,417,291 | 4,764 |
| Deposits from customers | n/a | 226,184 | 226,056 | 128 | 261,015 | 260 967 | 48 |
| Term borrowing | n/a | 60,001 | 59,241 | 760 | 59,455 | 59 147 | 308 |
| Subordinated liabilities | n/a | 121,738 | 129,162 | (7,424) | 114,626 | 125,488 | (10,862) |
| | | | | 605 | | | 271 |

* 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 32% 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 PRA for capital adequacy purposes Thus, the PRA 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 | 2013 Maximum £000 | 2013 Minimum £000 | 2012 Maximum £000 | 2012 Minimum £000 |
|---|---|---|---|---|
| Trading | 107 | 1 | 59 | - |
| Banking | 24,771 | 2,815 | 14 920 | 748 |

**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 (now the PRA) liquidity rules introduced in 2010 and implementation of the PRA 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 which matches the maturity profile of the Bank's assets, 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 PRA "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 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 PRA 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 2013 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

| 2013 | 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 | 2,086,073 | 219,853 | 110,240 | 2,416,166 |

| 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 |
|---|---|---|---|---|
| Deposits from Banks Customers, Term borrowing and Subordinated Liabilities | 2,318,334 | 345,197 | 215,601 | 2,879,132 |

## 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

| | 2013 £000 | 2013 % | 2012 £000 | 2012 % |
|---|---|---|---|---|
| Financial institutions | 1,638,823 | 60.5% | 1,791,937 | 57.4% |
| Manufacturing | 329,939 | 12.2% | 440,777 | 14.1% |
| Construction | 185,137 | 6.8% | 104,547 | 3.3% |
| Trade | 65,688 | 2.4% | 112,577 | 3.6% |
| Governments | 161,672 | 6.0% | 221,111 | 7.1% |
| Other services | 328,547 | 12.1% | 450,297 | 14.5% |
| | 2,709,806 | 100.0% | 3,121,246 | 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

| | 2013 £000 | 2013 % | 2012 £000 | 2012 % |
|---|---|---|---|---|
| Turkey | 627,665 | 23.2% | 441,101 | 14.1% |
| Germany | 420,099 | 15.5% | 365,929 | 11.7% |
| United Kingdom | 417,004 | 15.3% | 496,072 | 15.9% |
| USA | 257,998 | 9.5% | 322,382 | 10.3% |
| UAE | 123,949 | 4.6% | 133,169 | 4.3% |
| Russia | 120,709 | 4.5% | - | 0.0% |
| Italy | 100,923 | 3.7% | 37,907 | 1.2% |
| Saudi Arabia | 82,915 | 3.1% | 99,465 | 3.2% |
| Egypt | 65,071 | 2.4% | 85,006 | 2.7% |
| Sudan | 61,156 | 2.3% | - | 0.0% |
| Switzerland | 56,412 | 2.1% | 59,490 | 1.9% |
| Qatar | 37,251 | 1.4% | 21,907 | 0.7% |
| Libya | 35,036 | 1.3% | 36,990 | 1.2% |
| Belgium | 24,743 | 0.9% | 61,969 | 2.0% |
| Brazil | 24,374 | 0.9% | - | 0.0% |
| Kuwait | 22,632 | 0.8% | - | 0.0% |
| Oman | 20,724 | 0.8% | 22,743 | 0.7% |
| South Africa | 20,402 | 0.8% | 16,089 | 0.5% |
| Netherlands | 19,902 | 0.7% | 62,175 | 2.0% |
| Austria | 18,821 | 0.7% | 19,660 | 0.6% |
| Morocco | 14,912 | 0.6% | 32,784 | 1.1% |
| Ireland | 12,811 | 0.5% | 13,150 | 0.4% |
| India | 11,895 | 0.4% | 38,603 | 1.2% |
| France | 11,530 | 0.4% | 180,170 | 5.8% |
| Bahrain | 1,850 | 0.1% | 113,482 | 3.6% |
| Japan | 574 | 0.0% | 61,853 | 2.0% |
| Algeria | - | 0.0% | 88,504 | 2.8% |
| Denmark | - | 0.0% | 30,332 | 1.0% |
| Others | 98,448 | 3.6% | 280,314 | 9.0% |
| | 2,709,806 | 100.0% | 3,121,246 | 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, for example, through the use of collateral agreements

| | 2013<br>£000 | 2012<br>£000 |
|---|---|---|
| Cash and balances at central banks | 62,176 | 70,228 |
| Certificates of deposit purchased | 20,000 | 311,140 |
| Due from banks | 1,279,869 | 955,140 |
| Loans and advances to customers | 1,060,595 | 1,492,192 |
| Financial investments - available-for-sale | 349,342 | 362 774 |
| Other assets | 52,855 | 51,565 |
| | 2,824,839 | 3,243,039 |
| Contingent liabilities | 1,210,345 | 1,784,894 |
| Commitments | 357,867 | 292,649 |
| | 1,568,212 | 2,077,543 |

| **Collateral held as security** | 2013<br>£000 | 2012<br>£000 |
|---|---|---|
| **Cash collateral** | | |
| Loans and advances to customers | 168,603 | 64,052 |
| Contingent liabilities | 468,104 | 831,559 |
| **Banks and Credit Agencies** | | |
| Due from banks | 1,392 | 4,495 |
| Loans and advances to customers | 140,654 | 150,836 |
| Contingent liabilities | 185,447 | 223 734 |
| Commitments | 52,975 | 20,351 |

| **Risk concentration against individual counterparties** | 2013<br>£000 | 2012<br>£000 |
|---|---|---|
| Largest exposure to individual Bank before collateral * | 153,687 | 315,379 |
| Largest exposure to individual Bank after collateral | 1,607 | 16,546 |
| Largest exposure to individual customer before collateral | 89,374 | 70,225 |
| Largest exposure to individual customer after collateral | 89,374 | 70 225 |
| Central Bank liquidity Buffer before collateral | 389,176 | 249,514 |
| Central Bank liquidity Buffer after collateral | 389,176 | 249 514 |

* represents balance with a Central Bank

| **Credit quality per class of financial assets** | Loans and receivables<br>2013<br>£000 | Financial Investments available- for sale<br>2013<br>£000 | Total<br>2013<br>£000 |
|---|---|---|---|
| **Due from banks** | | | |
| Investment grade | 582,487 | - | 582,487 |
| Sub investment grade | 697,382 | - | 697,382 |
| Borrowers requiring caution | - | - | - |
| Total | 1,279,869 | - | 1,279,869 |
| **Loans and advances to customers** | | | |
| Investment grade | 221,927 | - | 221,927 |
| Sub investment grade | 825,431 | - | 825,431 |
| Borrowers requiring caution | 13,237 | - | 13,237 |
| Total | 1,060,595 | - | 1,060,595 |
| **Financial investments - available-for-sale** | | | |
| Investment grade | - | 340,296 | 340,296 |
| Sub investment grade | - | 9,046 | 9,046 |
| Total | - | 349,342 | 349,342 |
| **Certificates of deposit** | | | |
| Investment grade | 20,000 | - | 20,000 |
| Total | 20,000 | - | 20,000 |

**37. Credit risk (continued)**

| Credit quality per class of financial assets | Loans and receivables | Financial investments - available- for-sale | Total |
|---|---|---|---|
| | 2012 | 2012 | 2012 |
| | £000 | £000 | £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 |
| Sub 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 |

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | GBP | USD | EUR | GBP | USD | EUR |
| Due from banks and loans and advances to customers | **3 19%** | **2 06%** | **1 72%** | 2 35% | 2 22% | 1 17% |
| Financial investments - available-for-sale | **0 16%** | **0 88%** | **0 47%** | - | 0 63% | 0 44% |
| Deposits from banks and other financial institutions | **0 53%** | **0 50%** | **0 21%** | 0 59% | 0 53% | 0 12% |
| Deposits from customers | **0 17%** | **0 32%** | **0 16%** | 0 31% | 0 65% | 0 29% |
| Term borrowing | **0 11%** | **0 00%** | **0 91%** | 0 12% | 0 00% | 1 38% |

**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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| **39 Dealing profits** | | |
| Dealing profits are analysed as follows | | |
| Foreign exchange gains and losses from financial assets and liabilities not at fair value through profit and loss | 630 | 383 |
| Interest rate products | 128 | (47) |
| | 758 | 336 |

**40. Assets, liabilities and shareholders' funds in foreign currencies**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Denominated in sterling | 599,515 | 742,096 |
| Denominated in US dollars | 1,235,332 | 1,513,245 |
| Denominated in other currencies | 1,063,269 | 1,082 792 |
| **Total assets** | 2,898,116 | 3,338,133 |
| Denominated in sterling | 574,915 | 742,097 |
| Denominated in US dollars | 1,233,370 | 1 509,812 |
| Denominated in other currencies | 1,089,831 | 1,086,224 |
| **Total liabilities and shareholders' funds** | 2,898,116 | 3,338,133 |

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £1,255,000 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 34

**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 ABC (B S C ) is also the ultimate and immediate parent for which consolidated financial statements including ABCIB are prepared

**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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Due from banks | 120,436 | 86,917 |
| Loans and advances to customers | 42,668 | 76,611 |
| Deposits from banks and other financial institutions | 1,704,856 | 1,954,876 |
| Deposits from customers | 87,065 | 95,188 |
| Term borrowing | 60,001 | 59,455 |
| Subordinated liabilities | 121,738 | 114 626 |
| Off Balance sheet | 429,123 | 770,042 |
| Interest rate swaps | 210,885 | 189,753 |

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Interest receivable | 8,255 | 6,811 |
| Interest payable | 16,850 | 17,661 |
| Fees and commissions receivable | 22,131 | 14,832 |
| Fees and commissions payable | 5,652 | 4,967 |

**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 £1,063,000 to the Scheme during the year to 31st December 2014

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 2013 and 31st December 2012 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
Inflation is in line with implied inflation rate curve published by the Bank of England (2012 2 9%)
Pension increases in line with RPI at each term, subject to a maximum of 5% and minimum of 0% in each year (2012 2 9%)
Rate of increase for deferred pension is 2 5% (2012 2 5%)
Discount rates is in line with Merrill Lynch nominal AA corporate spot yield curve (2012 4 45%)

The mortality rate used is 106% of the PNA00 tables with allowance for future improvements in line with the CMI 2013 model with a long term improvement rate of 1 25% per annum The discount rate is calculated using the full structure of the Merrill Lynch AA corporate bond curve Since this curve is based on bonds with durations of up to 20 years, we have used the Bank of England gilt spot curve with a margin of 0 84% pa to represent the spread of corporate bonds over gilts for terms of 20 to 25 years For terms above 25 years we have used gilt strip data available from Debt Management Office (DMO) plus 0 84% pa to help extrapolate the shape of the yield curve at longer terms

The fair value of assets and expected rate of return on assets were

| | Fair value £m | Long term rate of return expected % | Fair value £m | Long term rate of return expected % |
|---|---|---|---|---|
| Total value of assets | 28 9 | 6 2 | 26 9 | 5 1 |

| **Movement in scheme deficit** | **2013 £000** | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|
| Deficit in the Scheme after tax at 1st January | (5,814) | (3,593) | (1,200) | (7,077) |
| Contribution paid | 1,032 | 915 | 915 | 4,250 |
| Current service cost | - | - | - | (513) |
| Other finance (charge)/ income | (103) | (188) | 15 | (350) |
| Gain on curtailment | - | - | - | 1,450 |
| Actuarial (losses)/ gains | (303) | (3,267) | (3,757) | 2,342 |
| **Deficit in the plan at 31st December** | (5,188) | (6,133) | (4,027) | 102 |
| Movement in deferred tax asset through STRGL | 40 | 481 | 575 | (425) |
| Movement in deferred tax asset through profit and loss account | (327) | (162) | (141) | (877) |
| **Net pension liability at 31st December** | (5,475) | (5,814) | (3,593) | (1,200) |

| **Amount (debited)/ credited to other financial charges** | **2013 £000** | 2012 £000 |
|---|---|---|
| Expected return on pension scheme assets | 1,392 | 1,256 |
| Interest on pension scheme liabilities | (1,495) | (1,444) |
| | (103) | (188) |

| **Amount recognised in the Statement of Recognised Gains and Losses** | **2013 £000** | 2012 £000 | 2011 £000 | 2010 £000 | 2009 £000 |
|---|---|---|---|---|---|
| Actual less expected return on assets | (201) | (223) | (263) | 140 | 701 |
| Experience (loss)/ gain on liabilities | (41) | 422 | (159) | 528 | (39) |
| Changes in assumptions underlying present value of liabilities | (61) | (3,466) | (3,335) | 1,674 | (5,676) |
| **Actuarial (loss)/ gain recognised in the Statement of Total Recognised Gains and Losses** | (303) | (3,267) | (3,757) | 2,342 | (5,014) |

| **% of Scheme asset value at balance sheet date represented by** | **2013 %** | 2012 % | 2011 % | 2010 % | 2009 % |
|---|---|---|---|---|---|
| Actual less expected return on assets | (0 7) | (0 8) | (1 0) | 0 6 | 3 9 |

| **% of Scheme liability value at balance sheet date represented by.** | **2013 %** | 2012 % | 2011 % | 2010 % | 2009 % |
|---|---|---|---|---|---|
| Experience gain/ (loss) on liabilities | (0 1) | 1 3 | (0 5) | 2 1 | (0 1) |
| Changes in assumptions underlying present value of liabilities | (0 2) | (10 3) | (11 2) | 6 7 | (21 3) |
| Actuarial (loss)/ gain recognised in the Statement of Total Recognised Gains and Losses | (0 9) | (9 7) | (12 7) | 9 4 | (18 8) |

**44. Operating segment information**

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

Trade Finance
Project and Structured Finance
Treasury
Islamic Financial Services
Others including Head office

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 2013** | **Trade Finance** | **Project Finance** | **Treasury** | **Islamic** | **Others** | **Total** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | £000 | £000 | £000 | £000 |
| **Profit and loss account** | | | | | | |
| Net interest income | 21,697 | 2,877 | 7,818 | 5,957 | 2,163 | 40,512 |
| Net fees and commission | 32,472 | 1,449 | (15) | 6,487 | (924) | 39,469 |
| Other income | (2,522) | (336) | 524 | 76 | 2,632 | 374 |
| Total operating income | 51,647 | 3,990 | 8,327 | 12,520 | 3,871 | 80,354 |
| Administrative expenses | (19,256) | (2 672) | (2 351) | (2,442) | (14,311) | (41,032) |
| Provisions | (9,526) | (1,543) | | 605 | (437) | (10,901) |
| **Profit/ (loss) on ordinary activities before tax** | 22,865 | (225) | 5,976 | 10,683 | (10,877) | 28,421 |
| Tax charge on ordinary activities | - | - | - | - | (7,971) | (7,971) |
| **Segment profit/ (loss)** | 22,865 | (225) | 5,976 | 10,683 | (18,848) | 20,450 |
| **Operating assets** | 1,330,061 | 187,651 | 701,574 | 271,186 | 407,643 | 2,898,116 |
| **Operating liabilities** | 715,654 | 16,344 | 1,532,688 | 37,530 | 595,900 | 2,898,116 |

| Year ended 31st December 2012 | Trade Finance | Project Finance | Treasury | Islamic | Others | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Profit and loss account | | | | | | |
| Net interest income | 20,692 | 4,324 | 9,313 | 3,791 | 1,393 | 39,513 |
| Net fees and commission | 26,126 | 934 | (426) | 2,202 | (469) | 28,367 |
| Other income | 735 | - | (1,636) | 103 | 202 | (596) |
| Total operating income | 47,553 | 5,258 | 7,251 | 6,096 | 1,126 | 67,284 |
| Administrative expenses | (17 477) | (2,507) | (2,186) | (1,998) | (16,288) | (40,456) |
| Provisions | 1,359 | 3 | 3,679 | 767 | (846) | 4,962 |
| Profit on ordinary activities before tax | 31,435 | 2,754 | 8,744 | 4,865 | (16,008) | 31,790 |
| Tax charge on ordinary activities | - | - | - | - | (4,066) | (4,066) |
| Segment profit/ (loss) | 31,435 | 2,754 | 8,744 | 4,865 | (20,074) | 27,724 |
| Operating assets | 1,242,151 | 294,454 | 966,043 | 117,538 | 717,947 | 3,338,133 |
| Operating liabilities | 949,553 | 45,158 | 1,753,523 | 29,693 | 560,206 | 3,338,133 |

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

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| **Total Operating Income** | | |
| MENA | 25,969 | 20 268 |
| Europe | 46,953 | 40,416 |
| North and Latin America | 2,182 | 4 006 |
| Others | 5,250 | 2,594 |
| | 80,354 | 67,284 |

ABC International Bank plc incorporated in England
Address Arab Banking Corporation House
1 - 5 Moorgate, London, EC2R 6AB
ABCIB has branches in Paris, Frankfurt and Milan
and Representative offices in Istanbul, Moscow and Sweden