

Registration No: 2564490

**ABC International Bank plc**  
Annual Report  
**2016**

Connecting **MENA**  
To The World

 **Bank ABC**

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## **Our Mission**

### **To be the MENA Bank of choice for European clients.**

ABC International Bank plc (ABCIB) was established in 1991 as a wholly-owned UK subsidiary of Bahrain-based Bank ABC.

Today, as then, the principal thrust of ABCIB's strategy is to enhance Bank ABC Group's international reach and allow it to serve its clients better, with a view to increasing the flows of trade and investments between Europe and the Middle East and North Africa (MENA) region.

ABCIB's core business comprises Trade and Commodity finance, Islamic Financial Services and Treasury services.

ABCIB's aim is to provide its clients with distinctive products and services, creative solutions and operational excellence.

## **Directors' Report**

### **Performance of the Bank**

It is my privilege, on behalf of the Board of Directors, to present the 2016 Annual Report and Audited Financial Statements of ABC International Bank plc. Both the immediate, quantitative financial performance level and from qualitative, non-financial perspectives, ABCIB continued to perform positively, underpinned by robust fundamentals and clarity of strategic vision.

The Bank's total operating income improved in 2016, rising to £69.8 million (up nearly 12% from the £62.3 million reported in 2015), the second highest outturn in the Bank's UK operating history. Profit before tax remained strongly positive at £19.8 million, a healthy increase from the £17.9 million reported in 2015, despite increased staff costs following the strengthening of the platform initiated in 2015 and a rise in provisions.

When placed in the broader context of another difficult external operating environment, the Board believes this remains a creditable financial operating result overall. When the Bank's non-financial, or qualitative achievements in the year are further factored in, and recognition given to the continuing importance of the Bank's role within the wider Bank ABC group, then the performance in 2016 is a fundamentally reassuring one, and one that positions the Bank favourably for the future.

Once again, external conditions beyond the Bank's control combined to produce a less than benign business backdrop in 2016. Sluggish global and regional economic fundamentals, a lack of buoyancy in oil and commodity prices in general and poor growth in trade volumes in some of the Bank's core European and MENA markets continued to constrain business opportunities overall at the same time as making for a very competitive operating environment. Meanwhile, high levels of political risk associated with operating in the MENA region continued largely unabated during the year. However, the unanticipated political event surrounding the UK's mid-year referendum decision to leave the European Union (so-called Brexit) had a particularly significant impact, creating uncertainty, undermining market confidence and leading to an initially precipitous fall in the value of sterling. The impact was felt both at the macro Bank level, not least in terms of an added complexity in capital management; as well as at the performance level of the individual business streams. Nonetheless, ABCIB once again rose to the challenge presented by these difficult operating conditions and was able to generate improved revenues and profitability. Although initial market over-reaction has subsequently rebalanced itself somewhat and, indeed, there have been clear signs of an improvement in overall business activity from the third quarter of 2016 onwards, the potentially unhelpful nature of the near term operating environment cannot be completely dismissed.

Global Trade Finance, the main contributor to Bank revenues and profits, produced a reassuringly robust performance in the year, as a more intensified, focussed and discriminating approach to marketing and business generation both in the UK and throughout its European branches and Representative offices offset a general sluggishness in global and regional growth trends. Sterling's mid-year fall also provided some boost to UK exporters and a business pickup became apparent. Although remaining a net positive contributor to total

Bank operating revenues, the Islamic Financial Services division saw revenue declines, succumbing to confidence issues in the UK and the fallout from sterling's volatility. Nonetheless, the underlying trends in the main income-generating areas of Islamic Financial Services remain supportive and the business model continues to be sound. A more detailed presentation of the performance of the Bank's individual business streams is to be found in the Chief Executive's Report.

The Bank's day-to-day business activities continued to be well supported in terms of underlying liquidity, funding and overall capital strength. Over the year the Bank achieved an improvement in the overall level of bank and customer deposits, rising to a record £2.9 billion by year end, from the £2.1 billion reported in 2015. 2016 saw ongoing efforts to improve the quality of funding yielding positive results, with agreements to extend the tenor of deposits being achieved in key instances. Liquidity also remained strong and has been in full compliance with the new Basel III Liquidity Coverage Ratio at all times during the year. Since January 2017 the Bank has achieved compliance with the minimum Net Stable Funding Ratio (NSFR) of 100% which becomes effective 1<sup>st</sup> January 2018. Capital management issues proved demanding of both senior management time and professional skills in 2016, in part reflecting the impact of external conditions alluded to earlier, and the Board is pleased to be able to report that capital adequacy remained high and in excess of regulatory requirements throughout the period under review: the Bank's year end Capital Ratio stood at 21.5% and the Tier 1 Ratio at 19.2%, only slightly changed from the 22.9% and 20.4% respectively, reported at end-2015. Overall, the Bank's balance sheet remained robust throughout 2016 and of an appropriate size and strength for the satisfactory continuation of the Bank's activities and plans going forward.

In addition to the Bank's financial achievements set out above, ABCIB continued to make progress of a qualitative nature in other, non-financial areas during the year, not least in the Bank's risk management, control and compliance areas. With respect to the latter, 2016 saw the timely completion of the Senior Management Certification Regime, a requirement of the UK's regulatory authorities, as well as the introduction of cutting edge, automated transaction monitoring systems for KYC/AML purposes, fully integrated into the Bank's existing reporting infrastructures. In order to ensure an appropriate balance of staff skills in front, mid and back-office activities, the Bank saw an increase in overall permanent staff numbers to 246 at year end, from 224 at end-2015.

ABCIB has always been and continues to be an integral part of the wider Bank ABC group and is, in essence, the European 'face' of the Group, with all the responsibility that entails. In terms of trade finance it remains the centre of excellence for the group as a whole and has gained wide recognition as the financier of choice for European / MENA trade business. On a stand alone basis, however, ABCIB's financial performance and other achievements during the year do not always reflect the full scale of its activities and their significance to the continuing success of the Bank ABC group as a whole. The Chief Executive, in his Report and Business Review, has addressed this point further.

The Bank remains in a good state of financial health and continues to be well guided by its clarity of strategic purpose. Together with an enlarged business-generating capacity, supported by a strong credit and compliance culture and a skilled, professional staff with

extensive product and geographic knowledge, the Directors remain confident that the Bank is well placed to deal with the likely challenging operating environment in 2017, and look forward to a period of further profitable growth.

### **Risk Management Approach**

The Bank, in its day-to-day operations, is exposed to credit, liquidity, market and operational risk. A detailed analysis of the various types of risks is contained within the Corporate Governance and Risk Management Report section of this Annual Report.

The Bank's objectives with respect to risk management are to maintain a portfolio of sound and well-balanced credit risk assets, to ensure returns are commensurate with risk and to keep credit risk exposure to a permissible level relative to capital. A formal Risk Appetite Statement articulates the level and type of risk which ABCIB is willing to accept. The Bank manages its capital and liquidity risk in line with the framework outlined in the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). These documents and the Recovery & Resolution Plan (RRP) were significantly enhanced during the year. The Bank maintains capital and leverage ratios in excess of statutory minima at all times, whilst internal alerts warn management, and trigger action, whenever such ratios approach a prudential buffer range.

All aspects of credit risk are governed by and considered within a clear risk appetite and strong credit policy framework. Close management of market and liquidity risk ensures that all of ABCIB's obligations are met as and when they fall due and that market risk and position limits are respected at all times. Managing liquidity risk is central to the Bank's risk management framework and is managed on a daily basis, with senior management involvement, in order to ensure the availability at all times of sufficient financial resources for the Bank to operate within prudential and regulatory guidelines. The Bank's Liquidity Policy incorporates a funding gap management process, requires the Bank to maintain a buffer of high quality liquid assets and provides for a contingency funding plan and is considered by management to be in line with the rules of the UK's Prudential Regulatory Authority (PRA).

In 2016 the Operational Risk Framework was enhanced to include both conduct and non-conduct risks.

The Bank uses various market risk techniques and measurements to manage its investment and trading book by setting limits that are monitored on a daily basis. The Bank uses derivatives in order to reduce its exposure to market risks as part of its asset and liability management. This is achieved by entering into derivatives that hedge against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base.

### **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 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**

The Bank's statutory financial statements for the financial year ended 31st December 2016 and comparatives for 2015 were prepared under UK GAAP, including the Financial Reporting Standard 101 'Reduced Disclosure Framework' for qualifying entities applying EU-adopted IFRS.

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

ABCIB neither declared nor paid a dividend in 2016 (2015: nil).

None of the Directors had an interest in ABCIB shares during 2016, and no option to purchase shares has been granted to any Director. Full details of the Board of Directors are shown on pages 11 & 12.

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.

I wish to record my thanks once again to the management and staff of ABCIB in the UK and throughout its overseas offices for their unflagging hard work, dedication and professionalism, without which the Bank's achievements in 2016, both financial and non-financial, would not have been possible. I am also conscious of, and offer my further thanks to, the Board of Directors, our colleagues in the wider Bank ABC group and our loyal and committed shareholders for their support and guidance throughout the year.

Approved by the Board and authorised for issue on 17<sup>th</sup> February 2017.



SADDEK OMAR EL KABER  
CHAIRMAN

## STRATEGIC REPORT

The Directors are pleased to present their Strategic Report for ABCIB for the year ended 31st December 2016.

### Business Strategy

The Bank was formally established in 1991 as a niche financial intermediary whose guiding principle was to support, encourage and ultimately increase trade and investment flows between Europe and the MENA region. ABCIB has been unwavering in its advocacy of and commitment to this principle and over the years has gained widespread recognition as the specialist 'Bank of Choice' for European clients seeking to undertake business in the MENA region. In so doing it has enhanced both the international reach and depth of client service of the Bank ABC Group as a whole.

The Bank has developed a clear and focussed business strategy which, over time, has become fully embedded in the culture and operational ethos of the Bank. ABCIB has, at the same time, proven flexible and skilful in adapting its strategy to changing operating conditions, and to leveraging new opportunities as appropriate, without ever losing sight of its core guiding principle. Today, the Bank's strategic operations are defined by three, interdependent, business streams - Global Trade Finance, Islamic Financial Services and Treasury Operations - which are all fully integrated into and function within a sophisticated and supportive Risk Management and Compliance framework which fully adheres to regulatory requirements and embodies industry best practice.

Global Trade Finance remains the core of the Bank's operations and a centre of excellence for Bank ABC Group as a whole. Activities continue to be based on a proven and successful 'originate, structure, distribute' model. Business origination is strongly supported by the Bank's network of European branches, marketing and representative offices whose historically strong correspondent banking tradition is now complemented by a more focused approach to corporate business generation. As well as maintaining and deepening long-standing client relationships, there is a renewed emphasis on selectively expanding the Bank's corporate client portfolio, which ranges from niche exporters to large and iconic multinational corporations and commodity clients. By offering a wide range of both traditional and innovative trade finance products, Global Trade Finance has become a 'one stop shop' for European/MENA trade solutions, having the knowledge, skill sets and ability necessary to appropriately structure and individually tailor solutions to best serve its clients' needs, including pre- and post-financings of capital goods and commodity exports, insurance backed receivables financing and other structures. Distribution of trade finance assets originated by the Bank has become an increasingly valuable aspect of the trade finance business model. As well as an important income generator on its own account, it also allows the Bank to intermediate in clients' wider global trade finance business needs and can act as an important strategic tool for internal capital management purposes. The recent establishment of an enhanced Global Trade Debt Distribution desk at ABCIB is expected to reinforce the Bank's core role as a centre of excellence in trade finance operations for Bank ABC Group as a whole.



Islamic Financial Services continues to be an important business stream for the Bank, both as a generator of revenues as well as in terms of furthering the Bank's ongoing strategic aim of increasing investment flows between Europe and the MENA region. Accessing the growing market for the provision of Shariah compliant financial products in the UK and satisfying the appetite of Arab World investors for high quality assets based on Islamic structures has been key to the success of this business. An increasing focus on carefully selected commercial real estate development projects, typically in prime central London locations, has been driving business although other activities including, but not limited to, the provision of Islamic financial solutions for Turkish corporates and banks continue to grow.

Treasury Operations remains a vital third pillar of the Bank's operational business model and aims to secure adequate and stable funding for day-to-day operations whilst ensuring that the Bank remains at all times within regulatory and prudential liquidity guidelines. Whilst increasing prominence has also been given to Treasury's role in the Bank's capital management activities, renewed focus on cross-selling opportunities for treasury products will feature prominently in the future.

The Directors are of the opinion that the Bank's guiding principle remains fully appropriate for the current and likely near-term operating environment and that the Bank has developed and crafted a strategic and dynamic business model which is supportive of that principle and which provides a sound basis for successful future performance.

#### Review of the Business

The Bank saw total reported operating income rise by £7.5 million, to £69.8 million in 2016, and was able to report a profit before tax of £19.8 million and net profit of £16.2 million, after £17.9 million and £14.0 million respectively in 2015. The table below provides a summary of key financial and other performance indicators, whilst the Financial Highlights section which follows provides further financial and performance data.

	2016 £'000	2015 £'000	Change
Net interest income*	27,438	27,758	-1%
Fees and commission (net)*	40,145	32,051	25%
Total operating income	69,834	62,343	12%
Profit before tax	19,825	17,940	11%
Profit after tax	16,227	14,025	16%
Equity shareholders' funds	449,727	441,996	2%
Average number of employees	232	212	9%

\*Prior year comparatives have been updated to reflect current year presentation

The Bank's total asset base reached £3,690 million at end 2016, a £855 million increase, compared with the £2,835 million reported at 31st December 2015, largely reflecting an increase in our deposit base. The balance sheet remained strongly supported, with Bank and Customer Deposits increasing by £0.8 billion in the year to £2.9 billion, a reassuring sign of confidence in the Bank, whilst total shareholders' equity rose by £8 million to £450 million, after the £442 million reported in 2015.

ABCIB remained in full compliance with Basel III liquidity requirements throughout the year whilst capital adequacy remained high and above prudential norms, with the year end Capital Ratio standing at 21.5% and the Tier 1 ratio at 19.2%.

To support the growing operations of the Bank as a whole, 2016 saw a further increase in the number of permanent employees by some 10% to 246 at year end, reflecting new hires across the board including front, middle and back office functions in a move to achieve an optimum balance of staffing levels.

The Bank continues to devote considerable resources and gives high priority to, its Risk Management and Compliance functions, ensuring that the Bank at all times adheres to regulatory and statutory norms and adopts industry best practices. An awareness of risk issues at all levels is fully embedded within the Bank's culture and operational ethos. The principal risks faced by the Bank in its day-to-day operations remain largely unchanged, with credit and operational risk of greatest relevance with respect to the Bank's trade and Islamic finance business streams, whilst market risk is of less concern, with Treasury engaging in only limited activities. The Bank adopts a cautious approach to risk assessment overall and manages risk on a continuous basis, using appropriate mitigation techniques when deemed appropriate. Given the still evolving nature of some of the MENA regional markets in which ABCIB operates, management has given high priority to KYC and AML compliance issues, and 2016 has seen the introduction of new, market-leading automated systems which are fully integrated into the Bank's operational structures and IT systems. The Bank's specialist knowledge of the MENA region and its clear and highly responsible approach to associated risk and compliance issues continues to provide a high degree of confidence to its clients engaging in business activities in the region.

Whilst mindful of the risks and uncertainties of the near term political and economic operating environment, the Board remains fully confident that the Bank and its Senior Management have the necessary resources in terms of balance sheet strength and staff expertise as well as an appropriately robust risk and compliance framework, to generate further positive results in 2017 and beyond.

Approved by the Board and authorised for issue on 17<sup>th</sup> February 2017.



SADDEK OMAR EL KABER  
CHAIRMAN

## **Board of Directors of ABC International Bank**

### **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.) 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 9<sup>th</sup> May 2013. Mr. El Kaber has more than 35 years of experience in international finance and banking.

### **Mr. Abdallah Al Humaidhi RNC\* 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, and 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 11<sup>th</sup> March 2011. Mr. Al Humaidhi has more than 30 years of experience in the banking and investment sectors.

### **Dr. Yousef Al Awadi, KBE AC BRC\* CGC # †**

#### *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 ABC Egypt, a Director of Fidelity International Funds and a Director of Kuwait Energy plc, Jersey. Dr. Al Awadi has formerly served as a member of Goldman Sachs International Advisory Board and the Higher Planning Council in Kuwait, in addition to board directorships of many public and private sector entities in Kuwait, MENA and OECD countries. He joined the Board of ABC International Bank plc on 17<sup>th</sup> May 2013 and has more than 38 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 RNC 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.

### **Andrew Neden AC\* BRC RNC CGC # †**

#### *Director*

Mr Neden was appointed as an Independent Director of ABC International Bank Plc in 2016 and also serves as Chairman of the Audit Committee. Mr Neden is a Chartered Accountant with over 30 years' experience in financial services in the UK and overseas. Mr Neden spent a number of years running KPMG's UK financial sector transaction services team and was the global chief operating officer for KPMG's financial services business. Mr Neden is also an Independent Director of The Nottingham Building Society and The Wesleyan Assurance Society.

**Dr. Florence Eid-Oakden** AC BRC RNC CGC CAC # 1*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 Board of the Arab Bankers Association of North America in New York, sits on the Advisory Board of the Al Faisal University College of Business in Saudi Arabia, and has been a Trustee of the American University in Paris and a Director of Shuaa Capital in Dubai. Dr. Eid was appointed to the Board of ABC International Bank plc in 2010 and the Board of Bank ABC Jordan in 2015.

**Dr. Khaled Kawan** AC BRC # 00*Director*

Dr. Kawan is the Group Chief Executive Officer of Arab Banking Corporation (B.S.C.). Previously, Dr. Kawan was Group Legal Counsel until December 2009, when he was appointed Deputy Chief Executive of ABC (B.S.C.). Dr. Kawan joined the Board of ABC International Bank plc on 28th May 2013. He also represents the ABC Group as Chairman on the Boards of ABC Islamic Bank E.C. and Arab Banking Corporation Egypt S.A.E.

**Angus MacLennan** AC RNC BRC CGC\* # 1*Director*

Mr. MacLennan was appointed as Independent Director of ABC International Bank plc in 2010. Mr. MacLennan is Chairman of The Eve Appeal and Connolly Accountants & Business Advisors, Director of AngMac Ltd and Non-Executive Director of Vocalink Holdings plc. Mr. MacLennan has a banking career that spans over 35 years.

**Paul Jennings** 5*Managing Director & CEO*

Mr. Jennings is CEO of ABC International Bank plc and was appointed as Managing Director in October 2015. Previously, Mr Jennings was Deputy CEO of ABC International Bank plc and Group Head, Global Trade Finance of Arab Banking Corporation (B.S.C.). Mr Jennings joined ABC International Bank plc in September 1999 and has over 35 years' experience in the International Wholesale Banking sector. He also represents Bank ABC as a Director of Banco ABC Brasil S.A.

**Rajeev Adrian** 5*Chief Financial Officer & Deputy CEO*

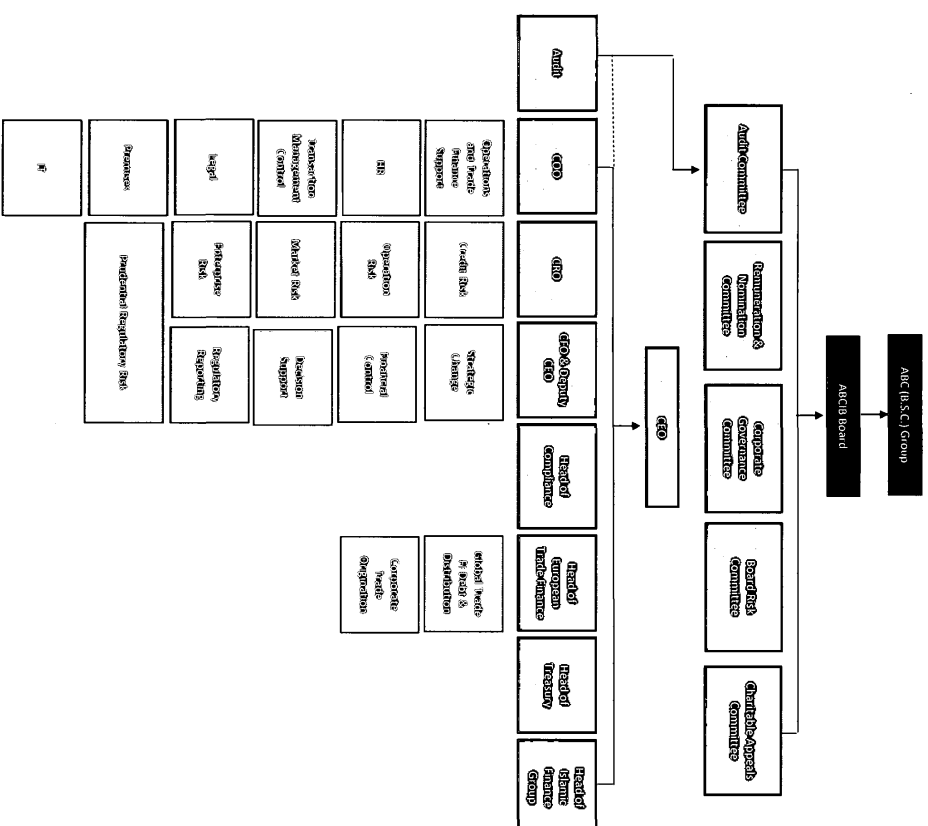
Mr. Adrian joined ABC International Bank plc in October 2014 as Chief Financial Officer and was appointed Deputy CEO in February 2016. Previously he worked at the Royal Bank of Scotland (RBS) where he held various positions over a 13 year period, including senior strategist, Chief Administration Officer of Global Banking and Markets, and, most recently, CFO of International Banking. Prior to RBS, Mr. Adrian served at Lehman Brothers London as a Strategist of the European Corporate Strategy Division, Product Controller of the Investment Banking Division and prior to Lehman he was in Australia working in audit and forensic investigations.

**David Holden***Company Secretary, Barrister-at-Law (Lincoln's Inn)*

Mr. Holden joined the Legal department of ABC International Bank plc 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
RNC	Member of the Remuneration & Nomination Committee
CGC	Member of the Corporate Governance Committee
CAC	Member of the Charitable Appeals Committee
*	Chairman of Board Committee
#	Non-Executive
\$	Executive
i	Independent Director
∞	Non-independent Director

## Organisational structure



## **Senior Management**

### **Mr. Brendan Mackinney**

#### *Chief Operating Officer*

Mr. Mackinney joined ABC International Bank in December 2015 as Chief Operating Officer. He joined from Standard Chartered where he was Chief Operating Officer for the Private Bank. Mr. Mackinney has over 25 years banking experience working at Standard Chartered, J.P. Morgan and Bear Stearns in a variety of cross functional positions.

### **Sedjwick Joseph**

#### *Chief Risk Officer*

Mr. Joseph joined ABC International Bank plc in Dec 2015 as Chief Risk Officer. Mr Joseph has over 20 years of banking experience across Credit, Enterprise Risk Management, Portfolio Management and Analytics. Previously he was the Chief Risk Officer for Habib Bank AG Zurich (HBZ). Prior to HBZ, Mr Joseph was with Barclays and Standard Chartered Bank holding both country and regional roles. He has wide experience across multiple geographies of Asia, Middle East, Europe, US and Africa.

### **Paul Judge**

#### *Head of Treasury*

Mr. Judge joined ABC International Bank plc in 2000. He has extensive Treasury experience and prior to joining the bank was a Senior Dealer at Gulf International Bank and a Money Market and Derivatives Dealer at Credit Lyonnais, both based in London. Mr. Judge has served as ABCIB's Chief Dealer and was subsequently promoted to Head of Treasury in April 2008, where he has overseen the bank's dealing activities for the whole of Europe.

### **Alex Irving**

#### *Head of Compliance*

Mr. Irving joined ABC International Bank plc as the Head of Compliance & MLRO in December 2014. He has over 30 years of experience in International and Domestic banking covering a wide range of roles and responsibilities including relationship management, risk, credit, audit and compliance with JPMorgan, BNP Paribas, HSBC and the Bank of Scotland. Prior to joining the Bank he worked for RBS as the Head of Compliance for the Global Transaction Banking Services division, and before that he had a similar position in ABN AMRO.

### **Louise Fitton**

#### *Head of Internal Audit*

Mrs. Fitton joined ABC International Bank plc in August 2014 as Head of Internal Audit. Mrs. Fitton joined us from RBS where she held the position of Audit Director for their International Banking division. During her career at RBS, she gained a wealth of experience in wholesale banking and knowledge of our markets from her various audit roles. Prior to joining RBS, Mrs. Fitton worked in the audit function of Lloyds Banking Group.

**Geoff Sharp***Head of European Trade Finance*

Mr. Sharp initially joined the bank in August 2015 for which he maintains responsibility of Global Trade Debt and Distribution. Prior to this he was Managing Director for HSBC Global Banking & Markets and held senior roles at WestLB AG, WestMerchant Bank and ANZ where he successfully led international teams to manage large Trade Finance portfolios. Mr. Sharp has over 35 years' experience in the international banking industry and has worked in UK, USA and Australia.

**Faisal Alshowaikh***Head of Islamic Financial Services*

Mr. Alshowaikh joined the Bank in April 2009. He has over 32 years' experience in Banking & Finance in the Middle East, South East Asia and the UK with regional and international institutions. Key positions previously held included CEO of Asian Finance Bank (a subsidiary of QIB), which he had set up in Malaysia in 2006 and Board member of Bank ABC Islamic until 2012.



## Financial Highlights

	2016	2015	2014	2013	2012
<b>Earnings - £'000</b>					
Net interest income	27,438	27,758	37,343	40,512	39,513
Net fees and commissions	40,145	32,051	29,540	39,469	28,367
Total operating income	69,834	62,343	69,364	80,354	67,284
Profit before provision and tax	22,223	19,056	28,935	39,322	26,828
Impairment provision - net	(2,396)	(1,116)	1,546	(10,901)	4,962
Profit before tax	19,825	17,940	30,481	28,421	31,790
Net profit for the year	16,227	14,025	23,684	20,450	27,724
<b>Financial Position £'million</b>					
Total assets	3,690	2,835	2,697	2,901	3,338
Loans and advances to customers	910	983	1,171	1,060	1,492
Loans and advances to banks	2,350	1,520	1,086	1,280	955
Financial investments - available for sale	321	219	260	349	363
Shareholders' funds	450	442	427	407	386
<b>Ratios (%)</b>					
<b>Profitability</b>					
Cost : Income ratio	68%	69%	58%	51%	60%
Net profit as % of average shareholders' funds	3.6%	3.2%	5.7%	5.2%	7.9%
Net profit as % of average assets	0.5%	0.5%	0.8%	0.7%	0.9%
<b>Capital</b>					
Risk weighted assets (£'million)	2,342	2,152	1,914	2,098	2,521
Capital base (£'million)	506	493	423	420	417
Risk asset ratio - Tier 1	19.2%	20.4%	22.0%	19.4%	15.5%
Risk asset ratio - Total	21.5%	22.9%	22.1%	20.0%	16.5%
Average shareholders' funds as % of average total assets	13.7%	15.7%	14.9%	12.7%	11.4%
Loans and advances to customers as a multiple of shareholders' funds (times)	2.0	2.2	2.7	2.6	3.9
Total debt as a multiple of shareholders' funds (times)	6.4	4.7	4.6	5.5	7.0
Term borrowing (including Subordinated debt) as a multiple of shareholders' funds (times)	0.7	0.7	0.6	0.4	0.5
<b>Assets</b>					
Loans and advances to customers as % of total assets	24.7%	34.7%	43.4%	36.5%	44.7%
Financial investments - available for sale as % of total assets	8.7%	7.7%	9.6%	12.0%	10.9%
Impaired loans as % of gross loans	0.7%	0.8%	0.9%	1.3%	0.3%
Loan loss provision (including CIP) as % of impaired loans	121.6%	105.8%	93.5%	67.9%	118.9%
Loan loss provision as % of gross loans	0.8%	0.8%	0.9%	0.9%	0.3%
<b>Liquidity</b>					
Deposits to loan cover (times)	3.2	2.1	1.7	2.1	1.8
<b>Capitalisation £'million</b>					
Authorised	300.0	300.0	300.0	300.0	300.0
Issued, Subscribed and fully paid-up	212.3	212.3	212.3	212.3	212.3

# **CHIEF EXECUTIVE OFFICER'S REPORT & BUSINESS REVIEW**

## **Overview**

ABCIB has made real progress in many areas during 2016, across business product lines and geographies as well as in terms of management, structure, governance, risk management and compliance. Achievements have been both financial (quantitative) and non-financial (qualitative) in nature. All, however, have, in one way or another, directly and positively supported not only the current performance and underlying financial strength of the Bank but also its strategic positioning for the future.

ABCIB's longstanding mission to increase trade and investment flows between Europe and the MENA region remains unchanged, as does its commitment to an excellence of client service and to building an ever closer and mutually beneficial rapport with the wider Bank ABC group.

The difficult external operating environment in 2016, referred to in the Directors' Report, has impacted both the Bank as a whole and each of its core business streams. The reported financial results, however, can lead to a material under appreciation of the real performance levels of the business units and, by implication, at a Bank level, undervalue both the physical extent of ABCIB operations and its overall financial contribution to Bank ABC group performance. Attention is drawn to this, as and where appropriate in the commentary which follows.

The year has been an important one for the Bank, marking the first full year of operations under the new senior management structure and the internal reorganisations introduced in 2015. These changes have increasingly gained traction during the year and are already yielding tangible benefits both to the Bank's day-to-day operations and in terms of its future business potential. A conscious desire to enhance operational conduct and organisational culture has underpinned many of these changes which have re-asserted senior management responsibility and accountability and improved overall governance and effectiveness, setting the highest of standards for the conduct of Bank staff at all levels and in all areas.

As well as continuing to expand and improve its risk management, control and compliance areas, which have helped to deepen the confidence and trust of its clients, 2016 also saw major initiatives in business generation activities, including approval for the establishment of a Global Trade Debt and Distribution desk. An additional 22 permanent employees were recruited during the year, supporting the Bank across all its activities.

## **Trade Finance**

Global Trade Finance (GTF) went from strength to strength during the year, notwithstanding the less than benign operating environment. GTF operating income booked at ABCIB rebounded just over 28%, contributing £46.5 million, equivalent to almost 67% of the Bank's total reported operating income in the year. On the basis of these figures alone the significance of this business stream remains beyond question. However, the real value of ABCIB's Global Trade Finance franchise to the wider Bank ABC group is not necessarily always

fully captured by these headline financials. In qualitative terms ABCIB's recognised trade finance expertise is fully available to all Bank ABC units whilst ABCIB-generated trade finance business provides leads and cross-selling opportunities to other entities within the Bank ABC group. ABCIB headline results also underestimate both the volume and earnings contributions of, for example, those assets which might be originally sourced by ABCIB but which, perhaps for capital management efficiency reasons, are distributed to and booked in entities in the wider Bank ABC group or, indeed, sold outright to external investor counterparties.

GTF continues to base its European and MENA focused operations on a highly successful 'originate, structure and distribute' model, providing innovative and tailor made solutions to clients' trade finance needs. Whether this be through traditional documentary letters of credit, contract bonding, Export Credit Agency (ECA) facilities, private insurance market products, forfaiting, commodity or receivables financing, the Bank has the required skill set and professional expertise to get the business done.

Against a still sluggish global growth environment, exacerbated by low commodity prices, GTF's strong performance in the year is especially commendable. The reorganisation and sharper business orientation of the Bank's overseas offices has yielded positive results, with over 50 new corporate clients added in 2016, including some iconic, globally recognised business names and brands.

ABCIB continues to be active in countries which are regarded as politically and economically challenging – not least in traditionally important North African markets – but the Bank remains confident that it has appropriate due diligence and compliance infrastructures in place to support the continuation of business in these countries. Of particular note was the decision, mid year, to re-energise and expand the operations of the Bank's Libya desk, particularly, but not exclusively from a trade finance perspective. Whilst the restoration to health of the Libyan economy and stabilisation of politics and society is inevitably a long-term process, the depth of ABCIB's understanding of the needs of its Libyan clients and their European business partners, together with the ongoing support of the Bank's core Libyan deposit holders and ultimate shareholders, makes this development a strategically timely one.

During the year, final internal approvals were given for the operation of an enhanced Global Trade Debt Distribution (GTDD) desk. GTDD is integral to ABCIB's Trade Finance Business model and is responsible for Trade Distribution activities of the Bank. In 2016 GTDD targeted many new investors thereby increasing its sales activity to deliver record sales. The latest development builds upon and enlarges the existing infrastructure for such operations, elevating it to a higher level in terms of its potential direct contribution to revenues and its value as a tool for effective capital management. Moreover, although based in and managed from ABCIB London, it will spearhead a Bank ABC group wide initiative, extended to other group locations in due course.

ABCIB currently manages a legacy portfolio of Project and Structured Finance assets which are in run-off mode.

## **Islamic Financial Services**

Islamic Financial Services (IFS) remains the Bank's second largest income earning business stream and a core strategic operation. IFS provides a wide range of Shariah-compliant financial products, covering real estate, corporate, trade and treasury operations to the Bank's extensive European and MENA client base.

In recent years IFS has made notable inroads into the market for the provision of Shariah-compliant finance for residential and commercial real estate developments in the UK and this is currently its main area of operations. With a strategic focus on quality, prime central locations in the capital, IFS has gained a high reputation for its ability to originate, structure and deliver its real estate offerings, particularly among Arab World investors. IFS also continues to actively provide and promote Islamic financing solutions to the Bank's Turkish corporate clients, in close consultation and cooperation with ABCIB's Istanbul office, and works closely with Bank ABC in Bahrain to, amongst other things, provide Shariah-compliant treasury products.

Headline results for IFS in 2016 remain positive, albeit operating income dipped in the year to £14.8 million from £18.8 million in 2015. However, this is neither an accurate reflection of the division's current underlying strength nor, indeed, future potential. With respect to real estate operations, overall activity levels and transaction volumes declined in 2016, largely reflecting highly specific developments in the UK. Changes to the Stamp Duty Land Tax (SDLT) regime in the March 2016 Budget had initial dampening effects on activity, but over time the impact of this is expected to diminish. More significantly, the Brexit referendum result in June 2016 caught markets largely unawares, leading to high levels of uncertainty and sharp falls in confidence, including among the Bank's Arab World investor base. This saw, at worst, the outright abandonment of some planned real estate developments and, at best, a slowdown in projects under consideration or due for completion. Consequently some income that was originally forecast to be booked in 2016 is now likely to be realised in 2017.

The overall real estate business model developed by IFS remains sound. Quality opportunities in prime, central London locations will increasingly benefit from a 'scarcity' premium and are expected to retain their traditional attractiveness, particularly among Arab World investors, whilst the current lower value of sterling seems likely to boost near term appetite from US dollar based investors. Whilst some further confidence issues cannot be ruled out, in particular given the still uncertain nature of the whole Brexit process, IFS retains all the skill sets and close client contacts necessary to successfully build upon its current leading role as a UK provider of Shariah-compliant real estate finance. Looking forward, there are proposals under consideration to widen the applicability of the IFS real estate model, utilising more conventional financing techniques.

## **Treasury**

ABCIB Treasury retains a pivotal position in the day-to-day functioning of the Bank. Its primary role continues to be that of managing the Bank's overall liquidity and funding positions in order to best underpin commercial operations whilst always remaining fully compliant with prudential and regulatory requirements. Liquidity is now managed continuously under the

Basel III Liquidity Coverage Ratio (LCR) principles and any excess liquidity is lent directly into the money markets.

Treasury is increasingly focused on stability of funding, not least in terms of expanding and improving the quality, including tenor, of the Bank's deposit base and it made further material advances in this area during 2016.

ABCIB maintains close contact and cooperation with the Bahrain Treasury team, seeking to exploit cross-selling opportunities as they arise and better serve the Bank's European and MENA client base.

Treasury continued to contribute positively to the Bank's earnings overall with reported operating income of £5.8 million, up from £4.2 million in 2015. A steepening of the USD interest rate curve has boosted money market earnings during the year. That Treasury was able at all times to fully and satisfactorily manage the Bank's liquidity and funding and provide valuable assistance in ensuring compliance with regulatory capital requirements at a time of extraordinary sterling exchange rate volatility on the back of the Brexit vote represents an achievement of the highest order and one that deserves to be widely recognised.

During the year Treasury also made considerable progress towards compliance with Basel III Net Stable Funding Ratio (NSFR) requirements and is well on the way to becoming fully compliant far in advance of the 1st January 2018 deadline.

Looking forward, Treasury is likely to continue to face a low interest rate environment whilst further Brexit related exchange rate volatility cannot be ruled out. In 2017 further efforts will be made to expand sales of treasury products and in this regard the reorganisation of the Bank's European branch network, with a stronger business leadership and corporate focus will provide a natural springboard for sales growth.

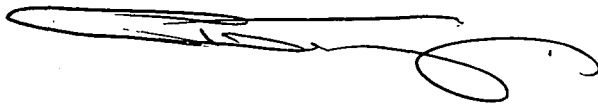
### **The Year Ahead**

Operating conditions in our core European and MENA markets will remain difficult in 2017 and for the foreseeable future. Political event risk will be weighted to the downside in the near term whilst any improvement in economic fundamentals is likely to be weak and far from assured. However, not only is the Bank increasingly better positioned to face such challenges, but it is also increasingly better placed to selectively source, assess and undertake business opportunities as they arise.

The Bank is determined to re-emphasise its core franchise of increasing trade and investment flows, on both conventional and Islamic bases, between Europe and the MENA region in 2017, building upon its acknowledged expertise and market leadership positions. The Bank has confidence that it is handling markets and products to a high standard that the regulators would expect to see. The Bank will continue to build its close rapport with and seek to explore synergies and reciprocities with the wider Bank ABC group wherever possible and 2017 will see ABCIB contribute to group development as it expands its own initiatives for Global Trade Debt and Distribution to the wider Bank ABC network.

It remains for me to express my gratitude to all ABCIB's staff, both in the UK and throughout our overseas branches and offices for their unstinting support, professionalism and sheer hard work during the year. Standards of service and enthusiasm to get business done have remained high, contributing significantly to the financial and non-financial achievements of the Bank. My thanks also go to our key stakeholders whose loyal support and commitment to the long-term success of the Bank remains undiminished.

On a final note, and on behalf of the whole Bank, it is my very great pleasure to congratulate our Chairman of the Board of Directors, H.E. Mr. Saddek Omar El Kaber, on receipt of the Arab Bankers' Association 2016 Distinguished Service Award.

A handwritten signature in black ink, appearing to read 'Paul Jennings', with a large, stylized flourish at the end.

PAUL JENNINGS  
CHIEF EXECUTIVE OFFICER

## **Corporate Governance and Risk Management**

### **THE BOARD OF DIRECTORS**

The Board is responsible for setting the Bank's objectives, including a sustainable business model and a clear, consistent and prudent strategy for the Bank, taking into account the Bank's long term financial interests and solvency, ensuring a proper balance between short-term objectives and the achievement of long-term value. The Board also sets the values and standards of the Bank. 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 and prudently 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 Corporate Governance Committee. The Board met on five occasions during 2016.

### **GOVERNANCE COMMITTEES**

The Board has five committees, the Board Risk Committee, the Audit Committee, the Remuneration & Nomination Committee, the Corporate Governance Committee and the Charitable Appeals Committee, which are described in more detail below.

The Management Committee ("MANCOM") is the highest-level management committee of ABCIB, reporting through the Chief Executive Officer to the Board of Directors. The Assets and Liabilities Committee ("ALCO"), the Risk Management Committee ("RMC"), the Compliance & Financial Crime Committee ("CFCC") and the Operating Committee ("OC") are the principal committees reporting to MANCOM.

### **BOARD RISK COMMITTEE**

The Board Risk Committee ("BRC") is chaired by Dr. Yousef Al Awadi and meets at least four times per year. It 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. Andrew Neden. 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 Bank ABC Group Audit and external specialists.

## **REMUNERATION & NOMINATION COMMITTEE**

The Remuneration & Nomination Committee is chaired by Mr. Abdullah Al-Humaidhi, who is also Chairman of the Compensation Committee of the parent Bank, Bank ABC. The Committee meets at least four times a year to review the Bank's compensation policy and the overall remuneration of ABCIB's senior managers. The Committee exercises 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. The Committee also reviews all proposals for nominations to the Board and to the office of CEO and Company Secretary.

## **CORPORATE GOVERNANCE COMMITTEE**

The Corporate Governance Committee meets at least once a year and is chaired by Mr. Angus MacLennan. The primary purpose of the Committee is to assist the Board with monitoring and evaluating ABCIB's compliance with its corporate governance policies and requirements. Its responsibilities also include assessing the adequacy of its policies regarding corporate governance; reviewing the appropriateness of the size of the Board and determining criteria for the designation of its independent Directors as well as overseeing the implementation of regulatory projects; reviewing the process of Board performance self-assessment; and reviewing questions of Directors' conflict of interest.

## **CHARITABLE APPEALS COMMITTEE**

The Charitable Appeals Committee is chaired by Mr. Hilal Al-Mutairi and meets at least once a year. It sets the budget and objectives for the making of charitable donations by ABCIB and approves individual donations on an annual basis. The Committee also ensures that the relevant due diligence is undertaken in relation to this activity.



## **RISK MANAGEMENT**

The Bank has sound risk governance in place, with clearly identified roles and responsibilities for risk management and control.

The Board is responsible for overall risk appetite and portfolio limits for the Bank. The risk assessment and management oversight performed by the Board considers evolving best practices and is intended to conform to statutory requirements. The Board is supported by the Board Risk Committee, which monitors and oversees the risks of the Bank.

All areas of risk are overseen by the ABCIB Chief Risk Officer (“CRO”), who reports to the ABCIB CEO and the Chair of the ABCIB Board Risk Committee. There is also a functional reporting line to the Bank ABC Group Chief Credit & Risk Officer.

## **CREDIT RISK**

Credit risk is managed by the ABCIB Credit Committee (“IBCC”), which is the main credit risk decision-making forum of ABCIB. IBCC has the following roles and responsibilities:

- Review and decision Credit Proposals in line with its delegated authorities.
- Review and approve Credit Impairment Provisions - both Specific and Collective.
- Review and recommend ABCIB Credit Policy.
- Review and approve ABCIB Credit Procedures.
- Credit Portfolio Reviews.
- Review of Credit Resources and Infrastructure

The first level of protection against credit risk is through the counterparty, country and industry and other risk threshold limits. Credit limits are prudent, and the Bank uses standard mitigation and credit control practices.

Relationship managers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks. The credit unit is responsible for independent review of the all the clients, maintaining and recommending changes to the credit policy and procedures, credit portfolio reviews and review of the non-performing book and provisions.

The quality of the credit portfolio is good with the non-performing book constituting only 0.69% (2015: 0.79%) of the total exposure. The specific provisions against the non-performing exposure is in excess of 95% (2015: 90%) representing good coverage.

In addition, ABCIB maintains a collective impairment provision, this is a general provision maintained for the credit portfolio for losses yet to be individually identified. The provision is calculated using an expected loss model for all on balance sheet exposures, it is run each month end with the provision adjusted for any material movement. The collective impairment provision against the non-performing exposure is in excess of 26% (2015: 16%).

## **MARKET RISK AND OTHER RISK**

The Bank uses various market risk techniques and measurements to manage its investment and trading book by setting limits that are monitored on a daily basis by the Head of Market Risk & Head of Treasury. The Bank uses the Historical Value at risk "VaR" as one of the measurements with 99% confidence level and one day holding period where positions are re-valued on a daily basis using historical market data. The Bank uses the Basis Point Value "BPV" technique to measure and monitor the banking book sensitivity to interest rates, which are monitored daily at the bank level as well as by currencies against a set of limits.

The Bank has a small Trading book for spot and forward foreign exchange markets, the trading for which is within a modest VaR limit and other market risk parameters.

The Bank uses derivatives in order to reduce its exposure to market risks as part of its asset and liability management. This is achieved by entering into derivatives that hedge against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base. Forward rate agreements, 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.

Market Risk and other risks are reviewed in the ALCO.

## **OPERATIONAL RISK**

In 2016 the Operational Risk Framework was enhanced to include both conduct and non-conduct risks. ABCIB is structured using the three lines of defence model with an Operational Risk Management team in place and Operational Risk Champions embedded within each core business unit and Support function. There are a number of tools which are used to manage and monitor the risks, with the key tools being:

- The recording and reporting of Operational Risk Events (ORE's)
- Key Risk Indicators (KRI's)
- Risk Control Self-Assessments (RCSA's)
- Risk Register
- Scenario Analysis & Stress Testing
- Management information and reporting

All of these tools/processes undergo a detailed review and challenge process led by the Operational Risk team.

Governance is achieved by a formal committee structure with an ABCIB Operational Risk Committee (ORCO) which meets every two months and which is attended by the senior managers of each core business and support function. The ORCO reports into the ABCIB Risk Management Committee.

## **ENTERPRISE RISK MANAGEMENT**

Enterprise Risk Management (ERM) was put in place in June 2016. The primary function of ERM is to facilitate management review & oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and other review & escalation processes. The unit

also provides appropriate support to CRO for effective Risk oversight and management. The ERM unit maintains an oversight over Risk Appetite compliance, and facilitates review & recommendation of the Risk Appetite in line with the risk capacity, business plan, strategic intent and regulatory thresholds. ERM also maintains and updates the Enterprise Risk Register to capture all key Risks applicable to ABCIB to allow management to prioritise and mitigate Risk as appropriate.

ERM also facilitates the requirements of the Risk Management Committee (RMC) and the Board Risk Committee (BRC) meetings, ensuring timely submission of agenda items, tracking of action items, timely presentation of key items for approval / review, collation of the MI Packs.

## **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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 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.

## **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 2016 which comprise the Income statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 38. 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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 28, 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 2016 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, based on the work undertaken in the course of the audit:

- ▶ 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.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

*ERNST & YOUNG LLP*

Manprit Dosanjh (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor

17th February 2017  
London

### **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.

For the year ended 31st December 2016

# INCOME STATEMENT

For the year ended 31st December 2016

	Notes	2016 £000	2015 £000
Interest and similar income *	2	48,630	41,868
Interest and similar expense	2	(21,191)	(14,110)
<b>Net interest and similar income</b>	3	<b>27,439</b>	<b>27,758</b>
Fees and commissions income *	3	49,773	39,520
Fees and commissions expense	3	(9,627)	(7,469)
Net trading income	34	128	229
Other operating income	4	2,123	2,305
		<b>42,397</b>	<b>34,585</b>
Total operating income		<b>69,836</b>	<b>62,343</b>
General and administrative expenses	5	(47,613)	(43,287)
Impairment (loss)/ gain	6	(2,396)	(1,116)
		<b>(50,009)</b>	<b>(44,403)</b>
<b>Profit before tax</b>	7	<b>19,827</b>	<b>17,940</b>
Taxation	8	(3,600)	(3,915)
<b>Profit for the year attributable to owners</b>		<b>16,227</b>	<b>14,025</b>

The notes on pages 35 to 60 are an integral part of the financial statements.

\* Prior year comparatives have been updated to reflect current year presentation, see note 2 and 3.

**ABC International Bank plc**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31st December 2016**

	Notes	2016 £000	2015 £000
Total comprehensive income for the year attributable to owners		<b>16,227</b>	14,025
<b>Items that cannot be reclassified to income statement</b>			
Foreign exchange movement		<b>28</b>	(67)
Actuarial profit/ (loss) recognised on defined benefit pension scheme	38	<b>(10,529)</b>	326
Deferred tax credit relating to pension schemes		<b>2,001</b>	380
<b>Items that can be reclassified to income statement</b>			
Change in fair value of available for sale investments and loans and advances		<b>4</b>	38
<b>Total comprehensive income for the year attributable to owners</b>		<b>7,731</b>	<b>14,702</b>



	Notes	2016 £000	2015 £000
<b>Assets</b>			
Cash and cash equivalents		26,269	83,226
Financial investments - available-for-sale	14	321,055	219,030
Loans and advances to banks	10	2,350,215	1,519,663
Loans and advances to customers	11	909,592	983,414
Derivative financial assets	16	16,438	1,843
Tangible fixed assets	17	40,290	2,113
Current Tax asset		315	1,493
Deferred tax asset	18	4,119	3,154
Prepayments, accrued income and other debtors	19	21,214	20,579
<b>Total assets</b>		<b>3,689,507</b>	<b>2,834,515</b>
<b>Liabilities</b>			
Deposits from banks	20	2,599,892	1,824,418
Customer deposits	21	267,883	235,152
Derivative financial liabilities	22	1,720	5,604
Other liabilities, accruals and deferred income	23	22,691	22,997
Current tax liability		1,475	185
Pension scheme liability	38	18,086	8,581
Term borrowing	24	278,033	245,582
Subordinated liabilities	25	50,000	50,000
		<b>3,239,780</b>	<b>2,392,519</b>
Share capital	26	212,296	212,296
Retained earnings		237,409	229,682
Available for sale reserve		22	18
<b>Total equity</b>		<b>449,727</b>	<b>441,996</b>
<b>Total equity and liabilities</b>		<b>3,689,507</b>	<b>2,834,515</b>

The directors approved and authorised the financial statements for issue on 17 February 2017.



**Saddek El Kaber**  
Chairman

ABC International Bank plc  
STATEMENT OF CHANGES IN EQUITY  
As at 31st December 2016

	Share Capital £000	Retained Earnings £000	Available- for-sale reserve £000	Total equity £000
Balance at 1st January 2015 as previously reported	212,296	215,018	(20)	427,294
Comprehensive income				
Profit for the year	-	14,025	-	14,025
Other comprehensive income	-	639	38	677
Balance at 31st December 2015	212,296	229,682	18	441,996

Balance at 1st January 2016 as previously reported	212,296	229,682	18	441,996
Comprehensive income				
Profit for the year	-	16,227	-	16,227
Other comprehensive income	-	(8,500)	4	(8,496)
Balance at 31st December 2016	212,296	237,409	22	449,727

## NOTES TO THE ACCOUNTS

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### 1. Accounting policies

#### 1.1 Reporting entity

ABC International Bank plc ("ABCIB") is incorporated in England and Wales. The address of ABCIB's registered office is 1 - 5 Moorgate, London EC2R 6AB.

#### 1.2 Basis of preparation

The financial statements of 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.

ABCIB is not required to prepare group accounts since it qualifies for the exemptions available under Section 401 of the Companies Act 2006. In addition, there is no requirement to prepare a statement of cash flows in accordance with Financial Reporting Standard 101.

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 2016. 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 Bank 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.

**ABCIB has taken advantage of the following disclosure exemptions under FRS 101:**

a) The requirement in paragraphs 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

i) paragraph 79 (a)(iv) of IAS 1;

ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

b) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 of IAS 1 Presentation of Financial Statements.

c) The requirements of IAS 7 Statement of Cash Flows.

i) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

d) The requirements of Paragraph 17 of IAS 24 Related Party Disclosures.

e) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

f) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

## NOTES TO THE ACCOUNTS

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### 1. Accounting policies (continued)

#### New and amended Standards and interpretations

##### Standards effective for the year

The accounting policies adopted are consistent with those used in the previous financial year. There were no standards effective but not yet implemented during the financial year.

ABCIB has availed itself of the disclosure exemption from the requirements of IAS 8.30 and IAS 8.31.

##### Standards issued but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were issued but not yet effective:

IFRS 9 Financial Instruments effective for annual periods beginning on or after 1st January 2018. The standard addresses the classification and measurement of financial assets.

IFRS 15 Revenue from Contracts with Customers effective for annual periods beginning on or after 1st January 2018. The standard outlines the principles an entity must apply to measure and recognise revenue.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

### 1.3 Significant accounting judgements and estimates

In the process of applying ABCIB's accounting policies, management has used its judgement 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 derived from observable market data from active markets and present value approaches where future cash flows are estimated and then discounted using risk-adjusted interest rates based on instruments with similar risk characteristics and currency.

#### 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 income statement. 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.

All on-balance sheet exposures are subject to collective impairment provisions. Standard & Poor equivalent rates: (1 - 4 = > BBB-, 5 - 6 = BB+ to BB- and 7 - 10 = < BB-).

The calculation methodology and factors for probability of default (PD) and Exposure At Default (EAD) are the ABC group standard figures used in calculating RAROC and other portfolio risk measures. Loss Given Default (LGD) is based on the Basel II Foundation IRB approach calculation factors as set out in Annex 3 of the Basel II Capital Accord.

## NOTES TO THE ACCOUNTS

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### 1. Accounting policies (continued)

#### 1.3 Significant accounting judgements and estimates

##### 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 which assumes annual growth to be flat. However, the deferred tax asset is expected to be recovered within two 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 38 for the assumptions used.

#### 1.4 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

ABCIB's financial statements are presented in GB Pounds which is its functional currency. 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 income statement.

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 income statement, any directly attributable incremental costs of acquisition or issue.

###### iii) Derivatives recorded at fair value through profit and loss

Derivatives include interest rate 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 'Net trading income'.

###### iv) Loans and advances banks and loans and advances to customers

'Loans and advances to 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 income statement. The losses arising from impairment are recognised in the income statement in 'Impairment gain/(loss)'.

## NOTES TO THE ACCOUNTS

### 1. Accounting policies (continued)

#### 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 income statement in 'Impairment' 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.

#### c. 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 higher of amortised cost or the present value of the expected payment under the guarantee.

Any increase in the liability related to financial guarantees is taken to the income statement in 'Impairment gain/ (loss)'. The premium received is recognised in the income statement in 'Fees and commission income' on a straight line basis over the term of the guarantee.

#### d. 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.

#### e. 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) Loans and advances to banks and loans and advances to customers

For loans and advances to 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 write-off is later recovered, the recovery is credited to 'Impairment'.

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.

Loans subject to forbearance are subject to our impairment policy. They are assessed individually taking into consideration such factors as collateral held, deterioration in country risk, industry, technological obsolescence as well as identified structural weakness or deterioration in cash flows. The result of this assessment, could result in the loan being declared impaired and specific provision made.

## NOTES TO THE ACCOUNTS

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### 1. Accounting policies (continued)

#### ii) Loans and advances to banks and loans and advances to customers which are past due

An exposure will be automatically deemed to be 'past due' if the interest or fees are past due for more than 90 days or principal payment is not made within 30 days of being due or the counterparty advises or indicates that it will be unable to meet the next interest or fee payment or bankruptcy, liquidation, administration has been filed against the customer or a loan is classified as 'Substandard', 'Doubtful' or 'Loss'.

Any accrued but unpaid interest or fees must be reversed against current income and credited to interest income receivable account.

#### iii) 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. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, ABCIB evaluates, among other factors, historical share price, movement and duration and extent to which the fair value of the investment is less than 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 income statement - is removed from equity and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the income statement, 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 except for when there is an existing quoted market value, market value must be taken into account in deciding the level of provision to be booked. On sale of debt instruments, any amounts relating to that disposal in Comprehensive Income is recycled through the income statement. Debt instruments classified as Available-for-Sale are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to ABCIB. 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 and similar income'. 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 income statement, the impairment loss is reversed through the income statement. Also, if in a subsequent year, the fair value of the debt instrument decreases, the decrease will be debited to the statement of comprehensive income.

#### f. Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when ABCIB has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when they are extinguished. That is, when all obligations are discharged, cancelled or have expired.

## NOTES TO THE ACCOUNTS

### 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 income statement.

#### g. 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.

#### h. 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. Fees received from Letters of credits and acceptances are recognised on cash basis. 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 over the life of the commitment on straight line basis.

##### iii) Dividend income

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

##### iv) Net trading income

Results include all gains and losses from foreign exchange gains and losses on financial assets and liabilities not at fair value through profit or loss and related interest rate products.

#### i. Subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement 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:

Freehold Building	- 35 years
Land	- Land is not depreciated
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

At each balance sheet date, the carrying values of fixed assets are reviewed for indications of impairment. If indications are present, these assets are subject to impairment review. The impairment review comprises comparison of the carrying amount of the asset with its recoverable amount; the higher of its net realisable value and its value in use. Net realisable value is the amount at which the asset can be sold at arm's length in an open market. The value in use is calculated by discounting the expected future cash flows from the asset's continued use at market-based discount rate on a pre-tax basis.

The carrying amount of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement immediately. A previously recognised impairment loss may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

The carrying amount can only be increased to the amount the asset would have been pre original impairment. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.



## NOTES TO THE ACCOUNTS (continued)

### 1. Accounting policies (continued)

#### k. Taxation

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where ABCIB operates and generates taxable income.

#### l. Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that

- Where the deferred tax relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would be treated either as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

#### m. Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank and in hand and balances with central banks of short-term nature.

#### n. 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.

#### o. 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 of 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 income statement.

## NOTES TO THE ACCOUNTS (continued)

### 1. Accounting policies (continued)

Actuarial gains and losses are recognised in full in the statement of comprehensive income 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 that reflects the full term structure of the Merrill Lynch nominal AA corporate spot yield curve), 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.

#### p. Short-term employee benefits

Short-term employee benefits such as salaries, paid absences and other benefits, are accounted for on an accrual basis over the period the employees have provided the services in the year. All expenses related to employee benefits are recognised in the income statement in staff costs which is part of operating income.

#### q. 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. Net interest and similar expense

	2016 £000	2015 £000
<b>Interest income</b>		
Loans and advances to banks	22,205	16,972
Loans and advances to customers	19,864	20,428
Derivative financial instruments	5,386	3,915
others	1,175	553
	<b>48,630</b>	<b>41,868</b>
<b>Interest expense</b>		
Deposits from banks	13,305	5,768
Customer deposits	816	568
Subordinated liabilities	1,895	4,176
Term borrowing	3,924	2,485
Others	1,251	1,113
	<b>21,191</b>	<b>14,110</b>

The comparative figures for interest income and fee & commission income have been updated to reflect the current year presentation. This has resulted in £6.96m of interest income being reclassified as fee and commission income to better reflect the nature of income earned in relation to assets previously transferred to another Group company.

## NOTES TO THE ACCOUNTS (continued)

### 3. Analysis of the profit and loss account by classification:

	2016					Total £000
	Trading	Loans and receivables	Available-for - sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	
	£000	£000	£000	£000	£000	
Interest and similar income	-	46,996	1,634	-	-	48,630
Interest and similar expense	-	-	-	(21,191)	-	(21,191)
<b>Net Interest and similar income</b>	-	46,996	1,634	(21,191)	-	27,439
Fees and commissions income	-	49,773	-	-	-	49,773
Fees and commissions expense	-	-	-	(9,627)	-	(9,627)
Net trading income	128	-	-	-	-	128
Other operating income	-	977	-	-	1,146	2,123
<b>Total operating income</b>	128	97,746	1,634	(30,818)	1,146	69,836

	2015					Total £000
	Trading	Loans and receivables	Available-for- sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	
	£000	£000	£000	£000	£000	
Interest and similar income	-	41,209	659	-	-	41,868
Interest and similar expense	-	-	-	(14,110)	-	(14,110)
<b>Net Interest and similar income</b>	-	41,209	659	(14,110)	-	27,758
Fees and commissions income	-	39,520	-	-	-	39,520
Fees and commissions expense	-	-	-	(7,469)	-	(7,469)
Net trading income	229	-	-	-	-	229
Other operating income	-	1,806	-	-	499	2,305
<b>Total operating income</b>	229	82,535	659	(21,579)	499	62,343

The comparative figures for interest income and fee & commission income have been updated to reflect the current year presentation. This has resulted in £6.96m of interest income being reclassified as fee and commission income to better reflect the nature of income earned in relation to assets previously transferred to another Group company.

### 4. Other operating income/ (expense)

	2016 £000	2015 £000
Rental income	274	478
Profit on sale of commercial assets	977	1,806
Other	872	21
	<b>2,123</b>	<b>2,305</b>

## NOTES TO THE ACCOUNTS (continued)

### 5. General and administrative expenses

	2016 £000	2015 £000
a) Staff costs:		
Salaries	27,023	21,774
Social security costs	3,745	3,298
Pension costs (note 38)		
- Defined contribution schemes	1,397	1,363
Redundancy cost	1,671	2,184
	33,836	28,619
Depreciation	763	304
Other administrative expenses	13,014	14,364
	47,613	43,287

	2016 Number	2015 Number
The average monthly number of employees (excluding Directors) during the year:		
Trade Finance	57	55
Islamic	8	7
Project Finance	1	3
Treasury	4	5
Head office and Support	162	142
	232	212

### b) Directors' remuneration:

The aggregate remuneration of the Directors of ABCIB for the year was:

	2016 £000	2015 £000
Aggregate remuneration in respect of qualifying services	1,855	2,390
In respect of the highest paid Director:		
Aggregate remuneration in respect of qualifying services	821	1,065

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

### 6. Impairment (loss)/ gain

	2016 £000	2015 £000
The net (loss)/ gain for the year in respect of provisions is made up as follows:		
Loans and advances to banks	142	5
Loans and advances to customers	8	(197)
Collective impairment provision	(2,765)	(935)
Recoveries in respect of advances previously written off	219	11
	(2,396)	(1,116)

### 7. Profit before tax

	2016 £000	2015 £000
Profit is stated after (charging)/crediting :		
Foreign currency gains, net	98	144
Auditors' remuneration:		
audit of the company's financial statements	(291)	(263)
audit of subsidiaries of the company	(11)	(4)
audit related assurance services	(21)	(58)
Other assurance services	(45)	(40)
taxation compliance services	(121)	(168)
taxation advisory services	(53)	-
Operating lease rentals:		
hire of equipment	(58)	(61)
land and buildings	(1,985)	(2,858)
Income from listed securities	1,634	659

## NOTES TO THE ACCOUNTS (continued)

### 8. Taxation

	2016 £000	2015 £000
<b>Analysis of tax charge for the year</b>		
<b>Current tax:</b>		
UK corporation tax - Current year	(2,775)	1,146
Adjustment in respect of prior years	209	(62)
Foreign tax relief/other relief	599	-
Foreign tax - Current year	(598)	(203)
Foreign tax - Prior years	-	(305)
<b>Total current tax</b>	<b>(2,565)</b>	<b>576</b>
<b>Deferred tax:</b>		
Current year	(1,175)	-
Adjustment in respect of previous periods	81	-
Effect of changes in tax rates	59	-
Recognition of pension scheme, brought forward losses and subordinated liabilities	-	(4,491)
<b>Total deferred tax</b>	<b>(1,035)</b>	<b>(4,491)</b>
<b>Total tax charge for the year</b>	<b>(3,600)</b>	<b>(3,915)</b>
<b>Factors affecting tax charge for the year</b>		
The differences are explained below:		
Profit on ordinary activities before tax	19,827	17,940
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 : 20.25%)	(3,965)	(3,633)
Effect of:		
Disallowed expenses and non-taxable income	(41)	35
Group relief	105	-
Impact of higher overseas tax rates	1	(64)
Prior year adjustment	290	(367)
Deferred tax unrecognised, tax rate changes and exempt amounts	10	114
<b>Total tax charge</b>	<b>(3,600)</b>	<b>(3,915)</b>

### 9. Analysis of assets and liabilities by classification:

	2016					
	Fair value through income statement	Loans and receivables	Available-for- sale	Financial liabilities at amortised cost	Non financial instruments and others	Total
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	26,269	-	-	-	26,269
Loans and advances to banks	-	2,350,215	-	-	-	2,350,215
Loans and advances to customers	-	909,592	-	-	-	909,592
Financial investments - available-for-sale	-	-	321,055	-	-	321,055
Derivative financial instruments	16,438	-	-	-	-	16,438
Tangible fixed assets	-	-	-	-	40,290	40,290
Current tax asset	-	-	-	-	315	315
Deferred tax asset	-	-	-	-	4,119	4,119
Prepayments, accrued income and other debtors	-	10,787	-	-	10,427	21,214
<b>Total assets</b>	<b>16,438</b>	<b>3,296,863</b>	<b>321,055</b>	<b>-</b>	<b>55,151</b>	<b>3,689,507</b>
Deposits from banks	-	-	-	2,599,892	-	2,599,892
Customer deposits	-	-	-	267,883	-	267,883
Derivative financial liabilities	1,720	-	-	-	-	1,720
Other liabilities, accruals and deferred income	-	2,565	-	-	20,126	22,691
Corporation tax liability	-	-	-	-	1,475	1,475
Pension scheme liability	-	-	-	-	18,086	18,086
Term borrowing	-	-	-	278,033	-	278,033
Subordinated liabilities	-	-	-	50,000	-	50,000
<b>Total liabilities</b>	<b>1,720</b>	<b>2,565</b>	<b>-</b>	<b>3,195,808</b>	<b>39,687</b>	<b>3,239,780</b>

**NOTES TO THE ACCOUNTS (continued)**
**9. Analysis of assets and liabilities by classification (continued):**

2015

	Fair value through income statement	Loans and receivables	Available-for- sale	Financial liabilities at amortised cost	Non financial instruments and others	Total
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	83,226	-	-	-	83,226
Loans and advances to banks	-	1,519,663	-	-	-	1,519,663
Loans and advances to customers	-	983,414	-	-	-	983,414
Financial investments - available-for-sale	-	-	219,030	-	-	219,030
Derivative financial instruments	1,843	-	-	-	-	1,843
Tangible fixed assets	-	-	-	-	2,113	2,113
Current tax asset	-	-	-	-	1,493	1,493
Deferred tax asset	-	-	-	-	3,154	3,154
Prepayments, accrued income and other debtors	-	10,787	-	-	9,792	20,579
<b>Total assets</b>	<b>1,843</b>	<b>2,597,090</b>	<b>219,030</b>	<b>-</b>	<b>16,552</b>	<b>2,834,515</b>
Deposits from banks	-	-	-	1,824,418	-	1,824,418
Customer deposits	-	-	-	235,152	-	235,152
Derivative financial liabilities	5,604	-	-	-	-	5,604
Other liabilities, accruals and deferred income	-	2,565	-	-	20,432	22,997
Corporation tax liability	-	-	-	-	185	185
Pension scheme liability	-	-	-	-	8,581	8,581
Term borrowing	-	-	-	245,582	-	245,582
Subordinated liabilities	-	-	-	50,000	-	50,000
<b>Total liabilities</b>	<b>5,604</b>	<b>2,565</b>	<b>-</b>	<b>2,355,152</b>	<b>29,198</b>	<b>2,392,519</b>

**10. Loans and advances to banks**

2016

2015

£000

£000

## Repayable:

on demand	89,100	159,130
within three months	1,565,650	802,446
between three months and one year	598,286	434,854
between one and five years	98,078	123,108
after five years	158	1,118

2,351,272 1,520,656

## Allowance for impairment losses (note 13)

(1,057) (993)

2,350,215 1,519,663

Included in the above are balances due from ABC Group undertakings of

8,258

12,281

## NOTES TO THE ACCOUNTS (continued)

11. Loans and advances to customers	2016 £000	2015 £000
Repayable:		
on demand	13,136	29,455
within three months	513,278	593,764
between three months and one year	217,434	212,588
between one and five years	186,540	156,685
after five years	5,629	11,222
	<u>936,017</u>	<u>1,003,714</u>
Allowance for impairment losses (note 13)	<u>(26,425)</u>	<u>(20,300)</u>
	<u>909,592</u>	<u>983,414</u>

Included in the above are balances due from ABC Group undertakings of - 44,495  
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 forbearance (2015: none).

## 12. Loans and advances which were past due

	2016		2015	
	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 between 1 and 3 years	-	-	-	13,191
Past due over 3 years	<u>1,173</u>	<u>21,433</u>	<u>993</u>	<u>5,942</u>
	<u>1,173</u>	<u>21,433</u>	<u>993</u>	<u>19,133</u>

### Loans and advances by credit quality

Loans and advances:				
- neither past due nor impaired	2,350,099	914,584	1,519,663	984,581
- impaired	<u>1,173</u>	<u>21,433</u>	<u>993</u>	<u>19,133</u>
	<u>2,351,272</u>	<u>936,017</u>	<u>1,520,656</u>	<u>1,003,714</u>

### Impaired loans and advances

	2016 £000	2015 £000
Total impaired loans and advances to:		
- banks	1,173	993
- customers	<u>21,433</u>	<u>19,133</u>
	<u>22,606</u>	<u>20,126</u>

## 13. Movements in allowance for impairment losses

	Individually assessed		Collectively assessed		Total
	Banks £000	Customers £000	Banks £000	Customers £000	£000
Brought forward 1st January 2016	993	17,165	-	3,135	21,293
Provision for the year	-	290	-	2,765	3,055
Decrease	(142)	(298)	-	-	(440)
Write-off	-	-	-	-	-
Foreign currency translation adjustment	206	3,368	-	-	3,574
Carried forward 31st December 2016	<u>1,057</u>	<u>20,525</u>	<u>-</u>	<u>5,900</u>	<u>27,482</u>

<div> <div> Listed (Debt investments) </div> </div>	<div> <div>321,053</div> <div>219,030</div> </div>
	<div> <div>321,053</div> <div>219,030</div> </div>
<div> <div>Due within one year</div> </div>	<div> <div>189,852</div> <div>141,033</div> </div>

15. Shares in group undertakings

16. Derivative financial assets



## NOTES TO THE ACCOUNTS (continued)

### 14. Financial investments - available-for-sale

	2016 £000	2015 £000
Listed (Debt investments)	321,055	219,030
	<b>321,055</b>	<b>219,030</b>
Due within one year	189,852	141,093
Due between one and two years	90,547	77,937
Due between two and five years	40,656	-
	<b>321,055</b>	<b>219,030</b>

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:

	2016 £000	2015 £000
At 1st January	219,030	259,769
Additions	227,688	138,822
Repayments and disposals	(147,470)	(176,318)
Fair value movement	22	18
Exchange movements	21,785	(3,261)
<b>At 31st December</b>	<b>321,055</b>	<b>219,030</b>

The net unamortised discount at 31st December 2016 was £136,146 (2015 : £105,505).

The net unamortised premium at 31st December 2016 was £16,046 (2015 : £12,000).

Fair value has been determined by reference to quoted market prices.

### 15. 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%

### 16. Derivative financial assets

	2016 £000	2015 £000
Positive mark to market of derivatives	135	383
Foreign exchange contracts	16,303	1,460
	<b>16,438</b>	<b>1,843</b>

## NOTES TO THE ACCOUNTS (continued)

### 17. Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost						
At 1st January 2016	-	653	2,693	9,294	142	12,782
Additions	37,406	1,564	582	141	-	39,693
Disposals	-	-	-	(2)	-	(2)
Exchange differences and other adjustments	-	58	(712)	605	9	(40)
<b>At 31st December 2016</b>	<b>37,406</b>	<b>2,275</b>	<b>2,563</b>	<b>10,038</b>	<b>151</b>	<b>52,433</b>
Depreciation						
At 1st January 2016	-	637	1,255	8,644	131	10,667
Charge for the year	281	90	166	218	8	763
Disposals	-	-	-	-	-	-
Exchange differences and other adjustments	-	57	56	592	8	713
<b>At 31st December 2016</b>	<b>281</b>	<b>784</b>	<b>1,477</b>	<b>9,454</b>	<b>147</b>	<b>12,143</b>
Net book value						
<b>At 31st December 2016</b>	<b>37,125</b>	<b>1,491</b>	<b>1,086</b>	<b>584</b>	<b>4</b>	<b>40,290</b>
At 31st December 2015	-	16	1,438	650	11	2,115

As part of a group reorganisation, ABC House was transferred from ABC Investment Holdings Limited to ABC International Bank Plc on 24th June 2016 at the carrying value of £37.4 million. Included within the 'Freehold land and buildings' is land of £18.0 million, which is not depreciated.

### 18. Deferred tax asset

	2016 £000	2015 £000
At 1st January	3,154	7,245
Recognised deferred tax (charge) / credit to income statement for the period	(1,036)	(4,471)
Deferred tax (charge) / credit in OCI for the period in respect of pension scheme	2,001	380
<b>At 31st December</b>	<b>4,119</b>	<b>3,154</b>
The major components of the deferred tax asset are as follows:		
Deferred tax on losses	596	1,436
Asset / (Liability) in respect of temporary differences non trading	91	-
Asset / (Liability) in respect of accelerated capital allowances	(4)	88
Deferred tax asset on pension	3,436	1,630
	<b>4,119</b>	<b>3,154</b>

There is an unrecognised deferred tax asset of £2.0 million (at the lowest enacted tax rate of 17%) in relation to temporary differences of £12.0 million (2015: £24.6million) arising due to brought forward tax losses. 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 assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the Balance Sheet date. The Finance Act 2013 reduced the main tax rate to 21% from 1 April 2014 and 20% from 1 April 2015. The Finance Act No.2 2015 further reduced the tax rate to 19% (effective from 1 April 2017) and the Finance Act 2016 further reduced the tax rate to 17% (effective From 1 April 2020). These changes to the main tax rate had been enacted at the balance sheet date and are reflected in the measurement of deferred tax balances.

### 19. Prepayments, accrued income and other debtors

	2016 £000	2015 £000
Interest receivable	12,114	10,787
Prepayments and accrued income	2,666	2,513
Other	6,434	7,279
	<b>21,214</b>	<b>20,579</b>

### 20. Deposits from banks

	2016 £000	2015 £000
Repayable:		
on demand	911,049	234,267
within three months	652,067	761,886
between three months and one year	693,675	446,419
between one and five year	343,020	381,798
more than five years	81	48
	<b>2,599,892</b>	<b>1,824,418</b>

Included in the above are balances due to ABC Group undertakings of

93,616 331,134

### 21. Customer deposits

	2016 £000	2015 £000
Repayable:		
on demand	81,209	133,179
within three months	129,047	41,718
between three months and one year	57,353	60,021
between one and five years	274	234
	<b>267,883</b>	<b>235,152</b>

Included in the above are balances due to ABC Group undertakings of

3,255 11,400

## NOTES TO THE ACCOUNTS (continued)

### 22. Derivative financial liabilities

	2016 £000	2015 £000
Negative mark to market of derivatives	502	700
Foreign exchange contracts	1,218	4,904
	<u>1,720</u>	<u>5,604</u>

### 23. Other liabilities, accruals and deferred income

	2016 £000	2015 £000
Interest payable	4,676	2,565
Accruals and deferred income	14,367	13,380
Tax and social security costs	257	277
Other	3,391	6,775
	<u>22,691</u>	<u>22,997</u>

### 24. Term borrowing

	2016 £000	2015 £000
Repayable:		
within one year	237,375	76,077
between one and two years	40,658	169,505
	<u>278,033</u>	<u>245,582</u>

Included in the above are balances due to ABC Group undertakings of £52,165 and 57,060 respectively.  
Interest on all term borrowing is calculated by reference to LIBOR plus margins which are repriced monthly.

### 25. Subordinated liabilities

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

	2016 £000	2015 £000
GBP 50.0 million Sub-Debt	50,000	50,000
	<u>50,000</u>	<u>50,000</u>

On 2nd December 2015 ABCIB issued an FRN for £50 million repayable at par on 31st December 2025.

The subordinated liabilities are due to the Ultimate Parent Undertaking.

### 26. Called up share capital

	Issued £000
Ordinary shares of £1 each	
At 1st January 2016	212,296
At 31st December 2016	<u>212,296</u>

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 PRA requires each bank to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance transactions. ABCIB complied in full with the regulatory capital adequacy requirements during 2016 and 2015.

ABCIB's capital is divided into two tiers:

Tier 1 capital comprises equity shareholders' funds.

Tier 2 capital comprises an allowance for collective impairment losses and the £50 million subordinated debt we have received from the Parent.

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 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.

## NOTES TO THE ACCOUNTS (continued)

### 26. Called up share capital (continued)

#### Capital structure

	2016	2015
	£000	£000
Share capital	212,296	212,296
Retained earnings	237,409	229,682
AFS Reserve	22	18
Tier 1 Capital	<u>449,727</u>	<u>441,996</u>

#### Composition of regulatory capital

	2016	2015
	£000	£000
Tier 1 capital *	<u>449,780</u>	<u>439,723</u>
Tier 1 Capital Ratio	19.2%	20.4%
Collective impairment	5,900	3,135
Subordinated liability	<u>50,000</u>	<u>50,000</u>
Tier 2 capital	<u>55,900</u>	<u>53,135</u>

#### Total regulatory capital

<u>505,680</u>	<u>492,858</u>
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#### Risk-weighted assets

Banking book	2,342,427	2,143,455
Trading book	5,189	8,618
Total	<u>2,347,616</u>	<u>2,152,073</u>

#### Risk-weighted assets included in the totals above in respect of:

-contingent liabilities	442,514	276,375
-commitments	<u>162,517</u>	<u>149,069</u>

#### Risk Asset Ratio

Total capital	21.5%	22.9%
---------------	-------	-------

Tier 1 Capital incorporates the profit for the respective years.

\* A Deferred Tax Asset and Prudential Valuation Adjustment has been deducted from the composition of regulatory capital for 2015 and 2016 figures respectively, based on prevailing regulatory guidance and market practice at the respective balance sheet dates. A reconciliation will be presented in the Pillar 3 disclosure.

### 27. Transactions with directors and officers

The aggregate amounts outstanding at 31st December 2016 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 (2015 - nil).

## NOTES TO THE ACCOUNTS (continued)

### 28. Commitments

Contract or underlying principal amount :	2016 £000	2015 £000
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	206,951	67,426
Over one year	131,966	223,774
	<b>338,917</b>	<b>291,200</b>

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

	Land and buildings £000	2016 Other £000	Land and buildings £000	2015 Other £000
Leases which expire:				
within two years	351	41	-	45
within two to five years	198	22	320	18
between five and ten years	-	-	2,070	-

### 29. 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.

Hedges entered into by ABCIB which provide economic hedges but do not meet the hedge accounting criteria are treated as 'Derivatives at fair value through profit or loss'.

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 14).

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.

	2016			2015		
	FV -Assets £000	FV -Liabilities £000	Notional amount £000	FV -Assets £000	FV - Liabilities £000	Notional amount £000
I) Derivatives at fair value through profit or loss						
Forward foreign exchange contracts & Interest rate swaps						
<b>Total at 31st December</b>	<b>16,438</b>	<b>1,720</b>	<b>704,464</b>	<b>1,843</b>	<b>5,604</b>	<b>422,334</b>

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 parent company. At 31st December 2016, none of the interest rate swaps hedges met the hedge accounting criteria.

#### II) 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.

## NOTES TO THE ACCOUNTS (continued)

### 29. Financial Instrument Contracts (continued)

#### III) 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.

	2016						Total £m
	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	
<b>Assets</b>							
Cash and cash equivalents	26.3	-	-	-	-	-	26.3
Loans and advances to banks	2,018.8	164.7	150.9	16.9	-	(1.1)	2,350.2
Loans and advances to customers	685.7	188.6	41.1	20.5	-	(26.4)	909.5
Financial investments - available-for-sale	231.1	90.0	-	-	-	-	321.1
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	42.1	42.1
Fixed assets	-	-	-	-	-	40.3	40.3
<b>Total assets</b>	<b>2,961.9</b>	<b>443.3</b>	<b>192.0</b>	<b>37.4</b>	<b>-</b>	<b>54.9</b>	<b>3,689.5</b>
<b>Liabilities and shareholders' funds</b>							
Deposits from banks	2,491.7	33.0	75.2	-	-	-	2,599.9
Customer deposits	210.3	57.4	-	0.3	-	-	268.0
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	43.9	43.9
Term borrowing and subordinated liabilities	328.0	-	-	-	-	-	328.0
Shareholders' funds	-	-	-	-	-	449.7	449.7
<b>Total liabilities and shareholders' funds</b>	<b>3,030.0</b>	<b>90.4</b>	<b>75.2</b>	<b>0.3</b>	<b>-</b>	<b>493.6</b>	<b>3,689.5</b>
Net position	(68.1)	352.9	116.8	37.1	-	(438.7)	
Off balance sheet	27.3	(5.2)	(3.3)	(18.8)	-	-	
Interest rate sensitivity gap	(40.8)	347.7	113.5	18.3	-	(438.7)	
Cumulative gap	(40.8)	306.9	420.4	438.7	438.7	-	
	2015						Total £m
	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	
<b>Assets</b>							
Cash and cash equivalents	83.3	-	-	-	-	-	83.3
Loans and advances to banks	1,157.8	173.2	148.5	41.1	-	(1.0)	1,519.6
Loans and advances to customers	770.2	123.6	92.9	17.8	-	(21.1)	983.4
Financial investments - available-for-sale	159.0	60.0	-	-	-	-	219.0
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	27.1	27.1
Fixed assets	-	-	-	-	-	2.1	2.1
<b>Total assets</b>	<b>2,170.3</b>	<b>356.8</b>	<b>241.4</b>	<b>58.9</b>	<b>-</b>	<b>7.1</b>	<b>2,834.5</b>
<b>Liabilities and shareholders' funds</b>							
Deposits from banks	1,501.3	60.1	-	263.1	-	-	1,824.5
Customer deposits	183.3	51.6	-	0.2	-	-	235.1
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	37.3	37.3
Term borrowing and subordinated liabilities	295.6	-	-	-	-	-	295.6
Shareholders' funds	-	-	-	-	-	442.0	442.0
<b>Total liabilities and shareholders' funds</b>	<b>1,980.2</b>	<b>111.7</b>	<b>-</b>	<b>263.3</b>	<b>-</b>	<b>479.3</b>	<b>2,834.5</b>
Net position	190.1	245.1	241.4	(204.4)	-	(472.2)	
Off balance sheet	47.8	(25.3)	48.2	(70.7)	-	-	
Interest rate sensitivity gap	237.9	219.8	289.6	(275.1)	-	(472.2)	
Cumulative gap	237.9	457.7	747.3	472.2	472.2	-	

## NOTES TO THE ACCOUNTS (continued)

### 30. 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.

	Measurement level	2016			2015		
		Carrying amount	Fair value	Unrecognised gain/(loss)	Carrying amount	Fair value	Unrecognised gain/(loss)
		£000	£000	£000	£000	£000	£000
<b>Financial assets</b>							
Loans and advances to banks	3	2,350,215	2,330,762	(19,453)	1,519,663	1,505,135	(14,528)
Loans and advances to customers	3	909,592	903,711	(5,881)	983,414	968,998	(14,416)
Financial investments - available-for-sale	1	321,055	306,649	(14,406)	219,030	210,126	(8,904)
<b>Financial liabilities</b>							
Deposits from banks	3	2,599,892	2,561,870	38,022	1,824,418	1,800,446	23,972
Customer deposits	3	267,883	278,061	(10,178)	235,152	233,098	2,054
Term borrowing	3	278,033	270,315	7,718	245,582	238,119	7,463
Subordinated liabilities	3	50,000	57,502	(7,502)	50,000	56,732	(6,732)
				<u>(11,680)</u>			<u>(11,091)</u>

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 and fixed 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 based on instruments with similar risk characteristics and currency.

### 31. Market and liquidity risk

Market risk and liquidity risk are defined as follows:

Market risk refers to the risk to the Bank resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, and equity and commodity price

Liquidity risk is the risk to the Bank'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).

#### Market risk

The Bank uses various market risk techniques and measurements to manage the bank's investment and trading book by setting Limits that are monitored on a daily basis by the Head of Market Risk & Head of Treasury. The bank uses the Historical Value at risk "VaR" as one of the measurements with 99% confidence level and one day holding period where positions are re-valued on a daily basis using historical market data. The Bank uses the Basis Point Value "BPV" technique to measure and monitor the banking book sensitivity to interest rates, which are monitored daily at the bank level as well as by currencies against a set of limits.

The Bank has a small Trading book for spot and forward foreign exchange markets, the trading for which is within a modest VaR limit and other market risk parameters.

The Bank uses derivatives in order to reduce its exposure to market risks as part of its asset and liability management. This is achieved by entering into derivatives that hedge 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.

Market Risk and other risks are reviewed in the ALCO.

## NOTES TO THE ACCOUNTS (continued)

### 31. Market and liquidity risk (continued)

ABCIB's VaR exposures:	2016		2015	
	Maximum £000	Minimum £000	Maximum £000	Minimum £000
Trading	17	2	19	1
Banking	20,934	74	9,318	140

#### 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 current liquidity regulation requirements.

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 to match the maturity profile of the bank's assets, but the Bank has lengthened its deposit profile and continues to diversify its funding base.

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 buffer of high quality liquid assets and operates a contingency funding plan.

Funding projections are made by 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". Liquidity mismatches are calculated on the basis of the aggregate across all ABCIB branches of all assets and all liabilities, together with an allowance for undrawn commitments.

ALCO has primary responsibility for oversight of liquidity risk management.

#### Analysis of financial assets by remaining maturities

	2016				
	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
	£000	£000	£000		£000
Loans and advances to banks	1,654,234	610,682	99,713	160	2,364,789
Loans and advances to customers	496,802	227,701	194,875	11,339	930,717
Financial investments - available-for-sale	55,129	136,103	131,962	-	323,194
	2,206,165	974,486	426,550	11,499	3,618,700

	2015				
	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
	£000	£000	£000		£000
Loans and advances to banks	960,466	444,510	126,977	129	1,532,082
Loans and advances to customers	600,759	222,432	167,476	8,250	998,917
Financial investments - available-for-sale	33,279	108,258	78,208	-	219,745
	1,594,504	775,200	372,661	8,379	2,750,744



## NOTES TO THE ACCOUNTS (continued)

### 31. Market and liquidity risk (continued)

#### Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2016 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.

	2016				Total £000
	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	More than 5 year £000	
<b>Financial Liabilities</b>					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	1,823,129	910,203	432,994	57,363	3,223,689
Derivative financial liabilities	1,001	432	287	-	1,720
Financial guarantees	196,842	119,774	72,313	18,454	407,383
	2015				Total £000
	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	More than 5 year £000	
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	1,719,153	161,049	442,949	59,611	2,382,762
Derivative financial liabilities	3,345	1,930	329	-	5,604
Financial guarantees	97,295	144,380	70,053	-	311,728

### 32. Credit risk

Credit Risk is defined as risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Credit risk is managed by the ABCIB Credit Committee ("IBCC"), which is the main credit risk decision-making forum of ABCIB. IBCC has the following roles and responsibilities:

- Review and decision Credit Proposals in line with its delegated authorities
- Review and approve Credit Impairment Provisions - both Specific and Collective
- Review and recommend ABCIB Credit Policy
- Review and approve ABCIB Credit Procedures
- Credit Portfolio Reviews
- Review of Credit Resources and Infrastructure

The first level of protection against credit risk is through the counterparty, country and industry and other risk threshold limits. Credit limits are prudent, and the Bank uses standard mitigation and credit control practices

Relationship managers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks. The credit unit is responsible for independent review of the all the clients, maintaining and recommending changes to the credit policy and procedures, credit portfolio reviews and review of the non-performing book and provisions.

#### Industry exposure

The table below analyses the industrial spread of loans and advances to banks, loans and advances to customers and financial investments - available-for-sale.

	2016 £000	2016 %	2015 £000	2015 %
Financial	1,527,457	42.7%	1,435,669	52.7%
Central Banks & Governments	1,169,260	32.7%	419,278	15.4%
Commodity Related	225,970	6.3%	168,804	6.2%
Motor Vehicle Related	177,806	5.0%	234,932	8.6%
Property Related	123,708	3.5%	194,176	7.1%
Other	356,662	10.0%	269,247	9.9%
	<b>3,580,863</b>	<b>100.0%</b>	<b>2,722,106</b>	<b>100.0%</b>

The presentation of the table has been updated from prior year to align with the way the Bank manages its industry exposures. Prior year comparatives have been updated to reflect current year presentation.

## NOTES TO THE ACCOUNTS (continued)

### 32. Credit risk (continued)

#### Country exposure

The table below analyses the geographical spread of loans and advances to banks, loans and advances to customers and financial investments - available-for-sale and is stated before collateral.

	2016 £000	2016 %	2015 £000	2015 %
Germany	1,216,822	34.0%	483,389	17.8%
United Kingdom	368,319	10.3%	351,227	12.9%
Turkey	309,992	8.7%	443,920	16.3%
Qatar	220,583	6.2%	188,359	6.9%
UAE	180,578	5.0%	50,419	1.9%
USA	160,955	4.5%	118,217	4.3%
Libya	146,070	4.1%	201,280	7.4%
Switzerland	140,671	3.9%	39,356	1.4%
Kuwait	105,093	2.9%	73,192	2.7%
Others	81,306	2.3%	79,525	2.9%
Egypt	77,407	2.2%	100,626	3.7%
France	74,417	2.1%	30,870	1.1%
Japan	59,156	1.7%	50,287	1.8%
Saudi Arabia	57,408	1.6%	143,485	5.3%
Philippines	48,788	1.4%	31,700	1.2%
Austria	45,694	1.3%	56,924	2.1%
Brazil	36,200	1.0%	28,713	1.1%
Oman	35,872	1.0%	37,542	1.4%
Jordan	33,524	0.9%	10,305	0.4%
Australia	32,409	0.9%	18,521	0.7%
Netherlands	29,291	0.8%	10,558	0.4%
Italy	21,834	0.6%	57,547	2.1%
India	20,329	0.6%	7,092	0.3%
Morocco	20,054	0.6%	7,909	0.3%
South Africa	16,774	0.5%	17,213	0.6%
Luxembourg	11,116	0.3%	13,014	0.5%
Russia	10,978	0.3%	5,060	0.2%
Bahrain	6,327	0.2%	23,805	0.9%
Spain	5,866	0.2%	15,972	0.6%
Ireland	5,118	0.1%	3,757	0.1%
Lebanon	1,912	0.1%	22,323	0.8%
	<b>3,580,863</b>	<b>100.0%</b>	<b>2,722,107</b>	<b>100.0%</b>

The presentation of the table has been updated from prior year to align with the way the Bank manages its country exposures. Prior year comparatives have been updated to reflect current year presentation.

#### 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.

	2016 £000	2015 £000
Cash and cash equivalents	26,269	83,226
Loans and advances to banks	2,350,215	1,519,663
Loans and advances to customers	909,592	983,414
Financial investments - available-for-sale	321,055	219,030
Derivative financial assets	16,438	1,843
	<b>3,623,569</b>	<b>2,807,176</b>
Contingent liabilities	1,172,905	1,018,793
Commitments	338,917	291,200
	<b>1,511,822</b>	<b>1,309,993</b>
	<b>2016 £000</b>	<b>2015 £000</b>
<b>Cash collateralised</b>		
Loans and advances to customers	176,633	323,274
Contingent liabilities	380,875	403,625
<b>Guaranteed by Banks and Credit Agencies</b>		
Loans and advances to customers	288,728	255,068
Contingent liabilities	175,990	72,990
Commitments	29,111	14,348
<b>Risk concentration against individual counterparties</b>		
Largest exposure to individual Bank before collateral (fully collateralised)	300,895	388,926
Largest exposure to individual customer before collateral	94,788	80,993
Largest exposure to individual customer after collateral	94,788	80,993
Central Bank placement before collateral	1,047,995	351,223
Central Bank placement after collateral	1,047,995	351,223

## NOTES TO THE ACCOUNTS (continued)

### 32. Credit risk (continued)

#### Credit quality per class of financial assets

	Loans and receivables	Financial investments - available-for- sale	Total
	2016 £000	2016 £000	2016 £000
<b>Loans and advances to banks</b>			
Investment grade	1,705,371	-	1,705,371
Sub investment grade	644,844	-	644,844
Total	2,350,215	-	2,350,215
<b>Loans and advances to customers</b>			
Investment grade	60,780	-	60,780
Sub investment grade	848,812	-	848,812
Total	909,592	-	909,592
<b>Financial investments - available-for-sale</b>			
Investment grade	-	321,055	321,055
Total	-	321,055	321,055
<b>Credit quality per class of financial assets</b>			
	Loans and receivables	Financial investments - available-for- sale	Total
	2015 £000	2015 £000	2015 £000
<b>Loans and advances to banks</b>			
Investment grade	1,185,420	-	1,185,420
Sub investment grade	334,243	-	334,243
Total	1,519,663	-	1,519,663
<b>Loans and advances to customers</b>			
Investment grade	141,407	-	141,407
Sub investment grade	842,007	-	842,007
Total	983,414	-	983,414
<b>Financial investments - available-for-sale</b>			
Investment grade	-	219,030	219,030
Total	-	219,030	219,030

### 33. 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:

	2016			2015		
	GBP	USD	EUR	GBP	USD	EUR
Loans and advances to banks and loans and advances to customers	2.73%	2.29%	0.10%	2.98%	1.91%	0.57%
Financial investments - available-for-sale	0.00%	0.90%	0.19%	0.00%	0.41%	0.20%
Deposits from banks	0.50%	0.83%	-0.07%	0.57%	0.51%	0.02%
Customer deposits	0.70%	0.94%	0.03%	0.81%	0.56%	-0.03%
Term borrowing	1.20%	2.11%	0.83%	0.58%	1.67%	0.94%

#### 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.

## NOTES TO THE ACCOUNTS (continued)

	2016 £000	2015 £000
<b>34. Net trading income</b>		
Dealing profits are analysed as follows:		
Foreign exchange gains and losses from financial assets and liabilities not at fair value through profit and loss	98	144
Interest rate products	30	85
	<b>128</b>	<b>229</b>

	2016 £000	2015 £000
<b>35. Assets, liabilities and equity in foreign currencies</b>		
Denominated in sterling	678,155	716,013
Denominated in US dollars	2,173,953	1,516,602
Denominated in other currencies	837,399	601,900
<b>Total assets</b>	<b>3,689,507</b>	<b>2,834,515</b>
Denominated in sterling	678,943	716,138
Denominated in US dollars	2,173,393	1,514,834
Denominated in other currencies	837,171	603,543
<b>Total liabilities and shareholders' funds</b>	<b>3,689,507</b>	<b>2,834,515</b>

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £40.3 million 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 29.

## 36. Ultimate parent undertaking and parent undertakings

The directors consider the ultimate parent undertaking is Central Bank of Libya. Arab Banking Corporation (B.S.C) incorporated in the Kingdom of Bahrain is the immediate parent for which consolidated financial statements including ABCIB are prepared. Arab Banking Corporation (B.S.C) is jointly owned by Central Bank of Libya (59.37%) and Kuwait Investment Authority (29.69%).

## 37. Related party transactions

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

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

	2016 £000	2015 £000
Loans and advances to banks	155,208	169,473
Loans and advances to customers	55,695	79,495
Deposits from banks	2,463,964	1,660,216
Customer deposits	134,504	124,067
Term borrowing	194,464	175,092
Subordinated liabilities	50,000	50,000
Off Balance sheet	419,523	424,303
Interest rate swaps	45,566	91,999

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

	2016 £000	2015 £000
Interest receivable	1,091	3,800
Interest payable	15,468	11,865
Fees and commissions receivable	21,847	10,686
Fees and commissions payable	5,052	1,968

## 38. Pensions

ABCIB participates in a defined benefit pension scheme known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme ("the Scheme"). The Scheme provides benefits based on final pensionable salary and length of service on retirement, leaving service or death. 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 has no active members. The Scheme was closed to the future accrual of benefits on 30th September 2010. All active members at this date became deferred members. All current employees are offered membership of a separate defined contribution scheme. ABCIB expects to contribute £1,600,000 to the Scheme during the year to 31st December 2017.

The scheme is subject to the Statutory Funding Objective under the Pension Act 2004. A valuation of the scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, ABCIB must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these financial statements.

The triennial valuation was carried out as at 30th September 2014, using the projected unit credit actuarial valuation method. The market value of the assets as at 30th September 2014 was sufficient to cover 68% of the then current value of the benefits accrued to that date, representing a gross Scheme deficit of £14,612,000.

## NOTES TO THE ACCOUNTS (continued)

### 38. Pensions (continued)

The September 2014 triennial valuation was updated by an independent actuary, to take account of the requirements of IAS19 (using the projected unit method) in order to assess the liabilities of the scheme at 31st December 2016 and 31st December 2015. Note that the IAS19 liability values are not directly comparable to the valuations used to assess the Scheme against the Statutory Funding Objective since the assumptions for this latter purpose are "prudent" (i.e. they provide sufficient margins for adverse deviation consistent with the Trustees' appetite for risk and the perceived strength of the Employer Covenant) and reflect the actual investment strategy of the Scheme rather than assuming that the Scheme invests in AA corporate bonds as the IAS19 disclosures must assume. The IAS19 net pension liability as at 31 December 2016 was £18,086,000.

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:

- RPI inflation is in line with implied inflation rate curve published by the Bank of England as at the relevant balance sheet dates. CPI inflation is assumed to be 1.0% pa less than the equivalent RPI assumption at each term.
- Some of the pensions in payment will increase at 5% pa fixed and the remainder of pension increases in line with RPI inflation at each term, subject to a maximum of 5% and minimum of 0% in each year. The single equivalent rate of the inflation linked increase assumption is 3.3% pa (2015: 3.2% pa).
- Deferred pensions, in excess of any Guaranteed Minimum Pension (GMP), will increase in line with CPI inflation. The single equivalent rate of increase for deferred revaluation is 2.4% pa (2015: 2.3% pa).
- Discount rates are in line with Merrill Lynch nominal AA corporate spot yield curve as at the relevant balance sheet dates. Since this curve is based on corporate bonds with durations of up to 20 years, we have used the Bank of England gilt spot curve with a margin of 0.9% pa to represent the spread of corporate bonds over gilts for durations of 20 years and above for the 2016 figures. The single equivalent discount rate is 2.6% pa (2015: 3.75% pa).
- The mortality rate used is 95% of the S2NA tables with allowance for future improvements in line with the CMI 2013 projection model with a long term improvement rate of 1.25% pa.

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

	2016		2015	
	Fair value	Long term rate of return expected	Fair value	Long term rate of return expected
	£m	%	£m	%
Gilts	16.5		13.3	
Cash	0.4		0.7	
Other assets	18.2		18.4	
<b>Total value of assets</b>	<b>35.1</b>	<b>2.60</b>	<b>32.4</b>	<b>3.75</b>

	2016	2015	2014	2013
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	(8,581)	(9,732)	(6,191)	(6,817)
Contribution paid	1,320	1,155	1,063	1,032
Other finance (charge)	(296)	(330)	(254)	(103)
Actuarial gains/ (losses)	(10,529)	326	(4,350)	(303)
<b>Net pension liability at 31st December</b>	<b>(18,086)</b>	<b>(8,581)</b>	<b>(9,732)</b>	<b>(6,191)</b>

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Assumption	Change in Assumption	Impact on scheme liabilities £'000
Discount Rate	Plus 0.50%	(5,429)
	Minus 0.50%	6,339
Inflation	Plus 0.50%	2,489
	Minus 0.50%	(2,303)
Age rating	Plus 1.0 year	(2,006)
	Minus 1.0 year	2,046

Amount (debited)/ credited to other financial charges	2016	2015
	£000	£000
Expected return on pension scheme assets	1,213	1,177
Interest on pension scheme liabilities	(1,509)	(1,507)
	(296)	(330)

Amount recognised in the Statement of Comprehensive Income	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Actual less expected return on assets	1,523	(1,349)	2,229	(201)	(223)
Experience (loss)/ gain on liabilities	1,098	1,786	935	(41)	422
Losses from changes to demographic assumptions	(222)	(186)	(400)		
Changes in assumptions underlying present value of liabilities	(12,928)	75	(7,114)	(61)	(3,466)
<b>Actuarial gain/ (loss) recognised in the Statement of Comprehensive Income</b>	<b>(10,529)</b>	<b>326</b>	<b>(4,350)</b>	<b>(303)</b>	<b>(3,757)</b>

% of Scheme asset value at balance sheet date represented by:	2016	2015	2014	2013	2012
	%	%	%	%	%
Actual less expected return on assets	4.3	(4.2)	(4.1)	7.7	(0.8)

% of Scheme liability value at balance sheet date represented by:	2016	2015	2014	2013	2012
	%	%	%	%	%
Experience gain/ (loss) on liabilities	2.1	4.4	4.2	2.7	1.3
Changes in assumptions underlying present value of liabilities	(24.3)	0.2	0.2	(20.3)	(10.3)
<b>Actuarial gain/ (loss) recognised in the Statement of Comprehensive Income</b>	<b>(19.8)</b>	<b>0.8</b>	<b>0.8</b>	<b>(12.4)</b>	<b>(9.7)</b>

## **MANAGEMENT STRUCTURE**

### **ABCIB GROUP HEAD OFFICE**

<b>Paul Jennings</b>	Managing Director & Chief Executive Officer
<b>Rajeev Adrian</b>	Chief Financial Officer & Deputy Chief Executive Officer
<b>Brendan Mackinney</b>	Chief Operating Officer
<b>Sedjwick Joseph</b>	Chief Risk Officer
<b>Louise Fitton</b>	Head of Internal Audit
<b>David Holden</b>	Head of Legal Affairs & Corporate Secretary
<b>Alex Irving</b>	Head of Compliance, Europe

### **TRADE FINANCE**

<b>Geoff Sharp</b>	Head of European Trade Finance
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### **ISLAMIC FINANCIAL SERVICES**

<b>Faisal Alshowaikh</b>	Head of Islamic Financial Services
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### **TREASURY**

<b>Paul Judge</b>	Head of Treasury
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<b>Fehmi Hannachi</b>	General Manager
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#### **Frankfurt Branch**

<b>Alf Soerensen</b>	General Manager
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#### **Milan Branch**

<b>Roberto Papadia</b>	General Manager
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#### **Istanbul Representative Office**

<b>Muzaffer Aksoy</b>	Chief Representative
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#### **Moscow Representative Office**

<b>Dmitry Kuryshv</b>	Chief Representative
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#### **Scandinavian Marketing Office**

<b>Patrik Achtman</b>	Chief Representative
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