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ABC International Bank plc
Annual Report
2017

Connecting **MENAT**
To Europe



BankABC

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Our Mission

To be the MENAT 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, North Africa and Turkey (MENAT).

ABCIB's core business comprises Trade Finance, Islamic Financial Services, Real Estate 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

Once again it gives me great pleasure to present, on behalf of the Board of Directors, the latest Annual Report and Audited Financial Statements of ABC International Bank plc. This marks the fifth year in which I have been privileged to perform this duty in my role as Chairman of ABC International Bank plc and I am delighted to be able to advise that in 2017 the Bank achieved a very creditable result overall, continuing to show healthy progress, both financial and non-financial, in its core operating areas.

In the twelve months to 31st December 2017 the Bank generated a stable total operating income of £70.1 million, when compared with the £69.8 million reported in 2016. This steady performance at the financial operating level nonetheless translated into markedly higher overall profitability, with profit before tax rising by almost 20% in the year to £23.5 million, after the £19.8 million recorded in 2016. The result benefited both from a return to more 'normal' cost levels after a period of restructuring in recent years and lower levels of provisioning.

Throughout the course of the year, the Bank maintained full compliance with the increasingly challenging and complex array of prudential and regulatory requirements, supported by a strong risk management, control and compliance culture. Operations were further underpinned both by a gathering strategic momentum in frontline business activities in the Bank's core Trade Finance, Islamic Financial Services, Real Estate and Treasury Operations units and by closer alignment with the wider Bank ABC Group. Indeed, 2017 has been a period of consolidation and change for ABCIB, at the macro Bank level as well as in terms of key products and core geographies. A maturing of previous years' investment in management and organisational restructuring translated during the year into a renewed sense of business confidence and purpose, successfully raising the Bank's profile and visibility in the market.

The Bank's overall operating environment was broadly supportive of business in 2017, improving as the year progressed, albeit still characterised by unsettling and challenging developments in core geographies, despite the emergence of a broad based cyclical recovery across advanced and emerging markets. These challenges remain evident with respect to the Bank's core geographies of Europe - where BREXIT uncertainties continued - and particularly the MENAT region, where ongoing and elevated political risks proved both disturbing and unsettling. However, the Bank's increasingly acknowledged specialist reputation and high standards of due diligence with respect to engaging in jurisdictions in MENAT which are perceived to be challenging; continued to provide a solid underpinning to business.

As in previous years, the Bank's core Trade Finance activities continued to be the largest contributor to total operating income, providing some 63% of the total, equivalent to £43.9 million. Core geographies of MENAT, particularly North Africa, and traditional products such as documentary letters of credit and forfaiting were the backbone of business. Additionally, we achieved significant renewals of existing and high-profile new client facilities in (insurance backed) receivables financing, providing valuable contributions to revenues. With sales surpassing the USD1 billion mark, trade debt and distribution activities were once again a key

element of Trade Finance strategy, leveraging Bank capital as well as generating significant income in its own right and providing valuable services to the wider Bank ABC Group. Cautious expansion to non-traditional emerging markets for the Bank - such as India and South Africa - were a noteworthy development during the year. Islamic Financial Services had an excellent year against a slowing market. Its contribution to the Bank's income improved not only in absolute terms, to some £20.7 million after the £14.8 million reported in 2016, but also as a share of the total, accounting for 29% in 2017, compared with just over 21% a year ago. The unit's success and potential, as it entered for the first time into conventional real estate financing, were recognised in the year when the unit was made the centre of excellence for real estate finance for the Bank ABC Group as a whole. Treasury Operations continued to contribute positively to overall revenue, with earnings of £4.8 million, compared with £5.8 million a year ago. The focus of attention continued to be on managing overall Bank funding and liquidity - which it performed admirably - whilst additional resources were provided in the latter part of the year with a view to more pro-actively exploring and raising income from financial product sales.

In the course of all the activities referred to above, the Bank has benefitted from sound capital, funding and liquidity positions, typically in excess of prudential and statutory minima. Despite a good growth in Risk Weighted Assets compared to prior year, the Bank's year end Capital Ratio, remained broadly stable and stood at 20.4% compared with 21.5% at end-2016, with the Tier 1 Ratio reaching 18.2% at end-2017, after the 19.2% position recorded a year earlier. Whilst total Bank and Customer Deposits eased somewhat to £2.1 billion at year end, down from the record 2016 level of £2.9 billion, the NSFR (Net Stable Funding Ratio) easily exceeded the 100% requirement. Liquidity meanwhile was prudently maintained at above the Basel III Liquidity Coverage Ratio at all times. These positions are fully in line with the ability of the Bank to satisfactorily continue with its day-to-day activities and near term plans.

One major underlying trend during the year, and one which has in some way positively affected all of the main business areas of the Bank, deserves special recognition. Whilst ABCIB has always been an integral part of, and contributed materially to, the wider Bank ABC Group, 2017 has been notable for a positive development of this relationship. Throughout the year ABCIB has strongly supported Bank ABC's Wholesale Banking Initiative, further aligning its operations with this strategic vision and deepening its collaborative efforts with Bank ABC units worldwide. This enhanced exploration of business synergies has already yielded positive results, highlighted by the completion of an almost USD100 million, Trade Finance transaction leveraging client relationships and linking ABCIB and other Bank ABC Group entities across Brazil, Europe and Egypt.

In a drive to continuously rationalise its operations, during the course of the year, the Bank made the decision to close its Stockholm and Moscow representative offices as it was felt that the client base could be serviced more efficiently from London without a deterioration in service levels. Notwithstanding this, overall permanent staff levels at the Bank remained steady, with 247 permanent employees at year end. Contingency planning continued for the Bank's European operations, with the full intention of maintaining the current business model in the most appropriate post-BREXIT legal and organisational format.

Looking forward to 2018 and beyond, and whilst still mindful of downside risks -including rising geopolitical tensions, we look forward to capitalise on the resumption of economic growth as the world transitions from ultra low interest rates. The progress demonstrated in 2017 in respect of the consolidation of existing structures and activities, the momentum from new business directions and the deepening links with the Bank ABC Group, provide a new sense of confidence as we are approaching this fresh phase of recovery in the global economy. With a strong and stable senior management team, highly skilled and professional staff and a robust risk, compliance and credit culture the Directors remain confident that ABCIB is in a good position to build further its reputation as the 'Bank of Choice' for European clients undertaking business in the MENAT region and to create further value for its shareholders.

Risk Management Approach

The Bank, whose core activities remain broadly unchanged from previous years, continues to face and be exposed to a combination of credit, liquidity, market and operational risk in its day-to-day operations. A detailed presentation and analysis of these 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 remain clear and unwavering. The objectives 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 in this financial year and remain fit for purpose.

All aspects of credit risk are governed by and considered within a clear risk appetite and strong credit policy framework. The adherence to IFRS 9 Financial Instruments will apply to the Bank from 1st January 2018. The transition to IFRS9 involves fundamental changes to the provisioning methodology. The Bank has worked with Group to develop a framework that will ensure compliance with IFRS9 in 2018. The Bank will also apply capital transitional arrangements in line with regulatory guidance.

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).

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 2017 and comparatives for 2016 were prepared under UK GAAP, including the Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 2017 (2016: nil).

None of the Directors had an interest in ABCIB shares during 2017, and no option to purchase shares has been granted to any Director. Full details of the Board of Directors are shown on pages 14 & 15.

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.

In conclusion, and as always, I would like to wholeheartedly commend the professionalism, support and co-operation of the Bank's management and staff at all levels throughout the course of the year. Their unflagging hard work has once again proven instrumental not just in the delivery of yet another year of positive financial results for the Bank, but also of furthering ABCIB's reputation as the 'Bank of Choice' for undertaking business between Europe and the MENAT region. I would also like to acknowledge the generous assistance and increasingly

close collaboration of our colleagues in Bahrain and throughout the wider Bank ABC Group, and congratulate them on Bank ABC's receipt of the Banker magazine's prestigious 2017 'Bank of the Year in Bahrain' award. The valuable guidance and insight provided by our eminent Board of Directors and the steadfast and ongoing commitment and encouragement of our shareholders has also been much appreciated.

On a final note I wish to record my personal and very particular thanks to Mr. Hilal Al-Mutairi who has graced our Board of Directors for over 15 years and who stepped down from his position in July 2017.

Approved by the Board and authorised for issue on 23rd February 2018.



Saddek Omar El Kaber
Chairman

Strategic Report

The Directors have pleasure in presenting their 2017 Strategic Report for ABC International Bank plc.

Business Strategy

The Bank has, since its establishment some 27 years ago, been an integral part, and remains a wholly owned subsidiary, of Bahrain-based Bank ABC Group, functioning as the European 'face' of the Group, materially enhancing the latter's international client service capabilities.

From the outset ABCIB has been guided by a very clear strategy, that of supporting and facilitating the flows of international trade and investment between Europe and the MENAT region, and this remains the Bank's ultimate guiding principle today. Over the last quarter century, and in the face of a changing global and regional operating environment, this strategy has been appropriately adapted and refined, particularly in terms of products and business approaches, but ABCIB's operations overall still remain true to both the spirit and the letter of the original vision. Today the Bank's guiding principles also explicitly incorporate a commitment to excellence of client service through the provision of distinctive and innovative products and services, and ABCIB's ultimate aim is nothing less than achieving the status of 'Bank of Choice' both for European clients undertaking or exploring trade and investment opportunities in the MENAT region and for MENAT clients' European trade and investment activities. ABCIB, with its headquarters and centre of operations in London, currently operates through a network of branches in Paris, Frankfurt and Milan and a Representative Office in Istanbul.

ABCIB regards itself as a specialist or 'niche' financial intermediary, providing a specifically delineated range of key trade finance and investment products and undertaking the majority of its business in core markets of the MENAT region. In order to best carry out these activities the Bank has, over the years, made great efforts to gather together professional staff both with expert product skills and with deep and unrivalled knowledge of its core MENAT markets, further leveraging as appropriate the wide experience embodied in the Arab World footprint of the Bank ABC Group. Recent years has also seen significant investment in enhancing the Bank's risk, compliance and conduct culture, to appropriately support front line commercial operations whilst able to satisfy the demanding standards required by the regulatory authorities.

The Bank continues to operate on the basis of three main business streams - Global Trade Finance, Islamic Financial Services including Real Estate and Treasury Operations - each contributing in various ways and at various levels to the Bank's total operating income and general development and progress. Each business stream has evolved from and remains wholly consistent with the Bank's key strategic focus and aims. All of the three business streams are in increasing alignment with Bank ABC Group strategy, and particularly with respect to the Group's Wholesale Banking Initiative, and growing synergies are explored as a matter of course. ABCIB contributes materially to Group development in its high profile dual roles as the centre of excellence for both Global Trade Finance and Debt Distribution and Global Real Estate Financing.

Global Trade Finance has historically been the largest business stream in the Bank and the most significant contributor to operating income. This remains the case today. The business model at the heart of operations - based on an 'originate, structure, distribute' platform - has proved highly successful over time and remains broadly unchanged, albeit having been refined and expanded over time. Global Trade Finance provides a broad, but focussed, range of products specifically geared to supporting clients in their international trade finance activities. Ranging from traditional export and import documentary letters of credit, contract bonding and guarantees through to more structured products including forfaiting and insurance-backed receivables financings. In all instances one of the unique selling points of the Bank is the ability of its staff to deliver, in a timely manner, tailor-made, innovative trade financing solutions to the specific needs of its clients. The geographic focus of operations, and the backbone of the Bank's activity, remains that of the MENAT region, particularly Libya and North Africa, an area of the world in which the Bank and its parent Group have unrivalled expertise and a clear competitive advantage in the marketplace. The Bank's diverse portfolio of trade finance assets has proved very resilient. It has a strong repayment track record, generally short-term maturity structure and a low overall risk profile.

Increasingly integral to Global Trade Finance is the unit's Debt and Distribution activities, whereby trade finance assets, typically originated by the Bank, are sold on to other investors in the market. Distribution has proven a valuable and pro-active tool for internal capital management, more optimally leveraging and utilising capital resources, whilst it has also allowed the Bank to support clients' wider, non-MENAT, trade financing needs. The success of debt distribution activities in pure trade finance has widened the activities of the Bank to cover both clients' more general corporate finance needs and their business operations in - selectively assessed - non-MENAT geographies. In recognition of the Bank's expertise and success in these areas, ABCIB has been designated the Group centre of excellence for Global Trade Finance and Debt Distribution activities.

Islamic Financial Services is the second largest business stream in the Bank in terms of contributions to operating income and remains key to overall strategy. The unit provides a range of Shariah compliant financial products - covering trade, corporate and treasury activities - to cater for the growing UK and European corporate interest in Shariah financing as well as offering Arab World and other investors appropriately structured Shariah investment opportunities particularly in UK commercial real estate developments. Indeed the latter is now the main focus of activities with a particular - albeit not exclusive - emphasis on prime central London real estate developments which not only attract a 'scarcity' premium with respect to pricing, but have retained the interest and loyalty of Arab World investors - even in the more uncertain times generated by BREXIT concerns. A recent move into conventional real estate financings - using similar transactional modalities and conditionalities as those for Shariah compliant projects - marks an organic and strategic development believed to have significant potential for enhanced income generation in future. Reflecting the success of these activities, ABCIB's London office was, in 2017, recognised as the Bank ABC Group centre of excellence for Global Real Estate activities.

Treasury Operations continues to play a central role in supporting and facilitating the Bank's day-to-day business activities. Its primary role is to appropriately and continuously manage the Bank's overall funding and liquidity positions, such that ABCIB is in a position to be able to carry out all its business activities and fulfil all its financial obligations in a timely manner, whilst remaining at all times in full compliance with the prudential and statutory requirements of the UK's relevant financial regulatory authorities. Treasury Operations is also an income generating unit in its own right, placing any excess liquidity directly into the money markets and able to sell treasury financial products and services to the Bank's client base. Treasury Operations works closely with colleagues in Bahrain's Bank ABC Treasury, exploring synergies and exploiting cross-selling opportunities as and when they arise.

During the course of the year, the Bank continued to work on its 3 year (2018 – 2020) strategic planning exercise, in tandem with and mindful of a similar process being undertaken by the Bank ABC Group. Senior Management is now well advanced with this process and on schedule for its completion in the first half of 2018. The Directors are of the firm view that the strategic direction and the business model adopted, including in a post-BREXIT environment, will be appropriate to the particular challenges of its operating environment and in full alignment with the aims of the wider Bank ABC Group. Investments in human resource skills and enhanced internal compliance functions that have been made in recent years have strongly supported the Bank in its ability to undertake the sort of front line business activities in which it excels - both in terms of key products and core MENAT geographies - to the exacting standards and in full compliance with the requirements of the regulatory authorities. The Directors believe the Bank is well positioned to deliver added shareholder value in the years ahead.

Review of the Business

The Bank generated total operating income of £70.1 million in the year ended 31st December 2017, modest progress when compared with the £69.8 million reported in the like year earlier period. This broadly steady performance at the operating level was achieved against a generally improving economic backdrop but a still challenging political risk environment, particularly in the Bank's core operating geographies. Nonetheless, this translated into a healthy level of profit before tax, at £23.5 million some £3.7 million - or almost 20% - above the £19.8 million reported in 2016. Net profit rose to £18.5 million, after £16.2 million in 2016, an increase of almost 15%.

The table below summarises the Bank's key financial and other performance indicators for 2017, compared with those achieved in 2016, whilst the Financial Highlights section which follows provides additional and more detailed financial and other performance data.

	2017 £'000	2016 £'000	Change
Net interest income*	35,438	32,368	9%
Fees and commission (net)*	32,241	35,217	(8%)
Total operating income	70,113	69,836	0%
Profit before tax	23,506	19,827	19%
Profit after tax	18,521	16,227	14%
Equity shareholders' funds	469,692	449,727	4%
Average number of employees	245	232	6%

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

The Bank's total asset base declined to £2,932 million at end-December 2017, down by some £758 million from the £3,690 million reported at end 2016, largely reflecting an almost 28% reduction in bank and customer deposits. During 2017 the settlement process for certain trade counterparties became more efficient resulting in less deposits being held for settlements, this excess funding reduction also contributed to a decrease in the funds being placed with banks. However, with total shareholders' equity rising by some 4.5% in the year to £470 million, after £449.7 million in the previous year, the Bank's balance sheet remained strong.

Throughout the course of the year the Bank's funding and liquidity positions, as reflected in the NSFR (Net Stable Funding Ratio) and LCR (Liquidity Coverage Ratio) remained above prudential and regulatory norms, with the LCR monitored continuously on a day-to-day basis with close Senior Management involvement. Capital adequacy remained strong and fully supportive of business activity at all times, with the year end Capital Ratio and Tier 1 Ratio standing at 20.4% and 18.2% respectively, compared with 21.5% and 19.2% at end-2016.

After strong growth last year, staff levels stabilised in 2017, with the number of permanent employees at year end only marginally higher at 247 compared with the 246 at end-2016. Within this broadly stable total, however, there were internal staff movements in order to re-balance resources and better underpin and support business activities.

The Bank operates within a well established and strongly structured risk and compliance framework, enabling it to function to the highest of standards expected by our regulators. Risk awareness is fully embedded in operations at all levels and an integral part of the Bank's culture and day-to-day conduct. The principal risks faced by the Bank are largely credit, operational, market and liquidity-related in nature and are broadly and fundamentally unchanged from previous years and are discussed in greater detail in the section of this Annual Report dealing with Corporate Governance and Risk Management. Considerable additional resources have been invested into the risk and compliance areas of the Bank in recent years, and are believed to be commensurate with the specialised activities - in terms of products and geographies - and the associated risks faced by the Bank. Indeed, the strength of the Bank's compliance and due diligence functions - including KYC and AML structures - are

seen as a positive competitive advantage for the Bank, which together with the skills and in-depth knowledge of the Bank's staff, provide added confidence to clients wishing to undertake business in what are often perceived as higher risk MENAT jurisdictions, particularly of North Africa and the Levant. Added support to operations is given by ABCIB's ability to access up-to-the-minute information and on-the-ground assistance from Bank ABC's local MENAT footprint which includes subsidiaries and offices in Algeria, Libya, Tunisia, Egypt, Lebanon, Jordan and, most recently, Dubai.

The Directors are fully aware of the elevated levels of political risk which exist in many parts of the Bank's core MENAT operating region, as well as the challenging nature of the local economic and business environments in these countries. ABCIB nonetheless remains well equipped to deal with these challenges, having the necessary resources in terms of balance sheet strength, a robust risk and compliance culture, professional and skilled staff and valuable access to the wider Bank ABC Group network. The Board firmly believes that ABC International Bank is well positioned to deliver sustained progress both towards achieving its goal of being the 'Bank of Choice' for clients' European and MENAT trade and investment flows and in delivering further value for shareholders whilst always operating to the highest of standards expected by our regulators.

Approved by the Board and authorised for issue on 23rd February 2018.

A handwritten signature in black ink, consisting of a large, sweeping 'S' shape followed by a smaller, more complex mark that appears to be the initials 'O.E.K.'.

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, Member of the Libyan Investment Authority Board of Trustees, Chairman of National AML & CFT Committee, Mr. El Kaber is also Chairman of Bank ABC Group. Previously, Mr. El Kaber was the Deputy Chief Executive Officer of ABC International Bank plc and Chairman and General Manager of UMMA Bank, Libya. Mr. El Kaber held key positions in a number of banks and financial institutions in the past including Deputy Chairman of the Board of Arab Banking Corporation-Algeria and Director of Arab Financial Services Company. He was appointed Chairman of the Board of ABC International Bank plc on 9th May 2013. Mr. El Kaber has more than 35 years of experience in international finance and banking.

Mr. Abdallah Al Humaidhi RNC* CAC # ∞

Deputy Chairman

Deputy Chairman and CEO of Commercial Facilities Company, Kuwait, Deputy Chairman of the Public Institute of Social Security, Kuwait and Director of First National Bank S.A.L., Lebanon. Mr. Al Humaidhi is also a Director of the Kuwait Chamber of Commerce & Industry, a Director of Investcorp Bank and a Director of Bank ABC Group. Mr. Al Humaidhi was appointed to the Board of Directors of ABC International Bank plc in 2008 and as Deputy Chairman on 11th March 2011. Mr. Al Humaidhi has more than 35 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 Bank ABC Group, Chairman of Bank ABC Egypt and a Director of Fidelity Funds - Luxembourg. 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 17th May 2013 and has more than 40 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.

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, The Wesleyan Assurance Society and AETNA Insurance Company Ltd and a number of other private and not-for-profit companies.

Dr. Florence Eid-Oakden AC BRC RNC CGC CAC # †

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 #∞}*Director*

Dr. Kawan is the Group Chief Executive Officer of Bank ABC Group. 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 Board of Bank ABC Islamic.

Angus MacLennan ^{AC RNC BRC CGC* #i}*Director*

Mr. MacLennan was appointed as Independent Director of ABC International Bank plc in 2010. Mr. MacLennan is Chairman of The Eve Appeal, Director of The Eve Appeal Ltd and Director of AngMac Ltd. Mr. MacLennan has a banking career that spans over 35 years.

Paul Jennings ^{\$}*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 ^{\$}*Chief Financial Officer & Deputy CEO*

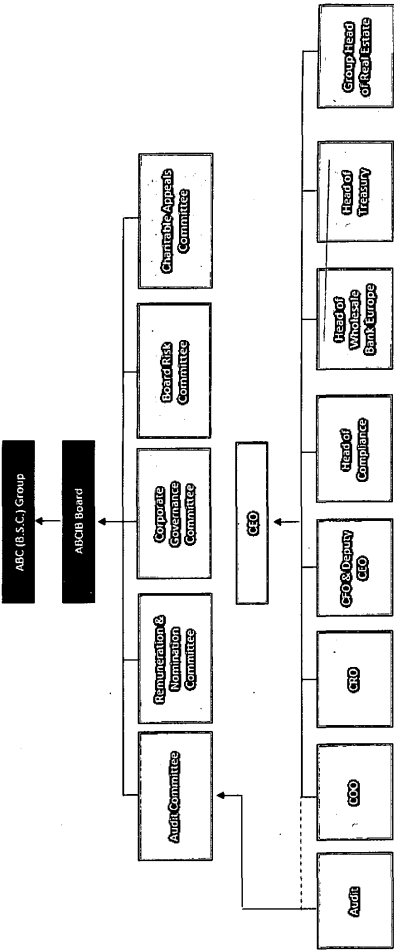
Mr. Adrian joined ABC International Bank plc in October 2014 as Chief Financial Officer and was appointed Deputy CEO in February 2016. Previously he worked at the Royal Bank of Scotland (RBS) where he held various positions over a 13 year period, including senior strategist, Chief Administration Officer 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

Adrian Powell

Interim Chief Operating Officer

Mr. Powell joined ABC International Bank in December 2016, having spent the previous six years working in the Bank ABC Group Audit function in Bahrain. Upon his transfer to London Mr Powell worked closely with the previous Chief Operating Officer (COO), before being appointed as Interim COO in May 2017. Prior to joining the Bank ABC Group Mr Powell had spent most of his career at Lloyds TSB in a variety of positions in the UK, USA and Japan.

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.

Cristina Wiseman

Head of Compliance

Miss Wiseman joined ABC International Bank plc as Head of Compliance, Europe in January 2018. Prior to this she held the role of Head of Compliance and MLRO at Zenith Bank (UK) and had been instrumental in the setup of Banif Banco de Investimento S.A. as Branch Manager before moving to Banif Banco Internacional do Funchal S.A. as MLRO and senior manager responsible for Compliance and Operations. Previous to this she had served over 20 years at Banco Espirito Santo S.A. in various operational and control functions.

Matt Rigby

Head of Internal Audit

Mr Rigby joined ABC International Bank plc as Head of Internal Audit in January 2018. Mr Rigby has 17 years of experience in internal audit having spent 9 years at Deloitte before moving into industry. Mr Rigby joined us from GE Capital where he held the position of Head of Internal Audit (SMF5) for GE Capital Bank Ltd and Audit Director for Compliance/Financial Crime in GE Capital International. Mr Rigby has experience of our product set and region through coverage of Mubadala GE Capital (MGEC) and a prior internal audit role at Europe Arab Bank.

Geoff Sharp

Head of Wholesale Banking Europe

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

Deputy Head of Wholesale Banking Europe & Group Head of Real Estate

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

Financial Highlights

	2017	2016	2015	2014	2013
Earnings - £'000					
Net interest income*	35,438	32,368	27,758	37,343	40,512
Net fees and commissions*	32,241	35,217	32,051	29,540	39,469
Total operating income	70,113	69,836	62,343	69,364	80,354
Profit before provision and tax	23,127	22,223	19,056	28,935	39,322
Impairment provision - net	379	(2,396)	(1,116)	1,546	(10,901)
Profit before tax	23,506	19,827	17,940	30,481	28,421
Net profit for the year	18,521	16,227	14,025	23,684	20,450
Financial Position £'million					
Total assets	2,932	3,690	2,835	2,697	2,901
Loans and advances to customers	1,122	910	983	1,171	1,060
Loans and advances to banks	1,441	2,350	1,520	1,086	1,280
Financial investments - available for sale	278	321	219	260	349
Shareholders' funds	470	450	442	427	407
Ratios (%)					
Profitability					
Cost : Income ratio	68%	68%	69%	58%	51%
Net profit as % of average shareholders' funds	4.0%	3.6%	3.2%	5.7%	5.2%
Net profit as % of average assets	0.6%	0.5%	0.5%	0.8%	0.7%
Capital					
Risk weighted assets (£'million)	2,567	2,342	2,152	1,914	2,098
Capital base (£'million)	525	506	493	423	420
Risk asset ratio - Tier 1	18.2%	19.2%	20.4%	22.0%	19.4%
Risk asset ratio - Total	20.4%	21.5%	22.9%	22.1%	20.0%
Average shareholders' funds as % of average total assets	13.9%	13.7%	15.7%	14.9%	12.7%
Loans and advances to customers as a multiple of shareholders' funds (times)	2.4	2.0	2.2	2.7	2.6
Total debt as a multiple of shareholders' funds (times)	4.5	6.4	4.7	4.6	5.5
Term borrowing (including Subordinated debt) as a multiple of shareholders' funds (times)	0.6	0.7	0.7	0.6	0.4
Assets					
Loans and advances to customers as % of total assets	38.3%	24.7%	34.7%	43.4%	36.5%
Financial investments - available for sale as % of total assets	9.5%	8.7%	7.7%	9.6%	12.0%
Impaired loans as % of gross loans	0.7%	0.7%	0.8%	0.9%	1.3%
Loan loss provision (including CIP) as % of impaired loans	128.2%	121.6%	105.8%	93.5%	67.9%
Loan loss provision as % of gross loans	0.9%	0.8%	0.8%	0.9%	0.9%
Liquidity					
Deposits to loan cover (times)	1.9	3.2	2.1	1.7	2.1
Capitalisation £'million					
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

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

CHIEF EXECUTIVE OFFICER'S REPORT AND BUSINESS REVIEW

Overview

The Bank achieved solid progress in 2017, making further inroads into its key franchise of supporting and expanding trade and investment flows between Europe and the MENAT region. Each of the Bank's core operating areas of Global Trade Finance, Islamic Finance, Real Estate and Treasury Operations contributed significantly in its own way to the overall positive financial result for the year which saw total operating income rise slightly to £70.1 million and profit before tax jump almost 20% to £23.5 million. The Bank maintained its sound fundamentals in terms of key funding, liquidity and capital ratios throughout the year and operated at all times in full compliance with the prudential and regulatory minima set by the relevant UK financial authorities. All of these achievements occurred against an operational backdrop which, although broadly supportive was, as the Chairman remarked in his Directors' Report, still very challenging, particularly at regional level.

In many ways, 2017 was both a period of consolidation and transition for the Bank and as the year progressed a perceptible change occurred in the character of operations. The focus on, and investment in, structural and organisational change which had begun in 2015 reached maturity, underpinning a renewed confidence and strategic momentum in front line business activities and raising the Bank's visible commercial profile. ABCIB benefitted not just from its longstanding and increasingly acknowledged expertise and in-depth understanding of the MENAT region, but also its specialist product knowledge, whilst the Bank's high standards of due diligence and compliance procedures gave added confidence to clients dealing in perceived difficult jurisdictions. Not only did this underpin and materially translate into a healthy continuation and expansion of business with longstanding clients, but it was also instrumental in securing the conclusion of facilities with new clients.

Whilst the core Trade Finance operating unit continued to be mainly active in the traditional geographies of the MENAT region - particularly North African markets - a cautious and carefully overseen expansion of our distribution platform into non-traditional geographies added a valuable degree of diversification to, and opportunities for growing, the Bank's asset portfolio. Conventional real estate financing, a new product offering nurtured in the Islamic Financial Services unit, has also added a new dimension to commercial opportunities for the Bank, not just for the current year but for 2018 and beyond. Meanwhile, additional client coverage resources for Treasury Operations will also enhance this unit's ability to raise its income generating capacity. The sub-sections which follow expand upon and detail the operations of each of the core business streams.

The Bank remains ever conscious of its responsibilities as the European 'face' of the Bank ABC Group and continues to be a major contributor to Group business, a fact not always fully evident from ABCIB's standalone results. Throughout 2017, the Bank has become more closely aligned with the wider Bank ABC Group, not least with respect to the latter's Wholesale Banking initiative, whilst ABCIB has now been additionally recognised as the centre of excellence for the Group in Real Estate Finance, adding to its established Global Trade Finance role. Transactional synergies continue to be explored and 2017 has seen some large business dealings linking ABC units across the world.

Whilst the Bank's operational hub remains firmly based in London, significant progress continues to be made with respect to business development at ABCIB's three European branches, with Paris, Frankfurt and Milan now accounting for almost 25% of total Bank revenues (classified by booking centre). Progress has been underpinned by an ongoing intensification of corporate marketing efforts, in full alignment with Bank ABC Group's Wholesale Banking Initiative, particularly with respect to multinationals and major corporates. Focusing on a selectively targeted expansion and diversification of their corporate client bases, 2017 saw the three European branches bring on board in excess of 30 new, high quality, corporate clients, representing a broad cross section of industrial sectors and products. All main business streams have been able to benefit from the European branches' corporate marketing efforts as, indeed, has the wider Bank ABC Group. Throughout the year considerable Senior Management resources have been devoted to exploring post-BREXIT options for the Bank and undertaking contingency planning for ABCIB's existing EU operations. The Bank has the full support of its key stakeholders for continuing -and growing - the current European business model in the most appropriate legal and organisational form post-BREXIT and looks forward to the opportunities this will create.

The Bank's Istanbul Representative Office has also continued to perform strongly, working in close collaboration with some of Turkey's leading financial and corporate entities. In 2017 the Istanbul office was responsible for originating the largest volume of forfaiting transactions within the Bank, contributing materially to revenue generation and significantly enhancing the international reach of both ABCIB and the wider Bank ABC Group, being equally at home in the provision of both conventional and Shariah compliant financial products. With effect from 1st October 2017, a decision was taken to close the Bank's representative offices in Stockholm and Moscow, with the client and marketing activities for both offices relocated and centralised in London. However, the Bank's commitment to the clients introduced by these offices and to supporting their MENAT business activities remains undiminished.

As at 31st December 2017, the Bank's overall headcount remained broadly stable, employing some 247 permanent members of staff both in the UK and its overseas offices, compared with 246 a year ago.

Trade Finance

ABCIB continued to be the global centre of excellence for Bank ABC Group's global trade finance and distribution activities, providing its expert knowledge and services to Bank ABC units throughout the world. The Global Trade Finance (GTF) business stream remained in a robust underlying state of health in 2017, and was still by far the largest contributor to ABCIB income. Revenue generated by GTF stood at £43.9 million in the twelve months to end-December 2017, after £46.5 million in the like year earlier period, equivalent to some 63% of the Bank's total operating income. This headline result was impacted to a degree by yet another year of a challenging global and regional economic backdrop and somewhat weaker margins in certain areas. However, it belies the progress achieved on a number of levels including the quality of transactions undertaken, the growing momentum from diversification and new business directions and the deepening of Bank ABC Group synergies, including the contribution from GTF's dynamic distribution and syndication services.

During the year GTF further consolidated and developed its core franchise at both the product and geographic level. It continued to support a growing client base by providing innovative, tailor-made solutions to their international trade and corporate finance needs, particularly with respect to the MENAT region whilst using its expert market knowledge to distribute and syndicate transactions to both prudentially leverage the Bank's capital resources and contribute directly to revenues.

A broad range of trade finance products and techniques were deployed throughout the year including traditional export and import documentary letters of credit, forfaiting, contract bonding and private credit insurance-backed receivables financing. In November 2017, an iconic manufacturer of sports and luxury cars, entered into a USD150 million receivables financing facility with the Bank to support sales across its dealer network in Europe, MENAT and other parts of the world. Indeed with a growing portfolio of 19 key clients, receivables financing experienced a healthy asset diversification, boosted by the corporate client focus being championed by the Bank's European branch network. The key clients include several blue chip corporates with whom relationships span between 10-15 years which is a strong endorsement of the competitive nature and high quality service we provide.

The year also saw growing alignment with Bank ABC Group's Wholesale Banking initiative, providing significant examples of positive collaboration with other Group units. Particularly noteworthy, and reflecting the success of closer Group integration efforts, a major USD98 million trade finance deal was structured by GTF during the year, supporting food product exports to Egypt by a Brazilian Corporate, one of the largest producers of fresh and frozen protein foods in the world and a core client of Banco ABC Brasil.

As well as consolidating certain business areas into London, both with long established and new clients, there was a widening of trade syndication and distribution activity. Distribution volumes surpassed the USD1 billion mark in the year, together with a cautiously calibrated expansion into new, non-traditional markets for the Bank on the FI trade loan side, including but not limited to, Brazil, India and South Africa where transactions have been undertaken involving leading local financial institutions, with a highlight being the conclusion of USD100 million of trade finance flows with South Africa's Rand Merchant Bank (a division of FirstRand Bank).

GTF is well placed to take advantage of an expected modest improvement in global trade and growth trends in the coming year and build further on Bank ABC Group synergies, not least with respect to the Group's new Dubai and Singapore branch operations, as the centre of excellence for trade finance and distribution activities. A further deepening of its core product and geographic franchise will go hand in hand with new momentum from diversification of its portfolio and new business opportunities, with ongoing exploration of advanced technologies with the eventual aim of developing a state of the art digital trade platform.

Islamic Financial Services & Real Estate

The business unit within ABCIB provides European and MENAT based clients with a broad range of Shariah compliant real estate financing, corporate, trade and treasury financial products. The strategic focus of the business has centred on real estate where the Bank has been a key player especially in providing sharia compliant finance in the UK.

2017 has been an outstanding year, not just in terms of financial performance but also with respect to the strategic development of its main product offering and the heightened recognition by and growing synergies with the wider Bank ABC Group. The business has generated a sharply higher income of £20.7 million in 2017, 39.8% above the £14.8 million reported in the previous year and with its share of ABCIB total operating income rising to 29.5% from 21.2% a year ago. Whilst some of this improvement benefitted from transactions deferred or delayed in 2016 because of investor concerns over BREXIT uncertainties, 2017 nonetheless saw a general increase in the unit's business volumes together with improved margins. In March 2017, IFS concluded a £250 million sharia compliant transaction for Regent's Crescent Development which it originated, structured and invited other banks to join the transaction. Comprising over 70 luxury apartments, the re-development of this Grade 1 listed building, originally associated with the famous Georgian architect John Nash, in a prime W1 residential address adjacent to London's Regent Park, has been an undoubted highlight of the year for business. Transactions with eight new clients during the year included a noteworthy development relating to the successful regional diversification of IFS's real estate portfolio, with the provision of acquisition financing for office building, let to an international oil services company, in Aberdeen.

The real estate financing business of IFS, which to date has been marked by an impeccable repayments track record, received two further boosts during the year. Bank ABC Group recognised both the success of this business and its wider potential for Group development by making ABCIB the 'centre of excellence' for real estate finance within the wider Group, appointing the UK-based Head of IFS to the position of Group Head of Real Estate. A further, and major, strategic development towards year-end saw the first approval given for a real estate transaction, in excess of £40 million, to be financed in a conventional rather than Shariah compliant manner. Building on IFS expertise and using similar transactional modalities this has provided significant new momentum to the unit's ongoing business potential.

Whilst the focus of IFS in 2017 has clearly been on real estate transactions, the provision of other Shariah compliant financial products has not been neglected, and co-operation with other ABCIB and Bank ABC units has resulted in a number of Treasury and corporate Shariah compliant products and facilities provided to clients.

Looking forward, a modest improvement in market conditions looks likely to support the new strategic momentum in IFS activities, particularly with regard to the real estate sector, albeit the ongoing lack of clarity with respect to the BREXIT process and the possibility of renewed bouts of investor nervousness which this might entail, suggests the need for a degree of caution.

Treasury

ABCIB Treasury's primary, and vital, role continues to be that of responsibly managing the Bank's overall liquidity and funding positions. In so doing Treasury ensures that the Bank is at all times both wholly compliant with relevant prudential and regulatory requirements and also able to fully and effectively undertake all its day-to-day business activities and commercial obligations. ABCIB Treasury is additionally tasked with generating income in its own right, by lending excess liquidity directly into the money markets and by exploiting financial product cross-selling opportunities amongst the Bank's European and MENAT client base, collaborating closely with Bank ABC's Bahrain-based Treasury team to identify and take advantage of new business leads.

Throughout the course of 2017, Treasury has successfully balanced the various aspects of its remit contributing to the Bank's overall strength and progress during the year and remaining a positive net income contributor to the Bank, with earnings of £4.8 million, compared with the £5.8 million reported in 2016.

There was a continued focus during the year on funding stability and diversity and Treasury successfully attracted new corporate deposits, notably from clients in the UK and Europe, comfortably positioning the Bank to well exceed the 100% NSFR (Net Stable Funding Ratio) regulatory requirement by the 1st January 2018 deadline. Liquidity has been managed effectively and continuously throughout the year, with the LCR (Liquidity Coverage Ratio) once again kept prudentially in excess of regulatory requirements.

Whilst ABCIB Treasury will retain its primary focus on funding and liquidity and ensuring full compliance with increasingly challenging and complex prudential and regulatory regimes, a strategic decision was made during the year to pro-actively strengthen the unit's income generating capacity. Recognising the financial market sales potential arising from the Bank's growing European corporate client base, a new Deputy Head of Treasury was recruited in September 2017, together with a dedicated assistant, specifically tasked with exploring and promoting opportunities for increasing financial market sales.

Looking forward, Treasury's challenging regulatory environment will undoubtedly persist - with new demands with respect to the implementation of COBS (Conduct of Business Sourcebook) and MIFID II (Markets in Financial Instruments Directive) regulations - whilst the additional resources made available for financial market sales are expected to further improve deposit diversification and income generation. A somewhat more benign economic backdrop, with clear albeit still very cautious signalling by central banking authorities of an end to an ultra-low interest rate environment, also seems likely to benefit Treasury money market activities, although ongoing uncertainties over BREXIT could still unsettle financial markets.

The Year Ahead

The renewed business impetus that has gathered momentum in 2017 throughout all the core income generating units is expected to continue in 2018, benefitting from further Bank ABC Group alignment synergies and from the strategic momentum being generated by the new business directions in each of the core income generating units. Moreover, this increasingly visible business profile for the Bank will be taking place at a time when the background operating environment is showing positive - albeit still fragile - signs of economic improvement, with central banking authorities now finally having the confidence to take the first steps away from historically ultra-low interest rate regimes.

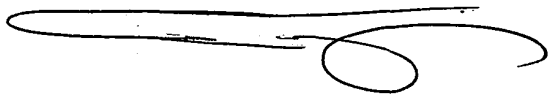
Whilst this benign conjunction of renewed business momentum and a somewhat more sanguine economic outlook augurs positively for the Bank's performance in 2018, a degree of caution remains warranted. Whilst the global outlook is indeed directionally more positive, the Bank's main geographical operating areas still lag somewhat. The road to political and economic stability in MENAT remains a long one, with downside risks still predominating, and it will require all the Bank's skills and expert knowledge base, to diligently and responsibly guide and support our clients to conclude mutually beneficial business. In undertaking these commercial operations, the Bank views very seriously its responsibility - to clients, stakeholders and regulators alike - to ensure an appropriate Culture and Conduct ethos throughout the organisation. This will be a continuing focus in 2018 - a focus fully endorsed and supported by both the Board and the Senior Management team. Building on our experience of, and the progress already made, to enhance our Risk Management culture, we will broaden this to include a wider review of the Bank's overall behaviour and values, collating our findings in such a way as to help devise tangible cultural metrics which can measure, monitor and assess our progress. This will help us to ensure that we are not only driving a sustainable and appropriate culture within the Bank, but one which continues to put our clients' needs at the very centre of everything that we do. We are confident that the Bank's specialist reputation, increasingly robust internal structures and appropriate culture and conduct ethos will allow our niche business operations, always undertaken to the highest standards expected and demanded by our regulators, to continue and flourish.

Nearer to home, policy uncertainty over BREXIT remains, with necessary contingency planning both a distraction to, and highly consuming of, Senior Management time and resources. However, and with the full backing of the Bank ABC Group and key stakeholders, we are determined to successfully steer the Bank through the transition to a post-BREXIT European footprint, looking forward to the new business opportunities this will create. Undoubtedly challenging, 2018 nonetheless seems set to more positively align business prospects with operating environment than in the recent past and we are determined to take full advantage of this opportunity to further progress the reputational standing of the Bank and create value for shareholders.

One of the greatest assets of the Bank remains that of its staff, whose unrivalled skill set, professionalism and dedication remain second to none in our industry. Their support and hard work throughout the year has once again been key to the Bank's successful performance and growing reputation, and to them I offer my unreserved thanks. In no small measure ABCIB has also continued to benefit from the support and encouragement of our Bank ABC Group

colleagues and wider stakeholders and for that I remain most grateful. My Board of Directors deserve credit for their outstanding support and guidance through the year with a special mention to our Chairman whose dedication and commitment in supporting ABCIB is truly outstanding.

Finally I would like to echo the Chairman's thanks to our former Director, Mr Hilal Al-Mutairi, whose support and insight has been so generously given over so many years.

A handwritten signature in black ink, consisting of a long horizontal stroke followed by a loop and a small flourish.

Paul Jennings
Chief Executive Officer & Managing Director

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, which is reviewed by the Corporate Governance Committee. The Board met on four occasions during 2017.

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 of the Board has overseen the making of charitable donations by the Bank for a number of years, promoting charitable causes around the world, particularly in relation to the health and wellbeing of children. Following a recent review the Board will in future limit its involvement to setting the donations policy and annual budget for the Bank and the donations committee will be run by the Bank's staff with the oversight of the CEO and Management Committee.

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.
- Provide portfolio oversight via KRI & MI tracking
- Review and recommend ABCIB Credit Policy.
- Review and approve ABCIB Credit Procedures.
- Conduct 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, based on standard mitigation and credit control practices.

- Relationship managers in the first line of defence are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks.
- The centralised credit unit in the second line of defence provides independent and regular credit review of the clients, provides portfolio MI and KRI tracking data, maintains and recommends changes to the credit policy and procedures, conducts credit portfolio reviews and conducts review of the non-performing book and provisions.

The quality of the credit portfolio is good with the non-performing book constituting 0.52% of the total exposure. The specific provisions against the non-performing exposure is in excess of 95% representing good coverage.

In addition (and prior to implementation of IFRS9), ABCIB maintains a collective impairment provision, this is a general portfolio provision 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.

During 2017, ABCIB implemented a project (led by Bank ABC Group) to ensure readiness for IFRS9 compliance in 2018.

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

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 support the core Operational Risk policy and framework, and 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 and are used to assist in managing both conduct and non-conduct risks.

Governance is achieved by a formal committee structure with an ABCIB Operational Risk Committee (ORCO) 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 AUDITOR'S REPORT TO THE MEMBERS OF ABC INTERNATIONAL BANK PLC

Opinion

We have audited the financial statements of ABC International Bank Plc (the "Company") for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 38, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">• Impairment of loans and advances• Improper revenue recognition from fees and commissions
Materiality	<ul style="list-style-type: none">• Overall materiality of £1.175m which represents 5% of profit before tax

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Impairment of loans and advances</p> <p>Specific impairment provision (2017: £17.7m, 2016: £21.6m)</p> <p>Collective impairment provision (2017: £5.7m, 2016: £5.9m)</p> <p>Refer to the Accounting Policy (page 47); and Note 13 of the Financial Statements (page 54).</p> <p>Valuation of loan impairment provisions is an area of estimation that can require significant management judgement.</p> <p>Given the level of estimation involved and the size of the loan portfolio there is a greater risk of material misstatement in these balances.</p> <p>The risk has neither increased nor decreased in the current year when compared to the prior year.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ➤ Confirming our understanding of the impairment process for loans and advances; ➤ Testing the design and operating effectiveness of key controls for identifying and monitoring credit events; ➤ Reviewing management's watch list and related documentation in order to assess the appropriateness and adequacy of impairment provisions, focusing on areas where significant estimation is involved; ➤ Reviewing a sample of credit files based on our assessment of risk to establish our own view as to whether any loss indicators were present; ➤ Testing the accuracy of inputs and the calculation used to determine the collective impairment provision and, with support from our risk valuation professionals, evaluating the overall reasonableness of the collective impairment provision; ➤ Performing procedures to confirm that events occurring after the balance sheet date have been considered for potential impact on the year-end position; ➤ Assessing the appropriateness and presentation of related financial statement disclosures. 	<p>As a result of the procedures performed we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the impairment provision for loans and advances.</p>
<p>Improper revenue recognition relating to fees and commissions</p> <p>Fee and commission income (2017: £40m, 2016: £44.8m)</p> <p>Refer to the Accounting Policy (page 48); and Note 3 of the Financial Statements (page 50).</p> <p>Compensation tied to the performance of the entity may</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ➤ Confirming our understanding of the fee and commission income revenue; ➤ Testing the design and operating effectiveness of certain controls relating to the fee and commission income revenue recognition process; ➤ Verifying a sample of fees and commissions against the underlying contracts, ascertaining the service provided for the fee or commission 	<p>As a result of the procedures performed we did not identify any evidence of material misstatement in the recording of income from fees and commissions.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>create an incentive for management to manipulate results.</p> <p>The timing of when to recognise revenue relating to fees and commissions can require more judgement by management compared with other revenue streams. These revenue streams are also less predictable in nature than other revenue streams such as interest income and as a consequence there is a greater risk of material misstatement in these balances.</p> <p>The risk has neither increased nor decreased in the current year when compared to the prior year.</p>	<p>and determining whether it has been recognised or deferred appropriately;</p> <ul style="list-style-type: none"> ➤ Performing testing to ensure revenue is recognised in the correct period by testing a sample of fees and commission income received post year end; ➤ Agreeing to supporting evidence any journal entries which exhibited characteristics that, in our view, could indicate unusual or inappropriate adjustments to ensure the risk of management override was appropriately addressed. 	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. There is no significant change in the scope of the audit from the prior year. All audit work was performed by the audit engagement team with the exception of specific audit work performed on IT systems centrally managed by Arab Banking Corporation B.S.C performed by EY Bahrain.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.175m (2016: £991k), which is 5% (2016: 5%) of profit before tax. We consider profit before tax to be an appropriate basis for materiality as it is a key consideration for users of the financial statements of the Company in assessing the financial performance of the Company. It is also linked to the key earnings measures used by the Company's shareholder and used to determine bonuses for management. Our materiality amount provided a basis for determining the nature, timing and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of our audit procedures. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £588k (2016: £496k). We have set performance materiality at this percentage due to our historical experiences with the Company which includes restatements presented in the prior year financial statements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the Audit Committee all uncorrected audit differences in excess of £59k (2016: £50k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

We have also reported to the Audit Committee all corrected audit differences in excess of our performance materiality.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 30, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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 to be audited 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, Financial Services and Markets Act 2000 (FSMA), Financial Services Act 2012 and other relevant Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') regulations.
- We understood how the Company complies with these legal and regulatory frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies, reviewed minutes of the Board and the Audit & Risk Committee; and made enquiries of management for their awareness of any non-compliance with laws and regulations.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by understanding the Company's assessment of the business' susceptibility to fraud and by considering the controls that the Company has

established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered targets and performance incentives and their potential to influence management to manage earnings.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved enquiries of executive management, internal audit, and those responsible for legal and compliance matters as well as focused testing as referred to in the Key Audit Matters section above.
- The Company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of experts where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were first appointed as auditors by the Company to audit the financial statements for the year ending 31 December 1991 and have audited all subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 27 years, covering the years ending 31 December 1991 to 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Ernst & Young LLP

Manprit Dosanjh (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 February 2018

Notes:

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

ABC International Bank plc
INCOME STATEMENT

For the year ended 31st December 2017

	Notes	2017 £000	2016 £000
Interest and similar income *	2	69,097	53,559
Interest and similar expense	2	(33,659)	(21,191)
Net interest and similar income	3	35,438	32,368
Fees and commissions income *	3	39,953	44,844
Fees and commissions expense	3	(7,712)	(9,627)
Net trading income	34	54	128
Other operating income	4	2,380	2,123
		34,675	37,468
Total operating income		70,113	69,836
General and administrative expenses	5	(46,986)	(47,613)
Impairment gain / (loss)	6	379	(2,396)
		(46,607)	(50,009)
Profit before tax	7	23,506	19,827
Taxation	8	(4,985)	(3,600)
Profit for the year attributable to owners		18,521	16,227

The notes on pages 42 to 67 are an integral part of the financial statements.

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

ABC International Bank plc
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2017

	Notes	2017 £000	2016 £000
Profit for the year attributable to owners		18,521	16,227
Items that cannot be reclassified to income statement			
Foreign exchange movement		38	28
Actuarial gain / (loss) recognised on defined benefit pension scheme	38	1,733	(10,529)
Deferred tax (charge) / credit relating to defined benefit pension scheme actuarial (gain) / loss		(329)	2,001
Items that can be reclassified to income statement			
Change in fair value of available for sale investments and loans and advances		2	4
Total comprehensive income for the year attributable to owners		19,965	7,731

ABC International Bank plc
STATEMENT OF FINANCIAL POSITION
As at 31st December 2017

Registration No: 2564490

	Notes	2017 £000	2016 £000
Assets			
Cash and cash equivalents		21,379	26,269
Financial investments - available-for-sale	14	277,687	321,055
Loans and advances to banks	10	1,441,263	2,350,215
Loans and advances to customers	11	1,121,735	909,592
Derivative financial assets	16	874	16,438
Tangible fixed assets	17	39,885	40,290
Current Tax asset		-	315
Deferred tax asset	18	2,915	4,119
Prepayments, accrued income and other debtors	19	26,396	21,214
Total assets		2,932,134	3,689,507
Liabilities			
Deposits from banks	20	1,725,984	2,599,892
Customer deposits	21	399,274	267,883
Derivative financial liabilities	22	2,280	1,720
Other liabilities, accruals and deferred income	23	21,798	22,691
Current tax liability		2,077	1,475
Pension scheme liability	38	15,202	18,086
Term borrowing	24	245,827	278,033
Subordinated liabilities	25	50,000	50,000
		2,462,442	3,239,780
Share capital	26	212,296	212,296
Retained earnings		257,372	237,409
Available for sale reserve		24	22
Total equity		469,692	449,727
Total equity and liabilities		2,932,134	3,689,507

The directors approved and authorised the financial statements for issue on 23 February 2018.


Saddek El Kaber
Chairman

ABC International Bank plc
STATEMENT OF CHANGES IN EQUITY
As at 31st December 2017

	Share Capital	Retained Earnings	Available-for-sale reserve	Total equity
	£000	£000	£000	£000
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

Balance at 1st January 2017 as previously reported	212,296	237,409	22	449,727
Comprehensive income				
Profit for the year	-	18,521	-	18,521
Other comprehensive income	-	1,442	2	1,444
Balance at 31st December 2017	212,296	257,372	24	469,692

NOTES TO THE ACCOUNTS

1. Accounting policies

1.1 Reporting entity

ABC International Bank plc ("ABCIB") is a public company limited by shares which is incorporated and registered 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 in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS101).

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.

Where appropriate, prior year figures have been restated to conform with the current year's presentation

ABCIB undertakes business in several countries in the MENAT region in which social and political unrest has occurred over the course of the year ended 31st December 2017. 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.
- d) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- e) The requirements of Paragraph 17 of IAS 24 Related Party Disclosures.
- f) 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.
- g) 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

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. However in the current year ABCIB has made a voluntary disclosure on the impact of IFRS9 and IFRS15 due to the importance of the impending changes.

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 15

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1st January 2018, with either a full retrospective or a modified retrospective application. IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. IFRS 15 is applicable to all contracts with customers, however, interest and fee income integral to financial instruments and leases continue to fall outside the scope of IFRS 15 and are regulated by the other applicable standards (e.g. IFRS 9). IFRS 15 also provides guidance on when revenues and expenses should be presented on a gross or net basis and establishes new disclosure requirements (although only a reduced number of disclosures is applicable under IFRS 101). The standard is effective for annual periods beginning on or after 1st January 2018.

ABCIB will adopt the standard on a modified retrospective basis, recognising the cumulative effect of its initial application as an adjustment to the opening balance of retained earnings. Prior period comparatives will not be restated. The application of IFRS 15 is expected to have an immaterial impact to retained earnings. The expected adjustment to the opening balance of retained earnings is mainly due to the assessment of the timing of recognition of deferred payments fees related to the trade finance business under the new standard, taking into account the nature and timing of satisfaction of the related performance obligations. This will result in recognising fees over a period of time that previously would have been recognised at a point in time.

IFRS 9

In July 2014, the IASB issued IFRS 9 Financial Instruments (IFRS 9), the standard that will replace IAS 39 Financial Instruments: recognition and measurement for annual periods on or after 1 January 2018, with early adoption permitted. The Bank set up a multidisciplinary working group ('the Working Group') with members from its Risk, Finance and IT teams to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk and Financial officers, who regularly report to the Bank's Board Risk Committee and is managed within the Bank's transformation framework. The Project has clear individual work streams. The Bank is currently in final testing stage of IFRS 9 implementation project with initial assessment, design and build stage already completed.

Based on 31 December 2017 data and the current implementation status of IFRS 9 as described in further detail below, ABCIB estimates the adoption of IFRS 9 to lead to an overall reduction in total shareholders' equity of less than 2%. This reduction is predominately driven by the impairment requirements of IFRS 9.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Having completed its assessment, ABCIB has concluded that:

- The majority of placement with banks and other financial institutions, loans and advances to customers and securities bought under repurchase agreements that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9;
- Financial assets and liabilities held for trading and financial assets designated at FVTPL are expected to continue to be measured at FVTPL;
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at FVOCI. Some securities, however, will be classified as FVTPL, either because of their contractual cash flow characteristics or the business model within which they are held.

Hedge accounting

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained. There is an option in IFRS 9 for an accounting policy choice to continue with the IAS 39 hedge accounting framework; ABCIB expects no impact as no IAS 39 hedge accounting is currently applied.

Impairment of financial assets

Overview

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. ABCIB will be required to record an allowance for expected losses for all loans and other debt type financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

ABCIB has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to ABCIB under the contract, and
- The cash flows that ABCIB expects to receive, discounted at the effective interest rate of the loan.

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

In comparison to IAS 39, ABCIB expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

ABCIB groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognised, ABCIB recognises an allowance based on 12-month ECL.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, ABCIB records an allowance for the lifetime ECL.
- Stage 3 – Impaired loans: ABCIB recognises the lifetime ECL for these loans.

ABCIB will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the ECL will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For 'low risk' FVOCI debt securities, ABCIB intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 below. Such instruments will generally include investment grade securities where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. ABCIB will not consider instruments to have low credit risk simply because of the value of collateral.

Stage 1

Under IAS 39, ABCIB has been recording collective provision based on regulatory guidelines. These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under IFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to IAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under IAS 39.

ABCIB considers whether there has been a significant increase in credit risk of an asset by comparing the probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower fails more than 30 days past due in making its contractual payments, or if ABCIB expects to grant the borrower forbearance or a facility has been restructured owing to credit related reasons, or the facility is placed on ABCIB's watch list. Further, any facility having an internal credit risk rating of 8 will also be subject to stage 2 ECL calculation.

It is ABCIB's policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

When estimating lifetime ECLs for undrawn loan commitments, ABCIB will:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment and
- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down

For financial guarantee contracts, ABCIB will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For revolving facilities such as credit cards and overdrafts, ABCIB measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology. Accordingly, ABCIB expects the population to be generally the same under both standards.

Loans in Stage 3, where ABCIB calculated the IAS 39 impairment on an individual basis will continue to be calculated on the same basis.

Other than originated credit-impaired loans, loans will be transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of 12 months.

Forward looking information

ABCIB will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs.

ABCIB considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices, fiscal deficit, government spending, unemployment, and interest rates) and economic forecasts. To evaluate a range of possible outcomes, ABCIB intends to formulate three scenarios: a base case, a worse case and a better case. The base case scenario represents the more likely outcome resulting from ABCIB's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, ABCIB will derive an ECL and apply a probability weighted approach to determine the impairment allowance.

ABCIB will use internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

Limitation of estimation techniques

The models applied by ABCIB may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although ABCIB will use data that is as current as possible, models used to calculate ECLs will be based on data that is one month in arrears and adjustments will be made for significant events occurring prior to the reporting date. The governance over such adjustments is still in development.

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

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 likely 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.

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.

Deferred tax assets

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.

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 'net trading income' 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. 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. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in market conditions.

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.

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.

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

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 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.

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.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment on a straight line basis.

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 other management and advisory fees. Fees received from Letters of credits and acceptances are recognised at a point in time on completion of the service provided.

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

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 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 the taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- 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.

m. Cash and cash equivalents

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

n. Leases

i) Bank as a lessee

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 income statement on a straight-line basis over the lease term.

ii) Bank as a lessor

When the bank is the lessor under operating leases, the rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

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.

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 'general and administrative expenses'.

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.

NOTES TO THE ACCOUNTS (continued)

2. Net Interest and similar expense

	2017 £000	2016 £000
Interest income		
Loans and advances to banks *	31,304	22,458
Loans and advances to customers *	32,758	24,540
Derivative financial instruments	4,710	5,386
others	325	1,175
	69,097	53,559
Interest expense		
Deposits from banks	24,609	13,305
Customer deposits	1,422	816
Subordinated liabilities	1,794	1,895
Term borrowing	4,740	3,924
Others	1,094	1,251
	33,659	21,191

* In readiness for the adoption of IFRS15, ABCIB have reviewed all revenue recognition policies across the Bank. As a result, certain fees are now being reclassified from 'fee and commission income' to 'interest income' to better reflect the nature of the income in relation to arrangement fees, commitment fees, management fees and participation fees earned on lending products. The prior year comparatives for 'interest income' and 'fee and commission income' amounting to £4.9 million have been reclassified to reflect the current year presentation.

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

	2017					
	Trading	Loans and receivables	Available-for-sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Interest and similar income	-	66,482	2,615	-	-	69,097
Interest and similar expense	-	-	-	(33,659)	-	(33,659)
Net Interest and similar income	-	66,482	2,615	(33,659)	-	35,438
Fees and commissions income	-	39,953	-	-	-	39,953
Fees and commissions expense	-	-	-	(7,712)	-	(7,712)
Net trading income	54	-	-	-	-	54
Other operating income	-	827	-	-	1,553	2,380
Total operating income	54	107,262	2,615	(41,371)	1,553	70,113

	2016					
	Trading	Loans and receivables	Available-for-sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Interest and similar income *	-	51,925	1,634	-	-	53,559
Interest and similar expense	-	-	-	(21,191)	-	(21,191)
Net Interest and similar income	-	51,925	1,634	(21,191)	-	32,368
Fees and commissions income *	-	44,844	-	-	-	44,844
Fees and commissions expense	-	-	-	(9,627)	-	(9,627)
Net trading income	128	-	-	-	-	128
Other operating income	-	977	-	-	1,146	2,123
Total operating income	128	97,746	1,634	(30,818)	1,146	69,836

* In readiness for the adoption of IFRS15, ABCIB have reviewed all revenue recognition policies across the Bank. As a result, certain fees are now being reclassified from 'fee and commission income' to 'interest income' to better reflect the nature of the income in relation to arrangement fees, commitment fees, management fees and participation fees earned on lending products. The prior year comparatives for 'interest income' and 'fee and commission income' amounting to £4.9 million have been reclassified to reflect the current year presentation.

4. Other operating income/ (expense)

	2017 £000	2016 £000
Rental income	322	274
Profit on sale of commercial assets	827	977
Dividend income	1,079	-
Other	152	872
	2,380	2,123

NOTES TO THE ACCOUNTS (continued)

5. General and administrative expenses

	2017 £000	2016 £000
a) Staff costs:		
Salaries	27,163	27,023
Social security costs	3,747	3,745
Pension costs (note 38)		
- Defined contribution schemes	1,701	1,397
Redundancy cost	502	1,671
	33,113	33,836
Depreciation	1,285	763
Other administrative expenses	12,588	13,014
	46,986	47,613

	2017 Number	2016 Number
The average monthly number of employees (excluding Directors) during the year:		
Trade Finance	55	57
Islamic	8	8
Project Finance	1	1
Treasury	4	4
Head office and Support	177	162
	245	232

b) Directors' remuneration:

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

	2017 £000	2016 £000
Aggregate remuneration in respect of qualifying services	2,023	1,855
In respect of the highest paid Director:		
Aggregate remuneration in respect of qualifying services	925	821

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

6. Impairment gain / (loss)

	2017 £000	2016 £000
The net (loss)/ gain for the year in respect of provisions is made up as follows:		
Loans and advances to banks	521	142
Loans and advances to customers	264	8
Collective impairment provision	200	(2,765)
Financial guarantees (Off-balance sheet)	(617)	-
Recoveries in respect of advances previously written off	11	219
	379	(2,396)

7. Profit before tax

	2017 £000	2016 £000
Profit is stated after (charging)/crediting :		
Foreign currency gains, net	34	98
Auditors' remuneration:		
audit of the company's financial statements	(294)	(291)
audit of subsidiaries of the company	(12)	(11)
audit related assurance services	(22)	(20)
Other assurance services	(15)	12
Other non-audit services	(50)	(45)
taxation compliance services	-	(121)
taxation advisory services	-	(53)
Operating lease rentals:		
hire of equipment	(67)	(58)
land and buildings	(1,212)	(1,985)
Income from listed securities	2,615	1,634

NOTES TO THE ACCOUNTS (continued)

8. Taxation

	2017 £000	2016 £000
Analysis of tax charge for the year		
Current tax:		
UK corporation tax - Current year	(3,401)	(2,775)
Adjustment in respect of prior years	(3)	209
Foreign tax relief/other relief	640	599
Foreign tax - Current year	(1,346)	(598)
Total current tax	(4,110)	(2,565)
Deferred tax:		
Current year	(942)	(1,175)
Adjustment in respect of previous periods	55	81
Effect of changes in tax rates	12	59
Total deferred tax	(875)	(1,035)
Total tax charge in the Income Statement	(4,985)	(3,600)
Amounts not charged to the income statement		
Deferred tax (charge) / credit on defined benefit pension scheme actuarial (gain) / loss	(329)	2,001
Factors affecting tax charge for the year		
The differences are explained below:		
Profit on ordinary activities before tax	23,506	19,827
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 : 20%)	(4,524)	(3,965)
Effect of:		
Disallowed expenses and non-taxable income	176	(41)
Group relief	-	105
Impact of higher overseas tax rates	(707)	1
Prior year adjustment	52	290
Deferred tax unrecognised, tax rate changes and exempt amounts	6	10
Amounts not recognised	-	-
Pension actuarial loss	12	-
Total tax charge in Income Statement	(4,985)	(3,600)

9. Analysis of assets and liabilities by classification:

	2017					
	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	-	21,379	-	-	-	21,379
Loans and advances to banks	-	1,441,263	-	-	-	1,441,263
Loans and advances to customers	-	1,121,735	-	-	-	1,121,735
Financial investments - available-for-sale	-	-	277,687	-	-	277,687
Derivative financial instruments	874	-	-	-	-	874
Tangible fixed assets	-	-	-	-	39,885	39,885
Current tax asset	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	2,915	2,915
Prepayments, accrued income and other debtors	-	19,356	-	-	7,040	26,396
Total assets	874	2,603,733	277,687	-	49,840	2,932,134
Deposits from banks	-	-	-	1,725,984	-	1,725,984
Customer deposits	-	-	-	399,274	-	399,274
Derivative financial liabilities	2,280	-	-	-	-	2,280
Other liabilities, accruals and deferred income	-	-	-	-	21,798	21,798
Corporation tax liability	-	-	-	-	2,077	2,077
Pension scheme liability	-	-	-	-	15,202	15,202
Term borrowing	-	-	-	245,827	-	245,827
Subordinated liabilities	-	-	-	50,000	-	50,000
Total liabilities	2,280	-	-	2,421,085	39,077	2,462,442

NOTES TO THE ACCOUNTS (continued)

9. Analysis of assets and liabilities by classification (continued):

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
Total assets	16,438	3,296,863	321,055	-	55,151	3,689,507
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
Total liabilities	1,720	-	-	3,198,373	39,687	3,239,780

10. Loans and advances to banks

2017

2016

£000

£000

Repayable:

on demand	51,186	89,100
within three months	560,741	1,565,650
between three months and one year	794,837	598,286
between one and five years	34,828	98,078
after five years	131	158
	1,441,723	2,351,272

Allowance for impairment losses (note 13)

	(460)	(1,057)
	1,441,263	2,350,215

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

9,284

8,258

NOTES TO THE ACCOUNTS (continued)

11. Loans and advances to customers	2017 £000	2016 £000
Repayable:		
on demand	6,999	13,136
within three months	620,801	513,278
between three months and one year	200,169	217,434
between one and five years	307,580	186,540
after five years	9,170	5,629
	<u>1,144,719</u>	<u>936,017</u>
Allowance for impairment losses (note 13)	<u>(22,984)</u>	<u>(26,425)</u>
	<u>1,121,735</u>	<u>909,592</u>

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 (2016: none).

12. Loans and advances which were past due

	2017		2016	
	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	-	-	-	-
Past due over 3 years	<u>572</u>	<u>17,713</u>	<u>1,173</u>	<u>21,433</u>
	<u>572</u>	<u>17,713</u>	<u>1,173</u>	<u>21,433</u>
Loans and advances by credit quality				
Loans and advances:				
- neither past due nor impaired	1,441,151	1,127,006	2,350,099	914,584
- impaired	<u>572</u>	<u>17,713</u>	<u>1,173</u>	<u>21,433</u>
	<u>1,441,723</u>	<u>1,144,719</u>	<u>2,351,272</u>	<u>936,017</u>
Impaired loans and advances		2017 £000		2016 £000
Total impaired loans and advances to:				
- banks		572		1,173
- customers		<u>17,713</u>		<u>21,433</u>
		<u>18,285</u>		<u>22,606</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 2017	1,057	20,525	-	5,900	27,482
Provision for the year	-	101	-	(200)	(99)
Decrease	(521)	(365)	-	-	(886)
Transfer from Financial guarantees (Off-Balance sheet)	-	617	-	-	617
Write-off	(7)	(2,030)	-	-	(2,037)
Foreign currency translation adjustment	(69)	(1,564)	-	-	(1,633)
Carried forward 31st December 2017	<u>460</u>	<u>17,284</u>	<u>-</u>	<u>5,700</u>	<u>23,444</u>

NOTES TO THE ACCOUNTS (continued)

14. Financial Investments - available-for-sale

	2017 £000	2016 £000
Listed (Debt investments)	277,687	321,055
	<u>277,687</u>	<u>321,055</u>
Due within one year	181,463	189,852
Due between one and two years	36,990	90,547
Due between two and five years	59,234	40,656
	<u>277,687</u>	<u>321,055</u>

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:

	2017 £000	2016 £000
At 1st January	321,055	219,030
Additions	171,959	227,688
Repayments and disposals	(202,342)	(147,470)
Fair value movement	24	22
Exchange movements	(13,009)	21,785
At 31st December	<u>277,687</u>	<u>321,055</u>

The net unamortised discount at 31st December 2017 was £116,863 (2016 : £136,146).

The net unamortised premium at 31st December 2017 was £198,592 (2016 : £16,046).

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%

The registered address for all of the above entities is the same as that of ABCIB.

16. Derivative financial assets

	2017 £000	2016 £000
Interest rate swaps	33	135
Foreign exchange contracts	841	16,303
	<u>874</u>	<u>16,438</u>

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 2017	37,406	2,275	2,563	10,038	151	52,433
Additions	-	209	236	383	47	875
Disposals	-	(91)	(320)	(424)	(104)	(939)
Exchange differences and other adjustments	-	3	19	132	37	191
At 31st December 2017	37,406	2,396	2,498	10,129	131	52,560
Depreciation						
At 1st January 2017	281	784	1,477	9,454	147	12,143
Charge for the year	563	183	308	221	10	1,285
Disposals	-	(91)	(320)	(424)	(101)	(936)
Exchange differences and other adjustments	-	3	18	131	31	183
At 31st December 2017	844	879	1,483	9,382	87	12,675
Net book value						
At 31st December 2017	36,562	1,517	1,015	747	44	39,885
At 31st December 2016	37,125	1,491	1,086	584	4	40,290

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

	2017 £000	2016 £000
At 1st January	4,119	3,154
Recognised deferred tax (charge) / credit to income statement for the period	(875)	(1,036)
Deferred tax (charge) / credit in OCI for the period in respect of pension scheme	(329)	2,001
At 31st December	2,915	4,119
The major components of the deferred tax asset are as follows:		
Deferred tax on losses	-	596
Asset in respect of temporary differences non trading	84	91
Liability in respect of temporary differences trading	(3)	-
Liability in respect of accelerated capital allowances	(87)	(4)
Deferred tax asset on pension	2,921	3,436
	2,915	4,119

There is an unrecognised deferred tax asset of £3.3 million (at the tax rate of 19%) in relation to gross unrelieved foreign taxes of £5.6 million (2016: £5.1 million) and temporary differences of £12.0 million (2016: £12.0 million) 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 No.2 2015 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

	2017 £000	2016 £000
Interest receivable	12,649	12,114
Prepayments and accrued income	3,633	2,666
Other	10,114	6,434
	26,396	21,214

20. Deposits from banks

	2017 £000	2016 £000
Repayable:		
on demand	1,186,411	911,049
within three months	415,623	652,067
between three months and one year	59,186	693,675
between one and five year	64,764	343,020
more than five years	-	81
	1,725,984	2,599,892

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

45,554 93,616

21. Customer deposits

	2017 £000	2016 £000
Repayable:		
on demand	72,805	81,209
within three months	282,287	129,047
between three months and one year	64,202	57,353
between one and five years	-	274
	399,274	267,883

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

3,255

NOTES TO THE ACCOUNTS (continued)

22. Derivative financial liabilities

	2017 £000	2016 £000
Interest rate swaps	194	502
Foreign exchange contracts	2,086	1,218
	<u>2,280</u>	<u>1,720</u>

23. Other liabilities, accruals and deferred income

	2017 £000	2016 £000
Interest payable	3,899	4,676
Accruals and deferred income	12,984	14,367
Tax and social security costs	443	257
Other	4,472	3,391
	<u>21,798</u>	<u>22,691</u>

24. Term borrowing

	2017 £000	2016 £000
Repayable:		
within one year	71,990	237,375
between one and two years	44,370	40,658
between two and five years	129,467	-
	<u>245,827</u>	<u>278,033</u>

Included in the above are balances due to ABC Group undertakings of
Interest on all term borrowing is calculated by reference to LIBOR plus margins which are repriced monthly.

35,000 52,165

25. Subordinated liabilities

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

	2017 £000	2016 £000
GBP 50.0 million Sub-Debt carrying interest at three months LIBOR plus 3.25%	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

	Authorised £000	Issued £000
Ordinary shares of £1 each		
At 1st January 2017	300,000	212,296
At 31st December 2017	<u>300,000</u>	<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 2017 and 2016.

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

	2017	2016
	£000	£000
Share capital	212,296	212,296
Retained earnings	257,372	237,409
AFS Reserve	24	22
Tier 1 Capital	469,692	449,727

Composition of regulatory capital

	2017	2016
	£000	£000
Tier 1 capital *	469,029	449,780
Tier 1 Capital Ratio	18.2%	19.2%
Collective impairment	5,700	5,900
Subordinated liability	50,000	50,000
Tier 2 capital	55,700	55,900

Total regulatory capital

	524,729	505,680
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Risk-weighted assets

Banking book	2,566,606	2,342,427
Trading book	7,421	5,189
Total	2,574,027	2,347,616

Risk-weighted assets included in the totals above

In respect of:

-contingent liabilities	451,148	442,514
-commitments	172,190	162,517

Risk Asset Ratio

Total capital	20.4%	21.5%
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Tier 1 Capital incorporates the profit for the respective years.

* A Prudential Valuation Adjustment has been deducted from the composition of regulatory capital for 2016 and 2017 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 which is available on the Bank's website.

27. Transactions with directors and officers

The aggregate amounts outstanding at 31st December 2017 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 (2016 - nil).

NOTES TO THE ACCOUNTS (continued)

28. Commitments

Contract or underlying principal amount :	2017 £000	2016 £000
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	110,102	206,951
Over one year	213,892	131,966
	<u>323,994</u>	<u>338,917</u>

Operating lease commitments - Bank as a lessee

The Bank has entered into a number of commercial leases for premises and other equipment.

Future minimum lease payments under non-cancellable operating leases as at 31st December are as follows:

	2017 £000	2016 £000
Within one year	1,023	1,102
After one year but not more than five years	2,816	2,883
More than five years	700	418
	<u>4,540</u>	<u>4,402</u>

Operating leases - Bank as a lessor

The Bank acts as a lessor for commercial leases for premises in respect of ABC House.

Future minimum lease payments under non-cancellable operating leases as at 31st December are as follows:

	2017 £000	2016 £000
Within one year	308	104
After one year but not more than five years	1,016	1,231
More than five years	-	93
	<u>1,324</u>	<u>1,428</u>

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.

	2017			2016		
	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						
Total at 31st December	874	2,280	385,886	16,438	1,720	704,464

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 2017, 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.

	2017						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	
Assets							
Cash and cash equivalents	21.4	-	-	-	-	-	21.4
Loans and advances to banks	1,174.8	105.7	137.7	23.1	-	(0.0)	1,441.3
Loans and advances to customers	950.9	128.2	24.6	35.8	-	(17.8)	1,121.7
Financial investments - available-for-sale	202.0	75.7	-	-	-	-	277.7
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	30.2	30.2
Fixed assets	-	-	-	-	-	39.9	39.9
Total assets	2,349.0	309.6	162.3	58.9	-	52.3	2,932.1
Liabilities and shareholders' funds							
Deposits from banks	1,602.0	3.7	55.5	64.8	-	-	1,726.0
Customer deposits	335.1	45.6	18.6	-	-	-	399.3
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	41.3	41.3
Term borrowing and subordinated liabilities	295.8	-	-	-	-	-	295.8
Shareholders' funds	-	-	-	-	-	469.7	469.7
Total liabilities and shareholders' funds	2,232.9	49.3	74.1	64.8	-	511.0	2,932.1
Net position	116.1	260.3	88.2	(5.9)	-	(458.7)	
Off balance sheet	7.3	-	(7.3)	-	-	-	
Interest rate sensitivity gap	123.4	260.3	80.9	(5.9)	-	(458.7)	
Cumulative gap	123.4	383.7	464.7	458.7	458.7	-	
	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	
Assets							
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
Total assets	2,961.9	443.3	192.0	37.4	-	54.9	3,689.5
Liabilities and shareholders' funds							
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
Total liabilities and shareholders' funds	3,030.0	90.4	75.2	0.3	-	493.6	3,689.5
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	-	

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.

		2017				2016		
	Measurement level	Carrying amount	Fair value	Unrecognised gain/(loss)	Carrying amount	Fair value	Unrecognised gain/(loss)	
		£000	£000	£000	£000	£000	£000	
Financial assets								
Loans and advances to banks	3	1,441,263	1,422,473	(18,790)	2,350,215	2,330,762	(19,453)	
Loans and advances to customers	3	1,121,735	1,118,304	(3,431)	909,592	903,711	(5,881)	
Financial investments - available-for-sale	1	277,687	277,687	-	321,055	321,055	-	
Derivative financial assets	2	874	874	-	16,438	16,438	-	
Financial liabilities								
Deposits from banks	3	1,725,984	1,634,773	91,211	2,599,892	2,561,870	38,022	
Customer deposits	3	399,274	396,441	2,833	267,883	278,061	(10,178)	
Term borrowing	3	245,827	227,221	18,606	278,033	270,315	7,718	
Subordinated liabilities	3	50,000	53,962	(3,962)	50,000	57,502	(7,502)	
Derivative financial liabilities	2	2,280	2,280	-	1,720	1,720	-	
				86,467			2,726	

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:	2017		2016	
	Maximum £000	Minimum £000	Maximum £000	Minimum £000
Trading	3	0	17	2
Banking	11,039	324	20,934	74

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 liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2017 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.

	2017				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	
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	944,229	883,191	569,570	64,354	2,461,344
Derivative financial liabilities	1,601	679	-	-	2,280
Commitments	10,940	99,162	213,892	-	323,994
Financial guarantees	214,608	109,032	100,841	15,557	440,038
	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	
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
Commitments	5,921	201,030	131,664	302	338,917
Financial guarantees	196,842	119,774	72,313	18,454	407,383

NOTES TO THE ACCOUNTS (continued)

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
- Provide portfolio oversight via KRI and MI tracking
- Review and recommend ABCIB Credit Policy
- Review and approve ABCIB Credit Procedures
- Conduct Credit Portfolio Reviews
- Review of Credit Resources and Infrastructure

The first level of defence against credit risk is through the counterparty, country and industry and other risk threshold limits. Credit limits are prudent, based on 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 centralised credit unit is responsible for independent review of all 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.

	2017 £000	2017 %	2016 £000	2016 %
Financial	1,454,589	51.2%	1,527,457	42.7%
Central Banks & Governments	465,395	16.4%	1,169,260	32.7%
Commodity Related	82,330	2.9%	225,970	6.3%
Motor Vehicle Related	236,434	8.3%	177,806	5.0%
Property Related	296,877	10.5%	123,708	3.5%
Other	305,060	10.7%	356,662	10.0%
	2,840,685	100.0%	3,580,863	100.0%

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.

	2017 £000	2017 %	2016 £000	2016 %
United Kingdom	515,178	18.1%	368,319	10.3%
Germany	499,635	17.6%	1,216,822	34.0%
Turkey	292,951	10.3%	309,992	8.7%
Qatar	148,485	5.2%	220,583	6.2%
UAE	127,360	4.5%	180,578	5.0%
USA	113,728	4.0%	160,955	4.5%
Switzerland	111,915	3.9%	140,671	3.9%
Libya	106,224	3.7%	146,070	4.1%
Saudi Arabia	97,952	3.4%	57,408	1.6%
Others	95,044	3.3%	65,043	1.8%
Republic of Korea	82,874	2.9%	16,263	0.5%
Kuwait	81,700	2.9%	105,093	2.9%
Netherlands	61,492	2.2%	29,291	0.8%
Egypt	58,216	2.0%	77,407	2.2%
Brazil	49,566	1.7%	36,200	1.0%
India	42,628	1.5%	20,329	0.6%
Philippines	42,169	1.5%	48,788	1.4%
Italy	38,356	1.4%	21,834	0.6%
Jordan	36,021	1.3%	33,524	0.9%
Morocco	35,304	1.2%	20,054	0.6%
Australia	33,611	1.2%	32,409	0.9%
France	28,842	1.0%	74,417	2.1%
Oman	28,674	1.0%	35,872	1.0%
South Africa	27,154	1.0%	16,774	0.5%
Bahrain	23,012	0.8%	6,327	0.2%
Lebanon	17,560	0.6%	1,912	0.1%
Russia	12,666	0.4%	10,978	0.3%
Ireland	11,315	0.4%	5,118	0.1%
Luxembourg	8,066	0.3%	11,116	0.3%
Austria	7,001	0.2%	45,694	1.3%
Japan	4,450	0.2%	59,156	1.7%
Spain	1,533	0.1%	5,866	0.2%
	2,840,685	100.0%	3,580,863	100.0%

NOTES TO THE ACCOUNTS (continued)

32. Credit risk (continued)

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

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

	2017 £000	2016 £000
Cash and cash equivalents	21,379	26,269
Loans and advances to banks	1,441,263	2,350,215
Loans and advances to customers	1,121,735	909,592
Financial investments - available-for-sale	277,687	321,055
Derivative financial assets	874	16,438
	2,862,938	3,623,569
Contingent liabilities	1,269,850	1,172,905
Commitments	323,994	338,917
	1,593,844	1,511,822

	2017 £000	2016 £000
Cash collateralised		
Loans and advances to customers and banks	129,997	176,633
Contingent liabilities	376,146	380,875

	2017 £000	2016 £000
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers and banks	327,336	288,728
Contingent liabilities	53,255	175,990
Commitments	37,258	29,111

	2017 £000	2016 £000
Risk concentration against individual counterparties		
Largest exposure to individual Bank before collateral (fully collateralised)	182,626	300,895
Largest exposure to individual customer before collateral	110,096	94,788
Largest exposure to individual customer after collateral	110,096	94,788
Central Bank placement before collateral	393,494	1,047,995
Central Bank placement after collateral	393,494	1,047,995

Credit quality per class of financial assets

	Loans and receivables	Financial investments - available- for- sale	Total
	2017 £000	2017 £000	2017 £000
Loans and advances to banks			
Investment grade	868,553	-	868,553
Sub investment grade	572,710	-	572,710
Total	1,441,263	-	1,441,263

	2017 £000	2017 £000	2017 £000
Loans and advances to customers			
Investment grade	55,554	-	55,554
Sub investment grade	1,066,181	-	1,066,181
Total	1,121,735	-	1,121,735

	2017 £000	2017 £000	2017 £000
Financial investments - available-for-sale			
Investment grade	-	277,687	277,687
Total	-	277,687	277,687

Credit quality per class of financial assets

	Loans and receivables	Financial investments - available- for- sale	Total
	2016 £000	2016 £000	2016 £000
Loans and advances to banks			
Investment grade	1,705,371	-	1,705,371
Sub investment grade	644,844	-	644,844
Total	2,350,215	-	2,350,215

	2016 £000	2016 £000	2016 £000
Loans and advances to customers			
Investment grade	60,780	-	60,780
Sub investment grade	848,812	-	848,812
Total	909,592	-	909,592

	2016 £000	2016 £000	2016 £000
Financial investments - available-for-sale			
Investment grade	-	321,055	321,055
Total	-	321,055	321,055

NOTES TO THE ACCOUNTS (continued)

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:

	2017			2016		
	GBP	USD	EUR	GBP	USD	EUR
Loans and advances to banks & loans and advances to customers	4.55%	2.83%	0.67%	2.73%	2.29%	0.10%
Financial investments - available-for-sale	0.00%	0.90%	0.05%	0.00%	0.90%	0.19%
Deposits from banks	0.54%	1.56%	0.03%	0.50%	0.83%	-0.07%
Customer deposits	0.66%	1.46%	0.18%	0.70%	0.94%	0.03%
Term borrowing	2.33%	2.73%	1.10%	1.20%	2.11%	0.83%

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.

	2017 £000	2016 £000
34. Net trading income		
Dealing profits are analysed as follows:		
Foreign exchange gains and losses from financial assets and liabilities not at fair value through profit and loss	34	98
Interest rate products	20	30
	54	128
35. Assets, liabilities and equity in foreign currencies		
	2017 £000	2016 £000
Denominated in sterling	461,944	678,155
Denominated in US dollars	1,618,396	2,173,953
Denominated in other currencies	851,794	837,399
Total assets	2,932,134	3,689,507
Denominated in sterling	461,571	678,943
Denominated in US dollars	1,619,059	2,173,393
Denominated in other currencies	851,504	837,171
Total liabilities and shareholders' funds	2,932,134	3,689,507

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £39.9 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%).

NOTES TO THE ACCOUNTS (continued)

37. Related party transactions

Related parties represent the ultimate parent undertaking, immediate parent undertaking, major shareholders and entities controlled, subsidiaries, associates, directors and senior management and companies jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length.

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

2017

	Ultimate Parent undertaking	Immediate Parent undertaking	Direct Subsidiaries & Joint ventures	Fellow associates and subsidiaries	Directors & Senior management	Other related	Total
	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	284	-	-	-	-	284
Loans and advances to banks	-	5	-	9,278	-	50,331	59,615
Loans and advances to customers	-	-	-	-	-	54,043	54,043
Deposits from banks	1,168,421	32,720	1,436	11,397	-	325,571	1,539,546
Customer deposits	-	-	5	-	316	121,132	121,454
Term borrowing	129,467	35,000	-	-	-	-	164,467
Subordinated liabilities	-	50,000	-	-	-	-	50,000
Off Balance sheet	125,096	5,494	-	11,808	-	317,674	460,072
Interest rate swaps	-	19,333	-	-	-	-	19,333
Other assets	-	-	-	-	6	-	6
Other liabilities	-	-	-	-	-	123	123
Interest income	-	1,292	1,344	144	-	1,132	3,912
Interest expense	18,256	2,157	1,347	-	-	5,771	27,532
Fee and commission income	3,076	127	54	327	-	12,024	15,608
Fee and commission expense	1,431	23	1	93	-	1,976	3,523
Net trading income	-	(131)	-	-	-	-	(131)
Other operating income	-	-	1,132	-	-	-	1,132

2016

	Ultimate Parent undertaking	Immediate Parent undertaking	Direct Subsidiaries & Joint ventures	Fellow associates and subsidiaries	Directors & Senior management	Other related	Total
	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	304	-	-	-	-	304
Loans and advances to banks	-	1,469	-	7,481	-	146,258	155,208
Loans and advances to customers	-	-	-	-	-	55,695	55,695
Deposits from banks	1,321,014	72,779	4,217	20,850	-	1,045,103	2,463,964
Customer deposits	-	-	5	-	346	134,500	134,851
Term borrowing	142,300	52,165	-	-	-	-	194,465
Subordinated liabilities	-	50,000	-	-	-	-	50,000
Off Balance sheet	97,676	12,454	-	17,696	-	291,697	419,523
Interest rate swaps	-	38,459	-	-	-	-	38,459
Other assets	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	186	186
Interest income	-	275	186	112	-	1,157	1,731
Interest expense	11,081	2,639	(455)	12	-	2,657	15,933
Fee and commission income	6,663	428	187	637	-	13,911	21,826
Fee and commission expense	1,923	94	6	20	-	3,117	5,160
Net trading income	-	8	1	-	-	-	9
Other operating income	-	-	66	-	-	14	80

NOTES TO THE ACCOUNTS (continued)

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 2018.

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 last formal 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. A revised triennial valuation as at 30 September 2017 is currently in progress.

The interim results of the 30th September 2017 triennial valuation were 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 2017. 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 2017 was £15,202,000.

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 3.4% pa (2016: 3.4% 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 (2016: 2.4% 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 less than 20 years, we have used the Bank of England gilt spot curve plus an appropriate margin to reflect the spread of corporate bonds over gilts of durations of 20 years and above. The single equivalent discount rate is 2.4% pa (2016: 2.6% pa).
- The mortality rate used is 95% of the S2NA tables with allowance for future improvements in line with the CMI 2016 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:

	2017		2016	
	Fair value £m	Long term rate of return expected %	Fair value £m	Long term rate of return expected %
Gilts	16.5		16.5	
Cash	0.1		0.4	
Equities	8.5		-	
Investment funds	9.8		18.2	
Total value of assets	34.9	2.40	35.1	2.60
Movement in scheme deficit	2017	2016	2015	2014
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	(18,086)	(8,581)	(9,732)	(6,191)
Contribution paid	1,600	1,320	1,155	1,063
Other finance (charge)	(449)	(296)	(330)	(254)
Actuarial gains/ (losses)	1,733	(10,529)	326	(4,350)
Net pension liability at 31st December	(15,202)	(18,086)	(8,581)	(9,732)
Changes in the fair value of pension scheme assets			2017	2016
			£000	£000
Fair value of assets at 1st January			35,085	32,355
Interest on assets			890	1,213
Company contributions			1,600	1,320
Benefits paid			(3,326)	(1,326)
Return on assets less interest			656	1,523
Fair value of assets at 31st December			34,905	35,085

NOTES TO THE ACCOUNTS (continued)

38. Pensions (continued)

Changes in the Defined benefit obligation	2017 £000	2016 £000
Defined Benefit Obligation at 1st January	53,171	40,936
Interest cost	1,339	1,509
Benefits paid	(3,326)	(1,326)
Experience (gain) / loss on defined benefit obligation	(1,375)	(1,098)
Changes to demographic assumptions	(2,221)	222
Changes to financial assumptions	2,519	12,928
Defined Benefit Obligation at 31st December	50,107	53,171

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%	(4,898)
	Minus 0.50%	5,679
Inflation	Plus 0.50%	2,318
	Minus 0.50%	(2,123)
Age rating	Plus 1.0 year	(1,861)
	Minus 1.0 year	1,893

Amount (debited) / credited to other financial charges	2017 £000	2016 £000
Expected return on pension scheme assets	(890)	1,213
Interest on pension scheme liabilities	1,339	(1,509)
	449	(296)

Future expected contributions to the defined benefit plan	2017 £000	2016 £000
The following payments are expected contributions to the defined benefit plan in future years:		
Within the next 12 months (next annual reporting date)	1,600	1,600
Between 2 and 5 years	6,400	6,400
Between 5 and 10 years	3,200	4,800
Beyond 10 years	-	-
Total expected payments	11,200	12,800

The estimated duration of the scheme's liabilities as at 31 December 2017 on the accounting disclosure basis is approximately 21.5 years.

Amount recognised in the Statement of Comprehensive Income	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Actual less expected return on assets	656	1,523	(1,349)	2,229	(201)
Experience (loss)/ gain on liabilities	1,375	1,098	1,786	935	(41)
Losses from changes to demographic assumptions	2,221	(222)	(186)	(400)	
Changes in assumptions underlying present value of liabilities	(2,519)	(12,928)	75	(7,114)	(61)
Actuarial gain/ (loss) recognised in the Statement of Comprehensive Income	1,733	(10,529)	326	(4,350)	(303)
% of Scheme asset value at balance sheet date represented by:	2017 %	2016 %	2015 %	2014 %	2013 %
Actual less expected return on assets	1.9	4.3	(4.2)	(4.1)	7.7
% of Scheme liability value at balance sheet date represented by:	2017 %	2016 %	2015 %	2014 %	2013 %
Experience gain/ (loss) on liabilities	2.7	2.1	4.4	4.2	2.7
Changes in assumptions underlying present value of liabilities	(5.0)	(24.3)	0.2	0.2	(20.3)
Actuarial gain/ (loss) recognised in the Statement of Comprehensive Income	3.5	(19.8)	0.8	0.8	(12.4)

MANAGEMENT STRUCTURE

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Paul Jennings	Managing Director & Chief Executive Officer
Rajeev Adrian	Chief Financial Officer & Deputy Chief Executive Officer
Sedjwick Joseph	Chief Risk Officer
Adrian Powell	Interim Chief Operating Officer
Matt Rigby	Head of Internal Audit
Cristina Wiseman	Head of Compliance, Europe

TRADE FINANCE

Geoff Sharp	Head of Wholesale Banking Europe
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ISLAMIC FINANCIAL SERVICES

Faisal Alshowaikh	Deputy Head of Wholesale Banking Europe & Group Head of Real Estate
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TREASURY

Paul Judge	Head of Treasury
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Alf Soerensen	General Manager
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Milan Branch

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