Registration No: 2564490

ABC International Bank plc
Annual Report
2014

Connecting **MENA**
To The World

Contents

Connecting MENA to the rest of the world

With a global network of subsidiaries, branches and representative offices across the world, Arab Banking Corporation prides itself on its global reach and local expertise. We leverage our extensive network and specialist execution capabilities to deliver value-added solutions to our clients.

Our Mission

To be MENA Bank of choice for European Clients.

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

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

ABCIB's core business comprises trade and commodity finance, Islamic financial services, project, export and structured finance and treasury services.

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

DIRECTORS' REPORT

I am pleased to present the Directors' report for ABC International Bank plc ("ABCIB" or "the Bank") for 2014.

ABCIB produced strong results again in 2014. Although total operating income was down by 14% to £69.4 million, profit before tax was up by 7% to £30.5 million. This result is all the more pleasing in the light of the continuing difficult operating conditions in many of the core Middle East and North Africa ("MENA") markets of the Bank. In particular, the increased instability in Libya has been a challenge throughout 2014. Nonetheless, by continuing to leverage the Bank's expertise in MENA-related finance, new business was won which offset some loss of business from traditional markets. Through careful cost control and management of provisions, resulting in net recoveries of £1.5 million, the net profit of the Bank was maintained at a healthy level of £23.7 million.

The key role of ABCIB within the Arab Banking Corporation (B.S.C.) ("ABC") group continued to develop in 2014, with marketing and business co-operation that contributed significantly to the overall growth of ABC. This group co-operation is a strong feature of the ABCIB business model and it allows the Bank to benefit from the strong regional platform and local expertise of the ABC group.

The Bank's Trade Finance business benefited from a healthy flow of business from its European and MENA customers and relationships were developed further, which should lead to additional revenue in years to come.

In Islamic Financial Services, the growth in revenue and profitability that was seen in the preceding two years continued in 2014 as the ABCIB team cemented its reputation as a leading player in the Islamic financing of real estate transactions in the prime Central London market.

The contribution to revenue from the Treasury business of ABCIB was lower in 2014, due to unfavourable financial market conditions. However, the Bank is exploring the potential for diversifying the sources of Treasury income in the years ahead.

A decision was taken during the year to restructure the Project & Structured Finance European team ("P&SFE") under the direct leadership of the ABC group P&SF business. Local marketing of the P&SFE product has been de-emphasised until business conditions are more favourable. It is expected, therefore, that P&SFE will be a less important contributor to ABCIB revenue in 2015.

Full commentary on the performance of the business units of the Bank is contained in the Chief Executive Officer's report and Business Review.

Against the background of new and changed regulatory requirements in the banking sector, ABCIB has invested in a continuing professional development programme for the Board of Directors and key management, to ensure that the Bank meets the challenges and requirements of the new environment. The Board is committed to ensuring that the Bank meets all regulation in full and maintains an open and constructive relationship with all of its regulators.

There were no changes to the membership of the Board during the year. However, the following changes took place regarding the Board Committees during 2014: Dr. Florence Eid-Oakden joined the Audit Committee and Mr. Angus MacLennan joined the Board Risk Committee, thereby increasing the presence of independent non-executive Directors on these committees; Mr. Hilal Al-Mutairi resigned from the Board Risk Committee and joined the Remuneration Committee; and in November 2014 a Corporate Governance Committee was formed and held its first meeting with Mr. Angus MacLennan as chairman and Mr. David Carse, Dr. Florence Eid-Oakden and Dr. Yousef Al Awadi as members. On

6th January 2015, Mr William Playle resigned as Chief Executive Officer of ABCIB, following his decision to retire from the service of the Bank. The Board expresses its thanks to Mr. Playle and appreciation for his work in guiding the Bank successfully through the past 3 years as CEO, and for his total contribution of 13 years as an employee of the Bank. The Board wishes him well for his retirement. Mr Paul Jennings, the Deputy Chief Executive Officer of the Bank, has been appointed Acting Chief Executive Officer.

Full details of the Board of Directors are shown on page 10. None of the Directors had an interest in ABCIB shares during 2014, and no option to purchase shares has been granted to any Director.

The overall financial position of ABCIB is good and the bank enjoys very close business facilitation and funding relationships with its parent bank and its ultimate controlling shareholder, Central Bank of Libya. ABCIB also benefits from significant funding being provided by the Central Bank of Libya. The Board of Directors have conducted a detailed review of ABCIB as a going concern taking into account the capital adequacy, liquidity position, credit quality and future profitability in accordance with the FRC Guidance on Going Concern (2009). The Directors remain confident that ABCIB has adequate resources and management skills to pursue its business plan successfully in 2015, notwithstanding the current situation in Libya. Accordingly, the Directors are happy to adopt the going concern basis in preparing the annual report and accounts.

ABCIB remains committed to its mission to be a Bank of choice for European and MENA customers. The Bank has a strong credit and compliance culture and, with talented teams in both business development and support disciplines, the Board is optimistic that ABCIB has all necessary elements in place to continue profitable growth in 2015 and beyond.

RISK MANAGEMENT APPROACH

The financial risk management framework of the Bank centres on credit risk, liquidity risk, market risk and operational risk. The objectives of the Bank are to maintain a sound and well-spread portfolio of credit risk assets, to ensure returns are commensurate with risk and to keep credit risk exposure to a permissible level relative to capital. The ABCIB credit policies govern all aspects of the credit risk process. Detailed analysis of the various types of risk is included in the Corporate Governance and Risk Management section of the Annual Report. In addition, management of market risk and liquidity risk ensures that all of ABCIB's obligations are met when due and that market risk and position limits are respected at all times. Liquidity, or availability of sufficient financial resources, is a core component of ABCIB's management framework. In order to avoid unnecessary exposure to short-term funding as a means to meet its cashflow obligations, ABCIB uses a funding gap management process, maintains a system of highly liquid supplementary liquidity and operates a contingency funding plan. This ensures that ABCIB maintains compliance with all current implemented regulations on liquidity.

The Bank uses the Value at Risk ("VaR") method of risk management of currency, interest rate and traded credit exposures on a daily basis. Derivative instruments such as interest rate and currency swap agreements are used by ABCIB as hedges against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base. Trading on the spot and forward foreign exchange markets is mainly client driven. Management consider that the Bank's Liquidity Policy is in line with the PRA rules and liquidity is managed on a daily basis, with senior management involvement.

ABCIB uses interest rate swap contracts to hedge against loans and advances to customers, deposits from customers and subordinated liabilities. The counterparty to these swaps contracts is ABC. At inception of the hedge relationship, ABCIB formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the profit and loss account in 'Other operating income'. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recognised as part of the carrying value of the hedged item and is also recognised in the profit and loss account in 'Other operating income'. Further details are provided in note 32.

A further description of ABCIB's use of derivative instruments and an outline of its approach to risk management have been included in the Chief Executive Officer's Report for the year in addition to further information being provided in notes 34 and 35.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

RE-APPOINTMENT OF AUDITOR

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

OTHER DECLARATIONS

The Bank's statutory financial statements for the financial year ended 31st December 2013 were prepared under UK GAAP. The Bank has decided to early adopt the United Kingdom Generally Accepted Accounting Practice including the Financial Reporting Standard 101 'Reduced Disclosure Framework' for qualifying entities applying EU-adopted IFRS, for the financial statements for the year ended 31st December 2014. IFRS 1 "First-time Adoption of IFRS" has been applied. Accordingly, the date of transition to FRS101 is 1st January 2013.

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

ABCIB did not declare nor pay a dividend in 2014.

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

ABCIB Group had 205 permanent employees as at 31st December 2014. I want to express my thanks to the management and staff of the Bank for their dedication and hard work in delivering good results this year, and I also thank the Board of Directors and Shareholders for their guidance and continued support.

Approved by the Board and authorised for issue on 13th February 2015.

S. elkbal

Saddek El Kaber
Chairman

Strategic Report

The Directors present their strategic report for ABCIB for the year ended 31 December 2014.

Business Strategy

The strategy of the Bank has not been significantly changed in the past year and remains focused on providing financial services in support of business related to the MENA region. Through its Trade Finance business division, the Bank actively supports European contractors and commodity clients in their activities in the Arab World, by provision of both standard trade finance products and bespoke structured solutions, including insurance-backed receivables financing facilities, pre- and post-export finance for capital goods and commodity financing structures. In addition, the Bank has a long track record in correspondent banking business and continues to foster good working relationships with financial institutions in the MENA region and beyond.

Through its network of branches, representative and marketing offices, ABCIB has developed long-standing relationships with corporate customers of all sizes, seeking to partner with them in the Bank's area of expertise in MENA region finance. This continues to be a key part of the Bank's strategy and an expected area of growth for the future.

In its Islamic finance activities, ABCIB has continued with a strategy of cautious growth in its real estate financing portfolio, focusing on established customer relationships with MENA investors and using its structuring expertise and knowledge of the market to good effect. ABCIB aims to remain a consistent player in this market in the years to come, by careful selection of the transactions it supports, underlining its position as a leading name in the Islamic finance market. The successful development of Islamic financial products offered to Turkish corporates and Banks also remains a key part of the strategy for this business area, working hand in hand with the Bank's Istanbul Representative Office.

The Treasury strategy of the Bank has remained aligned to the two key business divisions, seeking to support marketing activities in both Trade Finance and Islamic Financial Services, through provision of funding, hedging and similar services.

The only material change in the strategy of the Bank relates to the Project & Structured Finance activity of the Bank, which has been downsized and de-emphasised, until market conditions are more favourable, as discussed elsewhere in this document.

Review of the business

In 2014 the Bank achieved a profit before tax of £30.5 million which was a 7% increase on 2013. However, total operating income was lower than the previous year.

The key financial and other performance indicators during the year were as follows:

	2014	2013	
	£'000	£'000	%
Net interest income	37,343	40,512	-8
Fees and commission (net)	29,540	39,469	-25
Total operating income	69,364	80,354	-14
Profit before tax	30,481	28,421	7
Profit after tax	23,684	20,450	16
Equity shareholders' funds	427,294	407,062	5
Average number of employees	204	197	4

Operating conditions remained difficult in many core markets in the MENA region but the Bank continued to use its expertise in MENA-related finance, which has resulted in winning new business.

Net profit before tax for 2014 was £30.5 million and a retained profit of £23.7 million was added to reserves to improve the Bank's already healthy capitalisation.

The total assets of the Bank dropped in 2014 from £2,901 million to £2,697 million which was mainly due to lower loans and advances to banks and the maturity of available for sale financial investments.

The Bank's liquidity position was consistently positive throughout 2014 and ABCIB was in full compliance with regulatory liquidity rules. Capital adequacy remained high with the year-end capital ratio at 22.1%, and the Tier 1 ratio at 22%.

The Board is optimistic that ABCIB has all necessary elements in place to achieve a profitable performance in 2015 and beyond.

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

Approved by the Board and authorised for issue on 13th February 2015.

S. elKaber

Saddek El Kaber
Chairman
13 February 2015

Board of Directors of ABC International Bank

H.E Mr. Saddek El Kaber # ∞

Chairman of the Board

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

Mr. Abdallah Al Humaidhi RC* CAC # ∞

Deputy Chairman

Vice Chairman and Managing Director, Commercial Facilities Company, Kuwait; Member of the Board and the Executive Committee of Kuwait Investment Authority and Vice Chairman of the Public Institution For Social Security; a Director of the Board of First National Bank S.A.L., Lebanon, and a Director of the Board of Kuwait Petroleum Corporation. Mr. Al Humaidhi is also a Member of the Board of the Kuwait Chamber of Commerce & Industry and a Director of the Board of Arab Banking Corporation (B.S.C.) Mr. Al Humaidhi was appointed to the Board of Directors of ABC International Bank plc in 2008 and as Deputy Chairman on 11th March 2011. Mr. Al Humaidhi has more than 30 years of experience in the banking and investment sectors.

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

Director

Chief Executive Officer of YAA Consultancy, Kuwait. Previously he was the Chief Executive Officer of Gulf Bank, Kuwait, and President and CEO of the Kuwait Investment Office, London. Dr. Al Awadi is also a Director of Arab Banking Corporation (B.S.C), a Director of ABC Egypt, a Director of Fidelity International Funds and a Director of Kuwait Energy plc, Jersey. Dr. Al Awadi has formerly served as a member of Goldman Sachs International Advisory Board and the Higher Planning Council in Kuwait, in addition to board directorships of many public and private sector entities in Kuwait, MENA and OECD countries. He joined the Board of ABC International Bank plc on 17th May 2013 and has more than 38 years of experience in banking, international finance and investment management. In January 2005 Dr. Al Awadi was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire KBE.

Mr. Hilal Al-Mutairi RC CAC* # ∞

Director

Member of the Board of Directors and Executive Committee of Kuwait Investment Authority. Mr. Al Mutairi is also a Director and Deputy Chairman of Arab Banking Corporation (B.S.C). His past key positions include First Vice Chairman, Kuwait Chamber of Commerce & Industry; Minister of Trade and Industry of Kuwait; General Manager of Kuwait Investment Company and Chairman of Kuwait Clearing Company. He has been a Director of ABC International Bank plc since 2001 and has more than 35 years of commercial and financial industry experience.

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

Director

Mr. Carse was appointed as an Independent Director of ABC International Bank plc in 2007 and also serves as Chairman of the Audit Committee and a Member of the Board Risk and Remuneration Committees. Mr. Carse formerly served as Deputy Chief Executive of the Hong Kong Monetary Authority and was the Director General of the Jersey Financial Services Commission.

Mr. Carse has a banking career that spans over 40 years.

Dr. Florence Eid-Oakden AC BRC CGC CAC # ι

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 America (ABANA), the Advisory Board of the Al Faisal University College of Business, Saudi Arabia, and has been a Trustee of the American University in Paris. Dr. Eid was appointed to the Board of ABC International Bank plc in 2010 and holds a Ph.D. in Organization Economics from the Massachusetts Institute of Technology (MIT) with a joint Harvard-MIT doctoral committee. She is fluent in Arabic, English, French and Spanish.

Dr. Khaled Kawan AC BRC* # ∞

Director

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

Angus Maclennan AC RC BRC CGC* # ι

Director

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

William Playle $

ABC International Bank plc, Managing Director & Chief Executive Officer[1]

Mr. Playle was appointed as Chief Executive Officer of ABC International Bank plc in January 2012 and as Managing Director on 11th July 2012. Previously, he served as Deputy CEO since October 2011 and Head of Risk Management since May 2002.

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

Prior to joining ABC International Bank, Mr. Playle occupied senior positions with Sanwa International plc, as Chief Credit Officer, and Barclays Capital, as Director and Head of Credit Risk Management.

Mr. Playle has extensive Business, Risk and General Management experience across various banking sectors that spans over 35 years.

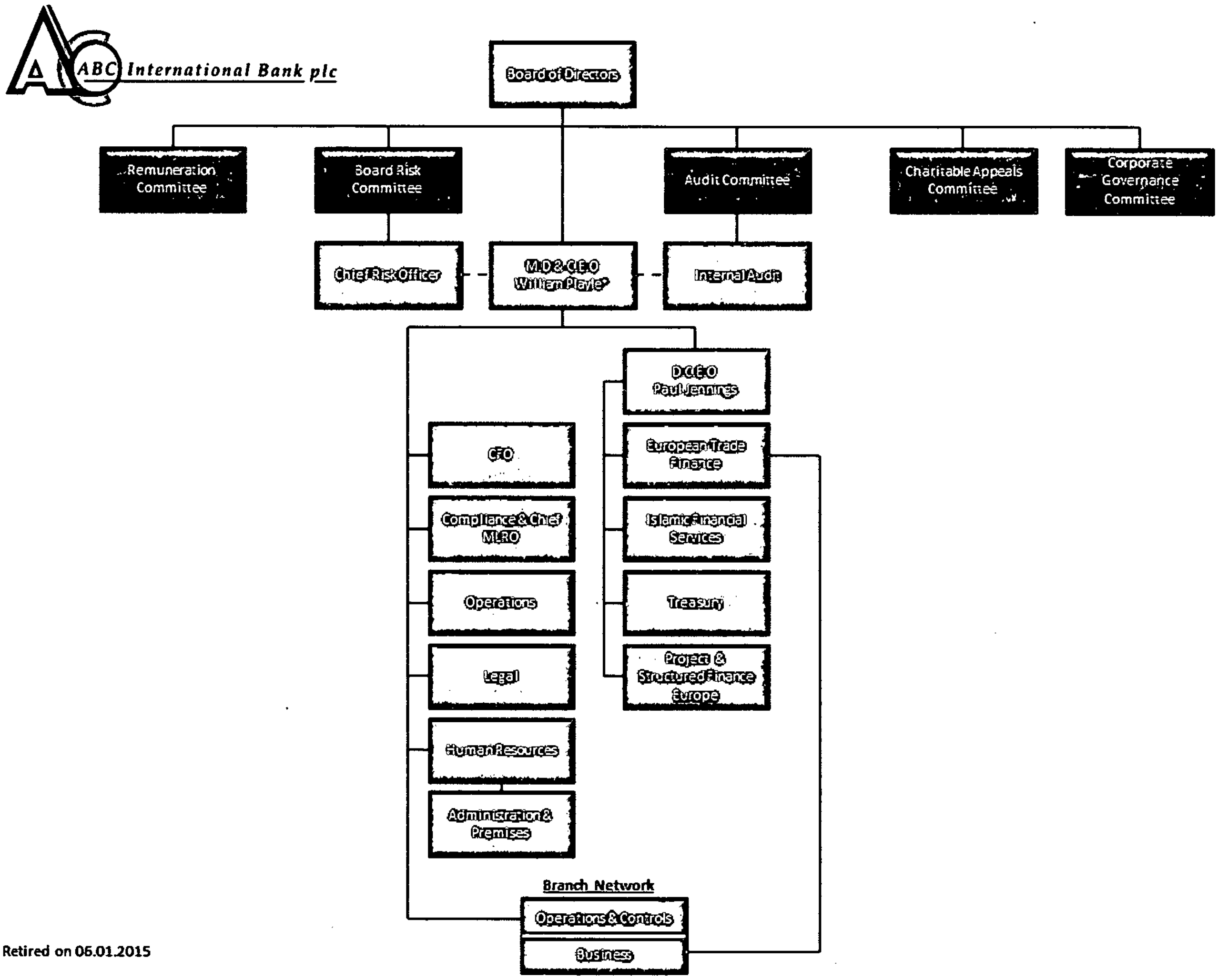
David Holden

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

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

AC	Member of the Audit Committee
BRC	Member of the Board Risk Committee
RC	Member of the Remuneration Committee
CGC	Member of the Corporate Governance Committee
CAC	Member of the Charitable Appeals Committee
*	Chairman of Board Committee
#	Non-Executive
$	Executive
ι	Independent Director
∞	Non-independent Director
1	Retired on 06.01.2015

ABCIB Organisational Chart



* Retired on 06.01.2015

Senior Management

Paul Jennings
Deputy CEO, Group Head of Global Trade Finance (Acting CEO from 6th January 2015)

Mr. Jennings joined ABC International Bank plc in September 1999 and has over 30 years banking experience principally within Trade, Commodity, Export and Structured Finance business as well as Loan Syndications and Asset Trading. Mr. Jennings developed his knowledge and expertise with major international banks namely Lloyds and Mitsubishi Bank and also within boutique/merchant banking operations namely Arbuthnot Latham, Singer& Friedlander and London Forfaiting Company. Mr. Jennings is a Director of ABC Islamic Bank E.C. Banco ABC Brazil and is Chairman of the Northern European Committee of the IFA (International Forfaiting Association).

Rejeev Adrian
Chief Financial Officer
Fellow of the Australian Society of Certified Practicing Accountants (FCPA)
MBA from Cranfield University, UK
Bachelor of Commerce Degree from the University of Western Australia

Mr. Adrian joined ABC International Bank plc in October 2014 as Chief Financial Officer. Previously he worked at the Royal Bank of Scotland (RBS) where he held various positions over the last 13 years 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.

Brian Lovell
Chief Risk Officer

Mr Lovell joined ABC International Bank plc as Chief Risk Officer in October 2013. Prior to joining ABCIB, Mr Lovell held a number of senior Credit, Front and Back Office roles at other institutions in the UK, Denmark, Norway and Hong Kong during a 35-year career. These roles include Head of Credit at Standard Bank plc, Head of Group Wholesale Credit at Abbey National plc, and Credit Officer at Chase Manhattan Bank NA in London, where Mr Lovell completed his credit training.

Paul Judge
Head of Treasury

Mr. Judge joined ABC International Bank plc in2000. 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.

Louise Fitton
Head of Internal Audit
Master Degree in Audit Management and consultancy

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

Robert Large
Head of Compliance & Money Laundering and Reporting Officer
Member of the Institute of Chartered Accountants England & Wales

Mr. Large qualified as a Chartered Accountant with Coopers & Lybrand in 1990 working with institutions in the financial services sector in London, Africa and the Middle East. He joined ABCIB in 1999 as Head of Internal Audit before being appointed as Compliance Officer &MLRO for the bank in 2007.Prior to joining ABCIB, Mr. Large was Head of Audit at Sumitomo Finance International plc.

Heather Rogers
Head of Operations

Mrs. Rogers joined ABC Group in November 1986 transferring to ABC International Bank plc in 1991 as Manager for Capital Markets Support. She was promoted to Senior Manager, Operations in 2001 and was appointed Head of Operations in October 2011. Mrs. Rogers formerly served at Saudi International Bank and Grieveson Grant & Co, and has a Banking and Operations career that spans over 30 years.

Yvonne Sadowski
Head of Human Resources
Chartered Member of the Institute of Personnel Development

Ms. Sadowski joined ABC International Bank plc in May 2001. Prior to that, she served as Head of Human Resources at Credit Suisse Private Banking, SG and Monte dei Paschi di Siena. Ms. Sadowski has over 30 years experience in Human Resources, as an HR Generalist and Operational Manager.

Financial Highlights

	2014	2013	2012	2011	2010
Earnings - £'000					
Net interest income	37,343	40,512	39,513	29,510	25,167
Fees and Other operating income	29,540	39,469	28,367	30,665	30,690
Total operating income	69,364	80,354	67,284	60,175	55,857
Profit before provision and tax	28,935	39,322	26,828	24,588	24,550
Impairment provision - net	1,546	(10,901)	4,962	(4,041)	(5,012)
Profit before tax	30,481	28,421	31,790	20,547	19,538
Net profit for the year	23,684	20,450	27,724	17,308	13,748
Financial Position £'million					
Total assets	2,697	2,901	3,338	2,820	3,328
Loans and advances to customers	1,171	1,060	1,492	1,224	1,127
Loans and advances to banks	1,086	1,280	955	831	1,516
Financial investments - available for sale	260	349	363	475	286
Shareholders' funds	427	407	386	316	307
Ratios (%)					
Profitability					
Cost : Income ratio	58%	51%	60%	59%	56%
Net profit as % of average shareholders' funds	5.7%	5.2%	7.9%	5.6%	4.6%
Net profit as % of average assets	0.8%	0.7%	0.9%	0.6%	0.5%
Capital					
Risk weighted assets (£'million)	1,914	2,098	2,521	2,300	2,249
Capital base (£'million)	423	420	417	384	380
Risk asset ratio - Tier 1	22.0%	19.4%	15.5%	14.6%	14.2%
Risk asset ratio - Total	22.1%	20.0%	16.5%	16.7%	16.9%
Average shareholders' funds as % of average total assets	14.9%	12.7%	11.4%	10.1%	10.2%
Loans and advances to customers as a multiple of shareholders' funds (times)	2.7	2.6	3.9	3.9	3.7
Total debt as a multiple of shareholders' funds (times)	4.6	5.5	7.0	6.4	8.3
Term borrowing (including Subordinated debt) as a multiple of shareholders' funds (times)	0.6	0.4	0.5	1.3	1.4
Assets					
Loans and advances to customers as % of total assets	43.4%	36.5%	44.7%	43.4%	33.9%
Financial investments - available for sale as % of total assets	9.6%	12.0%	10.9%	16.8%	8.6%
Impaired loans as % of gross loans	0.9%	1.3%	0.3%	0.3%	0.3%
Loan loss provision as % of impaired loans	93.5%	67.9%	118.9%	220.0%	153.4%
Loan loss provision as % of gross loans	0.9%	0.9%	0.3%	0.7%	0.4%
Liquidity					
Deposits to loan cover (times)	1.7	2.1	1.8	1.7	2.3
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	182.3	182.3

CHIEF EXECUTIVE OFFICER'S REPORT & BUSINESS REVIEW

ABCIB recorded a successful year in 2014, with profit before tax increasing to £30.5 million and net profit rising to £23.7 million. Total operating income fell in 2014, for the reasons highlighted by the Chairman in the Directors' Report, but the Bank was able to improve profitability through increased business with existing customers, continuing growth in the Bank's Islamic Financial Services division and through careful management of costs and active management of impairment provision.

The Bank remained focused on business related to its core MENA markets throughout 2014, demonstrating ability to support key exporter clients in their activities in the region. ABCIB was able to add value through the knowledge and skills of its staff throughout the Bank's European offices and with the co-operation of the wider ABC Group network in the MENA region. It is this ability to meet the needs of major corporate clients, in difficult operating conditions in some markets, that has been a competitive business advantage for the Bank and has made ABCIB a valuable 'Bank of choice' for companies doing business with the MENA region.

In 2014, ABCIB also embarked upon some key initiatives to create greater efficiency and to build a more stable platform. These included investing in intellectual capital by hiring key staff to strengthen the control environment, creating greater focus on transaction monitoring & control, implementing new training programmes, improving the effectiveness of the credit assessment process and commencing a review of the current business framework in order to improve liquidity and capital adequacy.

TRADE FINANCE

The Trade Finance business of ABCIB delivered a creditable performance in 2014, with total operating income reaching £42.6 million. Whilst this was 14% down on last year's record result, the performance was achieved against a backdrop of increased instability within key markets in the MENA region and continued slow and unsteady growth in the Eurozone. Such instability can give rise to opportunities, and the level of revenue recorded in 2014 is testament to the strength and depth of the Bank's European and MENA client base, coupled with the close business relationships that have been developed in the MENA region over many years. Both these strengths helped to underpin a resilient performance despite market conditions, and enabled the Bank to conclude a number of landmark transactions.

The Trade Finance team has continued to build on its approach to diversify products and income streams to support and grow revenues. The long established model of 'Originate, Structure and Distribute', which has been the bedrock of the business, continued to provide impetus to the team's origination and structuring capabilities, with receivables discounting once again making good progress and strong flows being seen in relation to commodities and capital goods business. The Bank's Istanbul office enjoyed another successful year and was at the forefront of promoting new and innovative products in the Turkish marketplace. Risk Distribution achieved asset sales of US$1.7 billion, and marked the fourth year in succession that sales have exceeded the US$1 billion mark.

The Trade Finance product and sales teams continue to build relationships within the broader ABC Group, including a number of new product development opportunities and initiatives to exploit operating model efficiencies. On balance, the market outlook for 2015 is likely to remain uncertain, but with proven strengths in its business model and the quality of it client relationships, the team is well positioned to maintain a robust business performance and provide a strong platform for growth in the medium term.

ISLAMIC FINANCIAL SERVICES

ABCIB Islamic Financial Services ("IFS") acts as a niche provider of Islamic finance solutions, offering a wide range of Sharia compliant financial products, including real estate finance, trade finance and treasury solutions, such as currency and profit rate hedging products. Cross selling remains a strong driver of the business in providing Islamic solutions to customers within the Bank's network and, on a wider scale, within the ABC Group.

IFS had another record year in 2014, with total operating income rising 39% to £16.8 million, while operating costs were maintained at low levels. This result has been achieved despite increased competition in the key business lines of IFS, with that competitive position leading to lower margins in the Islamic finance sector as a whole in 2014.

The main contributor to the continuing success of IFS in 2014 was the financing of real estate in prime London residential areas for Arab Gulf investors. IFS has originated and acted as sole mandated arranger for a number of transactions as well as acting as the senior lender and security agent. To complement this business, IFS managed to conclude a number of Islamic profit rate swaps and FX hedges for our clients. IFS ensures that its real estate financing transactions are carefully selected, with emphasis placed on property location, quality of investors and prudent financing structures.

In addition, IFS continued to offer Islamic Finance solutions to Turkish corporates and many repeat and new transactions were concluded during 2014.

The outlook for 2015 remains encouraging, despite increased competition in the Islamic finance sector, with IFS expecting to conclude a number of Turkish corporate and real estate transactions that are already under discussion, as well as new treasury and leasing opportunities.

PROJECT & STRUCTURED FINANCE

The Bank's Project & Structured Finance European Team ("P&SFE") continued to seek new business opportunities during 2014. The team considered a number of opportunities in the power and oil & gas sectors. However, with the weakness of project activity in certain key MENA markets, it was difficult to reach the closing point with transactions. Results were therefore impacted by lower volumes, with asset maturities exceeding new transactions booked during the year.

A decision was taken during the year to restructure the P&SFE under the direct leadership of the ABC group P&SF business. Local marketing of the P&SFE product has been de-emphasised until business conditions are more favourable in the European and North African markets covered by ABCIB. It is expected, therefore, that P&SFE will be a less important contributor to ABCIB revenue in 2015.

TREASURY

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

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

Recent regulatory requirements have emphasised the important role of Treasury in managing the Bank's liquidity requirements. ABCIB remains fully compliant with the Prudential Regulatory Authority liquidity regime and maintains a liquidity buffer portfolio of US Treasuries, UK Treasury bills, French Treasury bills, funds deposited at the European Central Bank and other eligible securities.

Treasury performed well in difficult markets, which were characterised by low volatility and subdued interest rates. The Bank remained active in foreign exchange business with corporate and Bank customers of ABCIB. Generating profit from the money market books was more difficult in 2014, in line with the continuing low interest rate environment and flat short term yield curves.

In 2015, Treasury will continue to work closely with other business units of ABCIB to gain deposits and provide foreign exchange and derivative solutions to the Bank's customer base. Liquidity management will remain a priority activity.

THE YEAR AHEAD

It is anticipated that difficult operating conditions in MENA markets will continue for at least part of 2015, though some are witnessing improvements. This, together with instability in other markets and lower oil price and interest rates, will continue to represent a challenge in 2015. ABCIB has demonstrated its strong ability to generate income and serve its customers effectively, despite this challenging environment. ABCIB is, therefore, well-placed to develop its business further in 2015 and another year of steady growth is expected. The Bank will continue to assess the potential for new products and new markets during the year

The European business network of ABCIB is important to the ABC Group and the Bank will continue to invest in its marketing and support resources, and position itself to meet the evolving regulatory landscape at all times.

I want to endorse the Chairman's gratitude for the contribution to the Bank of the former Managing Director and Chief Executive Officer, William Playle. I would like to place on record appreciation for his consistent effort, loyalty and commitment to spearheading ABCIB for the last three years, and to wish him a long and happy retirement.

I am grateful for the hard work, dedication and initiative shown by ABCIB's staff, in all offices. Teamwork and customer service remain as two of ABCIB's defining characteristics and we are proud of the quality of our people and their commitment to development of the Bank and to serving its customers.

On 6th January 2015, Mr William Playle resigned as Chief Executive Officer of ABCIB. Paul Jennings (Deputy Chief Executive Officer) has assumed the role of Acting Chief Executive Officer.

Paul Jennings
Acting Chief Executive Officer
13 February 2015

Corporate Governance and Risk Management

THE BOARD OF DIRECTORS

The Board is collectively responsible for determining that ABCIB is managed in such a way as to ensure a proper balance between short term objectives and the achievement of long term value. The Board sets ABCIB's strategic aims, values and standards and its Directors are tasked with taking decisions objectively and acting in a way which they consider, in good faith, will promote the success of ABCIB for the benefit of its stakeholders as a whole. As well as carrying out its statutory duties and regulatory accountabilities, the Board ensures that ABCIB's management is capably executing its responsibilities, regularly monitoring and challenging the effectiveness of management policies and decisions including the execution of its strategies. The Board adheres to its statement of Corporate Governance Principles and Guidance which is regularly reviewed and is informed by the prevailing Corporate Governance Code in the UK and the Corporate Governance Charter of the Central Bank of Bahrain. The Board conducts an annual performance assessment of itself by questionnaire which is reviewed by the Audit Committee of the Board. The Board met on five occasions during 2014.

GOVERNANCE COMMITTEES

The Board has five committees, the Board Risk Committee, the Audit Committee, the Remuneration 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 Sanctions Committee ("SC"), the Information Security Committee ("ISC") and the Information Technology Steering Committee ("ITSC") are the principal committees reporting to MANCOM. ALCO is chaired by the Chief Executive Officer and it focuses on the funding of ABCIB's assets, liquidity, interest rates, trading risks, and the investment of ABCIB's capital. Both SC and ISC are chaired by the Chief Executive Officer. SC reviews those transactions that are affected by sanctions measures and ISC oversees data and IT security. ITSC, chaired by the Head of Operations, oversees enhancements to ABCIB's core IT and communications systems.

BOARD RISK COMMITTEE

The Board Risk Committee ("BRC") is chaired by Dr. Khaled Kawan and four other non-executive Directors sit on this committee. Dr. Khaled Kawan is also the Group Chief Executive Officer of Arab Banking Corporation (B.S.C.).

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Mr. Abdullah Al-Humaidhi, who is also Chairman of the Compensation Committee of the parent Bank ABC (B.S.C.). The Committee meets at least four times a year to review the Bank's compensation policy and the overall remuneration of ABCIB's senior managers. The Committee 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.

CORPORATE GOVERNANCE COMMITTEE

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

CHARITABLE APPEALS COMMITTEE

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

RISK MANAGEMENT

All areas of risk fall under the management and control of the ABCIB Chief Risk Officer ("CRO"), who reports jointly to the Chairman of the BRC and to the ABCIB CEO. There is also a functional reporting line to the ABC Group Chief Credit & Risk Officer.

CREDIT RISK

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

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

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

The quality of the risk portfolio is considered to be good, reflecting a conservative risk approach in recent years. The weighted average risk rating of ABCIB's risk asset book is equivalent to investment grade. At year-end 2014 ABCIB's non-performing loans stood at £21.2 million. Specific provisions at year-end amounted to £17.6 million representing 83% of loans classified by the Bank as non-performing. We remain comfortable with the coverage level.

ABCIB has prudent policies and procedures to build up reserves against possible losses in the asset portfolio. Specific provisions are in place to deal with exposures classified as impaired or where losses are expected. In addition, ABCIB maintains a collective impairment reserve to cover an identified part of the portfolio where observable data indicates that impairment may have occurred even though there is not yet any specific evidence of impairment of any individual loan within that group of assets. This reserve stood at £2.2 million at year-end.

LIQUIDITY RISK

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

MARKET RISK, OPERATIONAL RISK, AND OTHER RISK

ABCIB uses the VaR method of risk management of currency, interest rate and credit exposures on a daily basis. All market risk is managed in London and overseen on a global basis by ABC. The CRO and the Head of Treasury review the level of market risk every day and all Treasury counterparty risks are monitored on a real-time basis. Treasury operations are governed by the Trading Book Policy Statement.

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

Operational risk is managed by the CRO and the Head of Operational Risk. ABCIB has an operational risk framework in place with recording of risks and controls and loss data capture, and the Operational Risk Committee reviews all operational risk incidents. The Committee is chaired by the Head of Operational Risk. In accordance with ABC Group requirements, a two-year rolling programme of operational risks and controls assessments is carried out for every business unit, branch and support department within ABCIB.

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

COMPLIANCE

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

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

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

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

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

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

We have audited the financial statements of ABC International Bank plc for the year ended 31 December 2014 which comprise the Income statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 42. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Andrew McIntyre (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
17 February 2015

Notes:

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

ABC International Bank plc

INCOME STATEMENT

For the year ended 31st December 2014

	Notes	2014 £000	2013 £000
Interest and similar income	4	**54,217**	59,040
Interest and similar expense	4	**(16,874)**	(18,528)
Net interest and similar income	3	**37,343**	40,512
Fees and commissions income	4	**38,215**	51,719
Fees and commissions expense	4	**(8,675)**	(12,250)
Net trading income	37	**446**	758
Gain on sale of available for sale securities	4	**-**	788
Other operating income/ (expense)	5	**2,035**	(1,173)
		32,021	39,842
Total operating income		**69,364**	80,354
General and administrative expenses	6	**(40,429)**	(41,032)
Impairment gain/ (loss)	7	**1,546**	(10,901)
		(38,883)	(51,933)
Profit before tax	8	**30,481**	28,421
Taxation	9	**(6,797)**	(7,971)
Profit for the year attributable to owners		**23,684**	20,450

The notes on pages 30 to 56 are an integral part of the financial statements.

ABC International Bank plc
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2014

	Notes	2014 £000	2013 £000
Total comprehensive income for the year attributable to owners		**23,684**	20,450
Items that cannot be reclassified to income statement			
Foreign exchange movement		**(142)**	(151)
Actuarial loss recognised on defined benefit pension scheme	41	**(4,350)**	(303)
Deferred tax credit relating to pension schemes		**599**	40
Items that can be reclassified to income statement			
Change in fair value of available for sale investments and loans and advances		**511**	1,701
Corporation tax relating to change in fair value of available for sale investments and loans and advances		**(70)**	(230)
Total comprehensive income for the year attributable to owners		**20,232**	**21,507**

ABC International Bank plc **Registration No: 2564490**

STATEMENT OF FINANCIAL POSITION

As at 31st December 2014

	Notes	2014 £000	2013 £000
Assets			
Cash and cash equivalents		**81,076**	62,178
Certificates of deposit purchased	10	**-**	20,000
Financial investments - available-for-sale	16	**259,769**	349,342
Loans and advances to banks	12	**1,086,342**	1,279,869
Loans and advances to customers	13	**1,170,920**	1,060,595
Derivative financial assets	19	**39,487**	54,774
Tangible fixed assets	20	**1,098**	1,255
Current Tax asset		**67**	-
Deferred tax asset	21	**7,245**	10,082
Prepayments, accrued income and other debtors	22	**50,703**	62,656
Total assets		**2,696,707**	2,900,751
Liabilities			
Deposits from banks	23	**1,753,585**	1,996,260
Customer deposits	24	**196,351**	226,184
Derivative financial liabilities	25	**2,087**	6,151
Other liabilities, accruals and deferred income	26	**55,491**	74,997
Current tax liability		**891**	2,167
Pension scheme liability	41	**9,732**	6,191
Term borrowing	27	**170,463**	60,001
Subordinated liabilities	28	**80,813**	121,738
		2,269,413	2,493,689
Share capital	29	**212,296**	212,296
Retained earnings		**215,018**	195,227
Available for sale reserve		**(20)**	(461)
Total equity		**427,294**	407,062
Total equity and liabilities		**2,696,707**	2,900,751

The directors approved and authorised the financial statements for issue on 13 February 2015.

S. Elkabel

Saddek El Kaber
Chairman
13 February 2015

ABC International Bank plc
STATEMENT OF CHANGES IN EQUITY
As at 31st December 2014

	Share Capital	Retained Earnings	Available-for-sale reserve	Total equity
	£000	£000	£000	£000
Balance at 1st January 2014 as previously reported	212,296	195,227	(461)	**407,062**
Comprehensive income				
Profit for the year	-	23,684	-	**23,684**
Other comprehensive income				
Movement in revaluation reserve in respect of available-for-sale financial investments and loans, net of tax				
- Net change in fair value	-	-	441	**441**
- Net amount reclassified to profit or loss	-	-	-	**-**
Defined benefit plan actuarial losses, net of tax	-	(3,751)	-	**(3,751)**
Exchange differences	-	(142)	-	**(142)**
Balance at 31st December 2014	**212,296**	**215,018**	**(20)**	**427,294**

NOTES TO THE ACCOUNTS

1. Accounting policies

1.1 Reporting entity

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

1.2 Basis of preparation

ABCIB has decided to early adopt the United Kingdom Generally Accepted Accounting Practice including the Financial Reporting Standard 101 'Reduced Disclosure Framework' for qualifying entities applying EU-adopted IFRS, for the financial statements for the year ended 31st December 2014. IFRS1 'First-time Adoption of IFRS' has been applied. An explanation of how the transition to FRS 101 has affected the reported financial position is included in note 21.

The financial statements of ABCIB are prepared under the historical cost convention, except for available-for-sale investments and derivative financial assets and liabilities, that have been measured at fair value.

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

ABCIB undertakes business in several countries in the MENA region in which social and political unrest has occurred over the course of the year ended 31st December 2014. Whilst the level of unrest and consequent political uncertainty have abated in many of those countries, ABCIB continues to monitor closely developments and has taken steps to mitigate any adverse impact on its operations.

At the time of approval of these financial statements, the Board was satisfied that the capital and liquidity position of ABCIB remained satisfactory, and that ABCIB, with the support of Arab Banking Corporation (B.S.C) ('ABC'), has liquid resources to enable it to meet its obligations for the foreseeable future, including its prospective flow of new business.

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

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

a) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share based Payment, provided that for a qualifying entity that is:

i) a subsidiary, the share-based payment arrangement concerns equity instruments of another group entity;

ii) an ultimate parent, the share-based payment concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group,

and in both cases, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

b) The requirements of paragraph 62, B64(d), B64), B64(g), B64(h), B64(j), B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS3 Business Combinations provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

c) The requirements of paragraph 33c of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

d) The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

e) The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurements, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

f) 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;

iii) paragraph 118 (e)of IAS 38 Intangible Assets;

iv) Paragraphs 76 and 79(d) of IAS 40 Investment Property; and

v) Paragraph 50 of IAS 41 Agriculture.

g) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.

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

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

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

k) 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.

l) The requirements of paragraphs 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.

Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets, effective for accounting periods beginning on or after 1 January 2014, amends paragraphs 134 (d) to 134(f) of IAS 36 above. Early application is permitted. Please note that the FRC has issued FRED 53 Draft Amendments to FRS 101 Reduced Disclosure Framework (2013/14) in December 2013. If finalised, this proposes disclosure exemptions from the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to (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.

Change in accounting policies

An explanation of how the transition to FRS 101 has affected the reported financial position is included in note 21.

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 except for the adoption of new standards and interpretations effective as of 1 January 2014.

IAS 1 presentation of items of Other Comprehensive Income - Amendment to IAS 1

The amendment to IAS 1 introduces a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (eg. Net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net gain or loss on available for sale financial assets) now have to be presented separately from items that will never be reclassified (eg. actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and had no impact on ABCIB financial position or performance.

IAS 19 Employee benefits (Revised 2011) (IAS 19R)

ABCIB also adopted the revisions to IAS 19 Employee Benefits issued by the IASB in 2011, effective for annual periods beginning on or after 1 January 2013, retrospectively. The most significant amendment requires actuarial gains and losses to be recognised in Other Comprehensive Income (OCI) and excluded permenently from profit and loss, and also removes the option to defer the recognition of actuarial gains and losses (ie the corridor approach available under the previous standard). The application of the amendments had no material impact on the disclosures or the amounts recognised in the financial statements.

IFRS 12 Disclosure of Interests in Other Entities effective for years starting 1 January 2014

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. The application of the amendments had no material impact on the disclosures or the amounts recognised in the financial statements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

Amendments to IFRS 7, 'Disclosures - Offsetting financial assets and financial liabilities' require additional disclosures to enable users of financial statements to evaluate the effect or the potential effect of netting arrangements, including right of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. As ABCIB does not have any offsettings agreements in place, the application of the amendments has had no material impact on the disclosures or the amounts recognised in the financial statements.

IFRS 13 Fair Value Measurement effective as of 1 January 2013

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. Application of IFRS 13 has not materially impacted the fair value measurements carried out by ABCIB.

IFRS 13 also requires additional disclosures. Additional disclosures where required, are provided in individual notes relating to the assets and liabilities whose fair values were determined.

In addition to the above, ABCIB adopted the following new standards and amendments effective as of 1 January 2013.

- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The adoption of the above new standards and amendments did not have any material impact of ABCIB's financial position, performance or disclosures.

1.2 Basis of preparation

Standards issued but not yet effective

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

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 probable to have occurred even though there is not yet any specific evidence of impairment of any individual loan within that group of assets.

Credit facilities subject to collective impairment provisions represent on-balance sheet exposures not subject to specific provision, with an internal credit risk rating of 6+ to 10 (2013: 7+ to 10) and with an original maturity of more than 1 month (2013: 6 months). Standard & Poor equivalent rates: (1 - 4 = > BBB-, 5 - 7 = B- to BB- and 7 - 10 = < BB-).

The provision against the collective impairment is derived using an 'expected loss' approach. 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 asset out in Annex 3 of the Basel II Capital Accord.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In assessing the recoverability of deferred tax assets, management considers forecast profits for three years which assumes annual growth of 5%. However, the deferred tax asset is expected to be recovered within two years.

Pensions

The cost of the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 41 for the assumptions used.

1.4 Summary of significant accounting policies

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

a. Foreign currency translation

ABCIB's financial statements are presented in GB Pounds which is its functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to 'dealing profits' in the income statement.

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

b. Financial instruments - initial recognition and subsequent measurement

i) Date of recognition

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

ii) Initial recognition of financial instruments

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

iii) Derivatives recorded at fair value through profit and loss

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

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

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

1. **Accounting policies (continued)**

v) Available-for-sale financial investments

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

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

vi) Debt issued and other borrowed funds

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

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

c. Financial guarantees

In the ordinary course of business, ABCIB gives financial guarantees, consisting of letters of credits, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value (equivalent to the premium received) in 'Other liabilities'. Subsequent to initial recognition, ABCIB's liability under each guarantee is measured at the higher of amortised cost or the present value of the expected payment under the guarantee.

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

d. Determination of fair value

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

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

e. Impairment of financial assets

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

i) Loans and advances to banks and loans and advances to customers

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

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

1. **Accounting policies (continued)**

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

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

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

iii) Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence will include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, ABCIB evaluates, among other factors, historical share price, movement and duration and extent to which the fair value of the investment is less than its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the income statement, and increases in their fair values after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost except for when there is an existing quoted market value, market value must be taken into account in deciding the level of provision to be booked. On sale of debt instruments, any amounts relating to that disposal in Comprehensive Income is recycled through the income statement. Debt instruments classified as Available-for-Sale are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to ABCIB. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Also, if in a subsequent year, the fair value of the debt instrument decreases, the decrease will be debited to the statement of comprehensive income.

f. Derecognition of financial assets and liabilities

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

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

g. Hedge accounting

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

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

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair values or cash flows attributable to the hedged risk during the period for which it is designated are expected to offset in a range of 80% to 125%. ABCIB relies on the matching of the critical terms of the interest rate swaps and hedge items..

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

1. Accounting policies (continued)

Fair value hedges

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

h. 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.

i. Recognition of income and expense

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

i) Interest and similar income and expense

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

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

ii) Fee and commission income

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

iii) Dividend income

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

iv) 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.

j. 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.

k. Fixed assets and depreciation

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

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

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 maybe 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 had the original impairment not been done. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

1. Accounting policies (continued)

l. 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.

m. Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

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

n. Cash and cash equivalents

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

o. Leases

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

p. 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.

1. Accounting policies (continued)

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

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate that reflects the full term structure of the Merrill Lynch nominal AA corporate spot yield curve), less any past service cost not yet recognised and less the fair-value of scheme assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published mid-market price. The value of a net benefit pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

ii) Defined contribution pension scheme

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

q. Short-term employee benefits

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

r. Provisions

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

2. Segmental reporting

ABCIB has more than one business segment. Trade and Commodity Finance, Project and Structured Finance, Treasury, Islamic Financial Services and others including Head Office. Analysis of the business segments is included in note 42. The ultimate origin of income of all income is determined to be the UK. Accordingly no geographical segmental information is disclosed.

3. Net interest and similar expense

	2014	2013
Interest income	**£000**	£000
Loans and advances to banks	19,617	22,701
Loans and advances to customers	29,746	30,985
Derivative financial instruments	4,817	5,249
others	37	105
	54,217	59,040
Interest expense		
Deposits from banks	7,979	10,783
Customer deposits	110	149
Subordinated liabilities	7,557	7,113
Term borrowing	863	468
Others	365	15
	16,874	18,528

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

2014

	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	-	53,151	1,066	-	-	54,217
Interest and similar expense	-	-	-	(16,874)	-	(16,874)
Net Interest and similar income	-	53,151	1,066	(16,874)	-	37,343
Fees and commissions income	-	38,215	-	-	-	38,215
Fees and commissions expense	-	-	-	(8,675)	-	(8,675)
Net trading income	446	-	-	-	-	446
Gain/ (loss) on sale of available for sale securities	-	-	-	-	-	-
Other operating (expense)/ income	-	1,579	-	-	456	2,035
Total operating income	446	92,945	1,066	(25,549)	456	69,364

2013

	Trading	Loans and receivables	Available-for-sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Interest and similar income	-	57,885	1,155	-	-	59,040
Interest and similar expense	-	-	-	(18,528)	-	(18,528)
Net Interest and similar income	-	57,885	1,155	(18,528)	-	40,512
Fees and commissions income	-	51,719	-	-	-	51,719
Fees and commissions expense	-	-	-	(12,250)	-	(12,250)
Net trading income	758	-	-	-	-	758
Gain/ (loss) on sale of available for sale securities	-	-	788	-	-	788
Other operating (expense)/ income	-	(1,557)	-	-	384	(1,173)
Total operating income	758	108,047	1,943	(30,778)	384	80,354

5. Other operating income/ (expense)

	2014	2013
	£000	£000
Rental income	585	502
Profit/ (loss) on sale of commercial assets	1,579	(1,557)
Profit on disposal of fixed assets	11	5
Other	(140)	(123)
	2,035	(1,173)

6. General and administrative expenses

	2014 £000	2013 £000
a) Staff costs:		
Salaries	**21,471**	21,765
Social security costs	**2,883**	4,096
Pension costs (note 41)		
- Defined benefit scheme	**254**	103
- Defined contribution schemes	**1,194**	1,357
Redundancy cost	**1,473**	642
	27,275	27,963
Depreciation	**319**	454
Other administrative expenses	**12,835**	12,615
	40,429	41,032

	2014 Number	2013 Number
The average monthly number of employees (excluding Directors) during the year:		
Trade Finance	**48**	47
Islamic	**7**	7
Project Finance	**4**	5
Treasury	**5**	5
Head office and Support	**140**	133
	204	197

b) Directors' remuneration:

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

	2014 £000	2013 £000
Aggregate remuneration in respect of qualifying services	**1,188**	1,289
In respect of the highest paid Director:		
Aggregate remuneration in respect of qualifying services	**675**	824

There are no pension contributions for directors (2013: nil).

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

7. Impairment gain/ (loss)

	2014 £000	2013 £000
The net gain/(loss) for the year in respect of provisions is made up as follows:		
Loans and advances to banks	**501**	98
Loans and advances to customers	**89**	(12,195)
Collective impairment provision	**600**	(800)
Off-balance sheet	**-**	1,929
Recoveries in respect of advances previously written off	**356**	67
	1,546	(10,901)

8. Profit before tax

		2014 £000	2013 £000
Profit is stated after (charging)/crediting :			
Foreign currency gains, net		**335**	630
Auditors' remuneration:	audit of the company's financial statements	**(309)**	(258)
	audit of subsidiaries of the company	**(8)**	(8)
	audit of associates of the company	**-**	(15)
	audit of related assurance services	**(43)**	(24)
	taxation compliance services	**(144)**	(139)
Operating lease rentals:	hire of equipment	**(60)**	(83)
	land and buildings	**(2,959)**	(2,817)
Income from listed securities		**1,066**	2,770

9. Taxation

	2014 £000	2013 £000
Analysis of tax charge for the year		
Current tax:		
UK corporation tax - Current year	(1,416)	(2,079)
UK corporation tax - Prior years	(101)	479
Foreign tax - Current year	(1,764)	(4,075)
Foreign tax - Prior years	(79)	-
Total current tax	(3,360)	(5,675)
Deferred tax:		
Recognition of brought forward losses & Subordinated liabilities	(3,267)	(1,969)
Recognition in respect of pension scheme	(170)	(327)
Total deferred tax	(3,437)	(2,296)
Total tax charge for the year	(6,797)	(7,971)
Factors affecting tax charge for the year		
The differences are explained below:		
Profit on ordinary activities before tax	30,481	28,421
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013 : 23.25%)	(6,553)	(6,608)
Effect of:		
Disallowed expenses and non-taxable income	(41)	(61)
Group relief	177	221
Impact of higher overseas tax rates	(687)	(1,480)
Prior year adjustment	(101)	479
Deferred tax unrecognised and tax rate changes	409	(522)
Total tax charge	(6,797)	(7,971)

10. Certificates of deposit purchased

	2014 £000	2013 £000
Analysed by maturity:		
within three months	-	20,000
	-	20,000

11. Analysis of assets and liabilities by classification:

2014

	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	-	81,076	-	-	-	81,076
Loans and advances to banks	-	1,059,802	26,540	-	-	1,086,342
Loans and advances to customers	-	1,170,920	-	-	-	1,170,920
Financial investments - available-for-sale	-	-	259,769	-	-	259,769
Derivative financial instruments	39,487	-	-	-	-	39,487
Tangible fixed assets	-	-	-	-	1,098	1,098
Current tax asset	-	-	-	-	67	67
Deferred tax asset	-	-	-	-	7,245	7,245
Prepayments, accrued income and other debtors	-	43,168	-	-	7,535	50,703
Total assets	39,487	2,354,966	286,309	-	15,945	2,696,707
Deposits from banks	-	-	-	1,753,585	-	1,753,585
Customer deposits	-	-	-	196,351	-	196,351
Derivative financial liabilities	2,087	-	-	-	-	2,087
Other liabilities, accruals and deferred income	-	1,516	-	-	55,491	57,007
Corporation tax liability	-	-	-	-	891	891
Pension scheme liability	-	-	-	-	9,732	9,732
Term borrowing	-	-	-	170,463	-	170,463
Subordinated liabilities	-	-	-	80,813	-	80,813
Total liabilities	2,087	1,516	-	2,201,212	66,114	2,270,929

Others include derivatives as disclosed in note 32.

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

2013

	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		62,178	-	-	-	62,178
Certificates of deposit purchased		20,000	-	-	-	20,000
Loans and advances to banks		1,245,973	33,896	-	-	1,279,869
Loans and advances to customers		1,045,462	15,133	-	-	1,060,595
Financial investments - available-for-sale		-	349,342	-	-	349,342
Derivative financial instruments	54,774	-	-	-	-	54,774
Tangible fixed assets		-	-	-	1,255	1,255
Deferred tax asset		-	-	-	10,082	10,082
Prepayments, accrued income and other debtors		54,092	-	-	8,564	62,656
Total assets	54,774	2,427,705	398,371	-	19,901	2,900,751
Deposits from banks		-	-	1,996,260	-	1,996,260
Customer deposits		-	-	226,184	-	226,184
Derivative financial liabilities	6,151	-	-	-	-	6,151
Other liabilities, accruals and deferred income		2,258	-	-	72,739	74,997
Corporation tax liability	-	-	-	-	2,167	2,167
Pension scheme liability	-	-	-	-	6,191	6,191
Term borrowing	-	-	-	60,001	-	60,001
Subordinated liabilities	-	-	-	121,738	-	121,738
Total liabilities	6,151	2,258	-	2,404,183	81,097	2,493,689

12. Loans and advances to banks

	2014	2013
	£000	£000
Repayable:		
on demand	**38,210**	59
within three months	**532,186**	720,931
between three months and one year	**467,889**	467,408
between one and five years	**47,917**	91,355
after five years	**1,088**	1,553
	1,087,290	1,281,306
Allowance for impairment losses (note 15)	**(948)**	(1,437)
	1,086,342	1,279,869
Included in the above are balances due from ABC Group undertakings of	**695**	126

Included in the above are available-for-sale loans amounting to £26,540,000 (2013 - £29,656,000)

13. Loans and advances to customers

	2014 £000	2013 £000
Repayable:		
on demand	**26,329**	22,559
within three months	**643,778**	542,628
between three months and one year	**276,250**	301,782
between one and five years	**229,084**	175,954
after five years	**14,371**	36,595
	1,189,812	1,079,518
Allowance for impairment losses (note 15)	**(18,892)**	(18,923)
	1,170,920	1,060,595
Included in the above are balances due from ABC Group undertakings of	**43,542**	42,668

Included in the above are available-for-sale loans amounting to nil (2013 - £19,300,000)

ABCIB assesses at each balance sheet date whether there is any objective evidence that loans to ABC Group undertakings are impaired. A specific loan of £38.2 million to ABC Investment Holdings Limited ("ABCIH") a subsidiary of ABCIB, is secured on the freehold of a property, being the Headquarters of ABCIB, 100% owned by ABCIH and leased to ABCIB on a long leasehold. In assessing whether the value of the security is sufficient to support the loan value, ABCIB assesses the carrying value of the building. The higher of value in use and fair value less costs to sell has been used to determine if any impairment exists. Management have reviewed indicators of impairment considering internal and external factors such as significant changes that have an adverse effect on the recoverability of the loan, the passage of time, the economic and legal environment in the regions in which ABCIB operates and market factors (such as interest rates). Management have not identified any indicators of impairment.

ABCIB defines forbearance as a temporary deferral of payments prior to an agreement or formal restructure being reached between ABCIB and customers. At the year end, none of the loans were subject to forebearance (2013: none).

14. Loans and advances which were past due

	2014		2013	
	Loans and advances to banks £000	**Loans and advances to customers £000**	Loans and advances to banks £000	Loans and advances to customers £000
Past due under 1 years	**-**	**-**	-	19,880
Past due between 1 and 3 years	**-**	**14,416**	-	-
Past due over 3 years	**948**	**5,844**	1,553	8,537
	948	**20,260**	1,553	28,417
Loans and advances by credit quality				
Loans and advances:				
- neither past due nor impaired	**1,086,342**	**1,169,552**	1,279,753	1,051,101
- past due but not impaired	**-**	**-**	-	929
- impaired	**948**	**20,260**	1,553	27,488
	1,087,290	**1,189,812**	1,281,306	1,079,518

Impaired loans and advances	2014 £000	2013 £000
Total impaired loans and advances to:		
- banks	**948**	1,553
- customers	**20,260**	27,488
	21,208	29,041

15. Movements in allowance for impairment losses

	Individually assessed		Collectively assessed		
	Banks £000	**Customers £000**	**Banks £000**	**Customers £000**	**Total £000**
Brought forward 1st January 2014	**1,437**	**16,123**	**-**	**2,800**	**20,360**
Provision for the year	**-**	**678**	**-**		**678**
Decrease	**(501)**	**(767)**	**-**	**(600)**	**(1,868)**
Foreign currency translation adjustment	**12**	**658**	**-**	**-**	**670**
Carried forward 31st December 2014	**948**	**16,692**	**-**	**2,200**	**19,840**

The decrease relates to a recovery of provisions against three exposures provided for during the year.

16. Financial investments - available-for-sale

	2014 £000	2013 £000
Listed (Debt investments)	**259,769**	349,342
	259,769	349,342
Due within one year	**177,894**	280,721
Due between one and two years	**68,638**	-
Due between two and five years	**13,237**	68,621
	259,769	349,342

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:

	2014 £000	2013 £000
At 1st January	**349,342**	362,774
Additions	**193,909**	235,706
Repayments and disposals	**(278,131)**	(264,637)
Fair value movement	**536**	1,692
Exchange movements	**(5,887)**	13,807
At 31st December	**259,769**	349,342

The net unamortised discount at 31st December 2014 was £95,611 (2013 : £57,234).
The net unamortised premium at 31st December 2014 was £92,708 (2013 : £650,000).
Fair value has been determined by reference to quoted market prices.

17. Interest in subsidiaries and associated undertakings

ABCIB owns the following investment in subsidiaries and associated companies in addition to those disclosed in note 18:

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

The investment in Bronco Fund LLC amounts to £3.7 million which is provided for in full in the accounts.

The fair value of equity investments is not disclosed as management considers the net assets of the subsidiaries to approximate the fair value.

18. 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%

19. Derivative financial assets

	2014 £000	2013 £000
Positive mark to market of derivatives	**34,545**	52,855
Foreign exchange contracts	**4,942**	1,919
	39,487	54,774

20. Tangible fixed assets

	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1st January 2014	731	1,671	9,550	178	12,130
Additions	-	9	154	9	172
Disposals	-	-	(5)	(37)	(42)
Exchange differences and other adjustments	(23)	(63)	(392)	(5)	(483)
At 31st December 2014	**708**	**1,617**	**9,307**	**145**	**11,777**
Depreciation					
At 1st January 2014	708	1,040	8,983	144	10,875
Charge for the year	15	152	137	15	319
Disposals	-	-	(5)	(37)	(42)
Exchange differences and other adjustments	(23)	(62)	(382)	(6)	(473)
At 31st December 2014	**700**	**1,130**	**8,733**	**116**	**10,679**
Net book value					
At 31st December 2014	**8**	**487**	**574**	**29**	**1,098**
At 31st December 2013	23	631	567	34	1,255

21. Deferred tax asset

	2014 £000	2013 £000
At 1st January	**9,366**	11,335
Recognised during the year	**(3,267)**	(1,969)
Deferred tax asset on pension	**1,146**	716
At 31st December	**7,245**	10,082

The major components of the deferred tax asset are as follows:		
Unutilised tax losses arising on P&L results	**1,479**	2,384
Asset in respect of sub-debt deduction	**4,481**	6,725
Asset in respect of accelerated capital allowances	**139**	257
Deferred tax asset on pension	**1,146**	716
	7,245	10,082

There is an unrecognised deferred tax asset of £3.1 million based on a tax rate of 20% (2013: £2.8million) arising due to brought forward tax losses and pension scheme deduction. Management has performed a review of recoverability of deferred tax assets considering forecast profits for the next three years. The assumptions used in preparing these forecasts have been subject to a series of stress tests to ensure the forecasts fall within a reasonable range of outcomes.

Deferred tax asset has been increased by £1.1 million and Pension Liability increased by the same amount as a result of the transition to FRS 101. The Pension Liability is now shown gross.

Deferred tax has been recognised at 20% given this is the enacted rate with effect from 31 December 2014.

22. Prepayments, accrued income and other debtors

	2014 £000	2013 £000
Interest receivable	**43,168**	54,092
Prepayments and accrued income	**4,223**	3,774
Fair value adjustment on hedged items	**637**	471
Other	**2,675**	4,319
	50,703	62,656

23. Deposits from banks

	2014 £000	2013 £000
Repayable:		
on demand	**248,019**	117,109
within three months	**595,764**	1,473,894
between three months and one year	**887,802**	282,521
between one and five year	**22,000**	122,736
	1,753,585	1,996,260
Included in the above are balances due to ABC Group undertakings of	**122,671**	243,625

24. Customer deposits

	2014 £000	2013 £000
Repayable:		
on demand	**99,924**	125,058
within three months	**37,236**	94,533
between three months and one year	**57,691**	6,593
between one and five years	**1,500**	-
	196,351	226,184
Included in the above are balances due to ABC Group undertakings of	**9,207**	7,148

25. Derivative financial liabilities

	2014 £000	2013 £000
Negative mark to market of derivatives	1,115	2,998
Foreign exchange contracts	972	3,153
	2,087	6,151

26. Other liabilities, accruals and deferred income

	2014 £000	2013 £000
Interest payable	1,516	2,258
Accruals and deferred income	16,096	15,795
Fair value adjustment on hedged items	34,000	50,202
Tax and social security costs	433	578
Other	3,446	6,164
	55,491	74,997

27. Term borrowing

	2014 £000	2013 £000
Repayable:		
within one year	50,573	35,000
between one and two years	7,786	-
between two and five years	112,104	25,001
	170,463	60,001
Included in the above are balances due to ABC Group undertakings of	58,359	60,001

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

28. Subordinated liabilities

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

	2014 £000	2013 £000
GBP85.0 million Zero Coupon Bond	80,813	76,027
GBP16.3 million Zero Coupon Bond	-	14,851
GBP16.4 million Zero Coupon Bond	-	15,535
GBP15.6 million Zero Coupon Bond	-	15,325
	80,813	121,738

On 12th December 2005 ABCIB issued a Subordinated zero coupon bond for £50 million repayable at par of £85.0 million on 14th December 2015.

On 21st December 2007 ABCIB issued a Subordinated zero coupon bond for £10 million repaid at par of £16.3 million on 31st December 2014.

On 30th June and 4th September 2008 ABCIB issued two Subordinated bonds for £10 million each repaid at par of £16.4million and £15.6million on 31st December 2014.

The subordinated liabilities are due to the Ultimate Parent Undertaking.

29. Called up share capital

	Issued £'000
Ordinary shares of £1 each	
At 1st January 2014	212,296
At 31st December 2014	212,296

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

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

The PRA supervises ABCIB and as such receives information on the capital adequacy of ABCIB. The PRA require each bank to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance transactions. ABCIB complied in full with the regulatory capital adequacy requirements during 2014 and 2013.

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. The subordinated liability has been fully amortised as at 31st December 2014, therefore, this does not add to Tier 2 capital this year.

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.

29. Called up share capital (continued)

Capital structure

	2014	2013
	£000	£000
Share capital	212,296	212,296
Retained earnings	215,018	195,227
Tier 1 Capital	427,314	407,523

Composition of regulatory capital

	2014	2013
	£000	£000
Tier 1 capital *	420,550	407,523
Tier 1 Capital Ratio	22.0%	19.4%
Collective impairment	2,200	2,800
Subordinated liability	80,813	121,738
Amortisation of subordinated liability	(49,109)	(68,316)
Swap	(31,704)	(43,849)
Tier 2 capital	2,200	12,373
Total regulatory capital	422,750	419,896
Risk-weighted assets		
Banking book	1,909,902	2,061,719
Trading book	3,541	36,276
Total	1,913,443	2,097,995
Risk-weighted assets included in the totals above in respect of:		
-contingent liabilities	214,129	380,709
-commitments	158,547	148,918
Risk Asset Ratio	%	%
Total capital	22.1	20.0

Tier 1 Capital incorporates the profit for the respective years.

* New Capital Requirements Regulation and Directive CRR/CRD IV Rules for Composition of regulatory capital applies from 1st January 2014 which included a deduction *of deferred tax asset from the composition of regulatory capital.*

30. Transactions with directors and officers

The aggregate amounts outstanding at 31st December 2014 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 (2013 - nil).

31. Commitments

Contract or underlying principal amount :	2014 £000	2013 £000
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**121,087**	220,066
Over one year	**193,709**	137,801
	314,796	357,867

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

	2014 Land and buildings £000	2014 Other £000	2013 Land and buildings £000	2013 Other £000
Leases which expire:				
within two years	**-**	**42**	-	61
within two to five years	**359**	**16**	-	24
between five and ten years	**2,080**	**-**	2,296	-

32. Financial Instrument Contracts

a) Derivative financial instruments

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

The accounting treatment explained in Note 1.4(g) 'Hedge accounting' varies according to the nature of the item hedged and in compliance with the hedge criteria. Hedges entered into by ABCIB which provide economic hedges but do not meet the hedge accounting criteria are treated as 'Derivatives held or issued for trading purposes'.

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

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

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

In addition to derivative financial instruments, ABCIB uses foreign currency borrowings as hedges of certain foreign currency denominated equity investments (note 17).

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.

	2014 FV -Assets £000	2014 FV - Liabilities £000	2014 Notional amount £000	2013 FV -Assets £000	2013 FV - Liabilities £000	2013 Notional amount £000
I) Derivatives held for trading						
Forward foreign exchange contracts & Interest rate swaps						
Total at 31st December	**545**	**478**	**94,316**	1,176	1,050	81,012
II) Derivatives held as fair value hedges						
Interest rate swaps & Swaptions	**34,000**	**637**	**151,498**	51,679	1,948	210,885
Foreign exchange contracts	**4,942**	**972**	**185,396**	1,919	3,153	589,685
Total at 31st December	**38,942**	**1,609**	**336,894**	53,598	5,101	800,570

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

	2014 FV -Assets £000	2014 FV - Liabilities £000	2014 Notional amount £000	2013 FV -Assets £000	2013 FV - Liabilities £000	2013 Notional amount £000
III) Hedged items						
Loans and advances to customers	**2**	**637**	**101,498**	1,741	1,948	130,885
Deposits from customers and subordinated liabilities	**33,998**	**-**	**50,000**	49,938	-	80,000
	34,000	**637**	**151,498**	51,679	1,948	210,885

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

Fair value adjustments in relation to hedged items are recorded under Derivative financial assets (note 19) and Derivative financial liabilities (note 25) respectively. The fair value measurement of the financial instruments above fall within measurement level 2 (2013 - level 2). There have been no transfers between levels 1 and 2.

The gain on the hedging instruments was £1.2 million (2013 - £1.8 million) for the assets and £0.2 million loss (2013 - gain £0.3 million) for the liabilities.

The loss on the hedged items was £1.2 million (2013 - loss £1.8 million) for the assets and loss £0.2 million (2013 - loss £0.3 million) for the liabilities. The net impact of this gain in the income statement (Other operating income) was nil (2013 - nil).

I) Fair Values

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

32. Financial Instrument Contracts (continued)
II) Interest rate repricing

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

2014	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	Total £m
Assets							
Cash and cash equivalents	1.6	79.5	-	-	-	-	81.1
Loans and advances to banks	698.3	183.5	192.8	12.7	-	(1.0)	1,086.3
Loans and advances to customers	852.0	200.2	64.2	74.1	-	(19.6)	1,170.9
Financial investments - available-for-sale	193.8	50.0	16.0	-	-	-	259.8
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	97.5	97.5
Fixed assets	-	-	-	-	-	1.1	1.1
Total assets	1,745.7	513.2	273.0	86.8	-	78.0	2,696.7
Liabilities and shareholders' funds							
Deposits from banks	1,324.2	155.5	273.9	-	-	-	1,753.6
Customer deposits	144.3	50.3	0.2	1.5	-	-	196.3
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	68.2	68.2
Term borrowing and subordinated liabilities	170.5	-	80.8	-	-	-	251.3
Shareholders' funds	-	-	-	-	-	427.3	427.3
Total liabilities and shareholders' funds	1,639.0	205.8	354.9	1.5	-	495.5	2,696.7
Net position	106.7	307.4	(81.9)	85.3	-	(417.5)	
Off balance sheet	47.8	(25.3)	48.2	(70.7)		-	
Interest rate sensitivity gap	154.5	282.1	(33.7)	14.6	-	(417.5)	
Cumulative gap	154.5	436.6	402.9	417.5	417.5	-	

2013	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	Total £m
Assets							
Cash and cash equivalents	62.2	-	-	-	-	-	62.2
Certificates of deposit purchased	20.0	-	-	-	-	-	20.0
Loans and advances to banks	1,065.4	87.5	94.3	34.1	-	(1.4)	1,279.9
Loans and advances to customers	767.4	178.6	108.6	24.4	0.1	(18.6)	1,060.5
Financial investments - available-for-sale	249.8	54.5	45.0	-	-	-	349.3
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	127.5	127.5
Fixed assets	-	-	-	-	-	1.3	1.3
Total assets	2,164.8	320.6	247.9	58.5	0.1	108.8	2,900.7
Liabilities and shareholders' funds							
Deposits from banks	1,836.4	90.6	69.2	-	-	-	1,996.2
Customer deposits	219.6	0.6	6.0	-	-	-	226.2
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	89.5	89.5
Term borrowing and subordinated liabilities	48.3	-	48.4	85.0	-	-	181.7
Shareholders' funds	-	-	-	-	-	407.1	407.1
Total liabilities and shareholders' funds	2,104.3	91.2	123.6	85.0	-	496.6	2,900.7
Net position	60.5	229.4	124.3	(26.5)	0.1	(387.8)	
Off balance sheet	18.9	5.6	(19.9)	(4.6)	-	-	
Interest rate sensitivity gap	79.4	235.0	104.4	(31.1)	0.1	(387.8)	
Cumulative gap	79.4	314.4	418.8	387.7	387.8	-	

33. Fair value of other financial instruments

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

	Measurement level	2014 Carrying amount	2014 Fair value	2014 Unrecognised gain/(loss)	2013 Carrying amount	2013 Fair value	2013 Unrecognised gain/(loss)
		£000	£000	£000	£000	£000	£000
Financial assets							
Certificates of deposit purchased	n/a	-	-	-	20,000	20,000	-
Loans and advances to banks	3	1,059,802	1,056,512	(3,290)	1,245,973	1,246,151	178
Loans and advances to customers	3	1,170,920	1,180,548	9,628	1,045,462	1,049,597	4,135
Loand and advances to banks - available for sale	1	26,540	26,540	-	33,896	33,896	-
Loans and advances to customers - available for sale	1	-	-	-	15,133	15,133	-
Financial investments - available-for-sale	1	259,769	259,769	-	349,342	349,342	-
Financial liabilities							
Deposits from banks	3	1,753,585	1,753,064	521	1,996,260	1,993,432	2,828
Customer deposits	3	196,351	195,423	928	226,184	226,056	128
Term borrowing	3	170,463	162,911	7,552	60,001	59,241	760
Subordinated liabilities	3	80,813	78,901	1,912	121,738	129,162	(7,424)
				17,251			605

* These assets and liabilities are carried at amortised cost basis.

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

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

The fair value of variable 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.

34. Market and liquidity risk

Market risk and liquidity risk are defined as follows:

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

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

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

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

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

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

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

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

The limitations to VaR are recognised within ABCIB at all levels. The key limitations are the use of historical data as an estimator for future price action and the assumption that open positions can be hedged within the specified one-day holding period. Therefore, ABCIB subdivides market risk into key types for which foreign exchange risk, bond price risk and interest rate risk are the material categories. Risk management for each category is fine-tuned by employing suitable sensitivity limits such as Basis Point Value limits (which measure the potential change in portfolio fair value for an instantaneous 0.01% rise in interest rates), stop-loss limits and open position limits.

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

34. Market and liquidity risk (continued)

ABCIB's VaR exposures:

	2014 Maximum £000	2014 Minimum £000	2013 Maximum £000	2013 Minimum £000
Trading	**221**	**2**	107	1
Banking	**10,211**	**2,337**	24,771	2,815

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 PRA liquidity rules.
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 diversified its funding through its medium-term funding facility from other banks. The Bank's approach to liquidity ensures that risks are mitigated by:

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

Liquidity, or availability of sufficient financial resources, is a core component of ABCIB's management framework. In order to avoid unnecessary exposure to short-term funding as a means to meet its cashflow obligations, ABCIB uses a funding gap management process, maintains a system of highly liquid supplementary liquidity and operates a contingency funding plan.
Funding projections are made 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". The time bands have specific limits set on the maximum mismatch allowable in the periods "sight to 8 days" and "sight to one month" of 0% and -5% respectively. Liquidity mismatches are calculated on the basis of the aggregate across all ABCIB branches of all assets and all liabilities, together with an allowance of 15% of undrawn commitments.

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

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

Analysis of financial assets by remaining maturities

2014	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 years	Total £000
Loans and advances to banks	**585,528**	**475,282**	**50,526**	**144**	**1,111,480**
Loans and advances to customers	**637,298**	**289,821**	**239,919**	**18,573**	**1,185,611**
Financial investments - available-for-sale	**111,914**	**66,388**	**82,051**	**-**	**260,353**
	1,334,740	**831,491**	**372,496**	**18,717**	**2,557,444**

2013	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years	Total £000
Certificates of deposit purchased	20,000	-	-	-	20,000
Loans and advances to banks	721,025	472,472	97,900	177	1,291,574
Loans and advances to customers	548,158	308,055	176,339	63,454	1,096,006
Financial investments - available-for-sale	172,293	108,429	68,620	-	349,342
	1,461,476	888,956	342,859	63,631	2,756,922

34. Market and liquidity risk (continued)

Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, ABCIB expects that many customers will not request repayment on the earliest date ABCIB could be required to pay and the table does not reflect the expected cash flows indicated by ABCIB's deposit retention history.

	2014			
	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Total £000
Financial Liabilities				
Deposits from Banks, Customers, Term borrowing and subordinated liabilities	1,497,188	592,599	122,663	2,212,450
Derivative financial liabillities	978	89	1,020	2,087
Financial guarantees	130,323	144,830	44,088	319,241

	2013			
	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Total £000
Deposits from Banks, Customers, Term borrowing and	2,086,073	219,853	110,240	2,416,166
Derivative financial liabillities	6	2,265	727	2,998
Financial guarantees	142,033	172,432	34,217	348,682

35. Credit risk

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

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

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

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

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

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

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

Industry exposure

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

	2014 £000	2014 %	2013 £000	2013 %
Financial institutions	1,336,190	53.1%	1,638,823	60.5%
Manufacturing	310,183	12.3%	329,939	12.2%
Construction	275,997	11.0%	185,137	6.8%
Trade	14,294	0.6%	65,688	2.4%
Governments	142,811	5.7%	161,672	6.0%
Other services	437,556	17.4%	328,547	14.5%
	2,517,031	100.0%	2,709,806	100.0%

35. **Credit risk (continued)**

Country exposure

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

	2014	2014	2013	2013
	£000	%	£000	%
Turkey	682,241	27.1%	627,665	23.2%
United Kingdom	647,505	25.7%	417,004	15.4%
USA	129,073	5.1%	257,998	9.5%
Saudi Arabia	118,917	4.7%	82,915	3.1%
UAE	117,496	4.7%	123,949	4.6%
Germany	106,753	4.2%	420,099	15.5%
Switzerland	86,795	3.4%	56,412	2.1%
France	80,703	3.2%	11,530	0.4%
Libya	72,373	2.9%	35,036	1.3%
Egypt	60,600	2.4%	65,071	2.4%
Others	51,871	2.1%	98,448	3.6%
Belgium	49,434	2.0%	24,743	0.9%
Italy	37,266	1.5%	100,923	3.7%
Kuwait	36,377	1.4%	22,632	0.8%
Canada	34,821	1.4%		0.0%
Qatar	26,679	1.1%	37,251	1.4%
Austria	24,461	1.0%	18,821	0.7%
Australia	21,196	0.8%	-	0.0%
South Africa	20,489	0.8%	20,402	0.8%
Oman	19,932	0.8%	20,724	0.8%
Denmark	17,959	0.7%	-	0.0%
Luxembourg	14,916	0.6%		0.0%
Brazil	13,472	0.5%	24,374	0.9%
Netherlands	12,228	0.5%	19,902	0.7%
Bahrain	9,923	0.4%	1,850	0.1%
India	8,194	0.3%	11,895	0.4%
Russia	6,408	0.3%	120,709	4.5%
Morocco	5,131	0.2%	14,912	0.6%
Ireland	3,454	0.1%	12,811	0.5%
Japan	364	0.0%	574	0.0%
Sudan	-	0.0%	61,156	2.3%
	2,517,031	100.0%	2,709,806	100.0%

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.

	2014	2013
	£000	£000
Cash and balances at central banks	81,076	62,178
Certificates of deposit purchased	-	20,000
Loans and advances to banks	1,086,342	1,279,869
Loans and advances to customers	1,170,920	1,060,595
Financial investments - available-for-sale	259,769	349,342
Derivative financial assets	39,487	54,774
	2,637,594	2,826,758
Contingent liabilities	939,014	1,210,345
Commitments	314,796	357,867
	1,253,810	1,568,212

Collateral held as security	2014	2013
	£000	£000
Cash collateral		
Loans and advances to customers	180,964	168,603
Contingent liabilities	399,713	468,104
Banks and Credit Agencies		
Loans and advances to banks	-	1,392
Loans and advances to customers	175,088	140,654
Contingent liabilities	96,196	185,447
Commitments	19,674	52,975
Risk concentration against individual counterparties		
Largest exposure to individual Bank before collateral	183,221	153,687
Largest exposure to individual Bank after collateral	-	1,607
Largest exposure to individual customer before collateral	91,724	89,374
Largest exposure to individual customer after collateral	91,724	89,374
Central Bank liquidity Buffer before collateral	142,523	389,176
Central Bank liquidity Buffer after collateral	142,523	389,176

35. Credit risk (continued)

Credit quality per class of financial assets	Loans and receivables	Financial investments - available- for-sale	Total
	2014	2014	2014
	£000	£000	£000
Loans and advances to banks			
Investment grade	577,290	-	577,290
Sub investment grade	509,052	-	509,052
Borrowers requiring caution	-	-	-
Total	1,086,342	-	1,086,342
Loans and advances to customers			
Investment grade	167,264	-	167,264
Sub investment grade	991,901	-	991,901
Borrowers requiring caution	11,755	-	11,755
Total	1,170,920	-	1,170,920
Financial investments - available-for-sale			
Investment grade	-	259,769	259,769
Sub investment grade	-	0	-
Total	-	259,769	259,769

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

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

36. 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:

	2014			2013		
	GBP	**USD**	**EUR**	GBP	USD	EUR
Loans and advances to banks and loans and advances to customers	**3.38%**	**1.85%**	**1.17%**	3.19%	2.06%	1.72%
Financial investments - available-for-sale	**0.00%**	**0.29%**	**0.16%**	0.16%	0.88%	0.47%
Deposits from banks	**0.57%**	**0.35%**	**0.09%**	0.53%	0.50%	0.21%
Customer deposits	**0.61%**	**0.38%**	**0.00%**	0.17%	0.32%	0.16%
Term borrowing	**0.17%**	**1.45%**	**0.76%**	0.11%	0.00%	0.91%

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.

	2014	2013
37. Net trading income	**£000**	£000
Dealing profits are analysed as follows:		
Foreign exchange gains and losses from financial assets and liabilities not at fair value through profit and loss	**336**	630
Interest rate products	**110**	128
	446	758

38. Assets, liabilities and equity in foreign currencies	**2014**	2013
	£000	£000
Denominated in sterling	**761,096**	599,515
Denominated in US dollars	**1,456,150**	1,237,967
Denominated in other currencies	**479,461**	1,063,269
Total assets	**2,696,707**	2,900,751
Denominated in sterling	**768,760**	574,915
Denominated in US dollars	**1,453,839**	1,236,005
Denominated in other currencies	**474,108**	1,089,831
Total liabilities and shareholders' funds	**2,696,707**	2,900,751

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £1,098,000 which have been included as part of assets denominated in Sterling.

The above summary should not be considered as an indication of ABCIB's exposure to foreign exchange risk due to the existence of compensating forward contracts held for hedging purposes as disclosed in note 32.

39. Ultimate parent undertaking and parent undertakings

The directors consider the ultimate parent undertaking is the Arab Banking Corporation (B.S.C.) (ABC) incorporated in the Kingdom of Bahrain. Copies of the group accounts of ABC may be obtained from Arab Banking Corporation House, 1-5 Moorgate, EC2R 6AB. ABC is also the ultimate and immediate parent for which consolidated financial statements including ABCIB are prepared.

40. Related party transactions

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

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

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

	2014	2013
	£000	£000
Loans and advances to banks	**145,634**	120,436
Loans and advances to customers	**35,360**	42,668
Deposits from banks	**1,557,498**	1,704,856
Customer deposits	**128,155**	87,065
Term borrowing	**170,463**	60,001
Subordinated liabilities	**80,813**	121,738
Off Balance sheet	**227,847**	429,123
Interest rate swaps	**151,498**	210,885

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

Interest receivable	**5,480**	8,255
Interest payable	**14,083**	16,850
Fees and commissions receivable	**10,211**	22,131
Fees and commissions payable	**1,822**	5,652

41. Pensions

ABCIB participates in a contributory defined benefit pension scheme known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme ("the Scheme"), providing benefits based on final pensionable salary. The assets of the Scheme are held separately from those of ABCIB and are administered by the Trustees of the Scheme who include employees of ABCIB. The Scheme is now closed to new entrants and has no active members. The Scheme was closed to the future accrual benefits on 30th September 2010. All active members at this date became deferred members. All employees are offered membership of a defined contribution scheme. ABCIB expects to contribute £1,155,000 to the Scheme during the year to 31st December 2015.

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

41. Pensions (continued)

The September 2011 valuation was updated by an independent actuary, to take account of the requirements of IAS19 (using the projected unit method) in order to assess the liabilities of the scheme at 31st December 2014 and 31st December 2013. Scheme assets are stated at their market values at the respective balance sheet dates. 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 main assumptions used by the actuary to assess the value of the liabilities were:
Inflation is in line with implied inflation rate curve published by the Bank of England for 2014 and 2013.
Pension increases in line with RPI at each term, subject to a maximum of 5% and minimum of 0% in each year for both 2014 and 2013.
Rate of increase for deferred pension is 2.5% (2013: 2.5%).
Discount rates are in line with Merrill Lynch nominal AA corporate spot yield curve for both 2014 and 2013.

The mortality rate used is 95% of the S2NA tables with allowance for future improvements in line with the CMI 2013 projection model with a long term improvement rate of 1.25% per annum. The discount rate is calculated using the full term structure of the Merrill Lynch AA corporate bond curve. Since this curve is based on bonds with durations of up to 20 years, we have used the Bank of England gilt spot curve with a margin of 0.84% pa to represent the spread of corporate bonds over gilts for terms of 20 to 25 years. For terms above 25 years we have used gilt strip data available from Debt Management Office (DMO) plus 0.84% pa to help extrapolate the shape of the yield curve at longer terms.

The fair value of assets and expected rate of return on assets were:	**2014**		2013	
	Fair value	**Long term rate of return expected**	Fair value	Long term rate of return expected
	£m	**%**	£m	%
Gilts	**13.4**		10.1	
Cash	**0.7**		0.6	
Other assets	**18.6**		18.2	
Total value of assets	**32.7**	**3.6**	28.9	4.5

Movement in scheme deficit	**2014**	2013	2012	2011
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	**(6,191)**	(6,817)	(4,277)	(1,450)
Contribution paid	**1,063**	1,032	915	915
Current service cost	**-**	-	-	0
Other finance (charge)/ income	**(254)**	(103)	(188)	15
Actuarial (losses)	**(4,350)**	(303)	(3,267)	(3,757)
Net pension liability at 31st December	**(9,732)**	(6,191)	(6,817)	(4,277)

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%	(4,206)
	Minus 0.50%	4,891
Inflation	Plus 0.50%	2,086
	Minus 0.50%	(1,929)
Age rating	Plus 1.0 years	(1,370)
	Minus 1.0 years	1,382

Amount (debited)/ credited to other financial charges	**2014**	2013
	£000	£000
Expected return on pension scheme assets	**1,305**	1,392
Interest on pension scheme liabilities	**(1,559)**	(1,495)
	(254)	(103)

Amount recognised in the Statement of Comprehensive Income	**2014**	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Actual less expected return on assets	**2,229**	**(201)**	(223)	(263)	140
Experience (loss)/ gain on liabilities	**935**	**(41)**	422	(159)	528
Losses from changes to demographic assumptions	**(400)**				
Changes in assumptions underlying present value of liabilities	**(7,114)**	**(61)**	(3,466)	(3,335)	1,674
Actuarial (loss)/ gain recognised in the Statement of Comprehensive Income	**(4,350)**	**(303)**	(3,267)	(3,757)	2,342

% of Scheme asset value at balance sheet date represented by:	**2014**	**2013**	2012	2011	2010
	%	**%**	%	%	%
Actual less expected return on assets	**6.8**	**(0.7)**	(0.8)	(1.0)	0.6

% of Scheme liability value at balance sheet date represented by:	**2014**	**2013**	2012	2011	2010
	%	**%**	%	%	%
Experience gain/ (loss) on liabilities	**2.2**	**(0.1)**	1.3	(0.5)	2.1
Changes in assumptions underlying present value of liabilities	**(16.8)**	**(0.2)**	(10.3)	(11.2)	6.7
Actuarial (loss)/ gain recognised in the Statement of Comprehensive Income	**(10.3)**	**(0.9)**	(9.7)	(12.7)	9.4

42. Operating segment information

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

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

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

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

Year ended 31st December 2014	**Trade Finance**	**Project Finance**	**Treasury**	**Islamic**	**Others**	**Total**
	£000	**£000**	£000	£000	£000	£000
Profit and loss account:						
Net interest and similar income	19,649	1,281	5,524	9,300	1,589	37,343
Net fees and commission	21,960	434	0	7,408	(262)	29,540
Other income	952	363	209	72	885	2,481
Total operating income	**42,561**	**2,078**	**5,733**	**16,780**	**2,212**	**69,364**
General and administrative expenses	(19,165)	(2,051)	(2,324)	(2,540)	(14,349)	(40,429)
Impairment (loss)/ gain	400	88	0	0	1,058	1,546
Profit before tax	**23,796**	**115**	**3,409**	**14,240**	**(11,079)**	**30,481**
Taxation	-	-	-	-	(6,797)	(6,797)
Segment profit/ (loss)	**23,796**	**115**	**3,409**	**14,240**	**(17,876)**	**23,684**
Operating assets	**1,349,092**	**98,011**	**518,882**	**383,716**	**347,006**	**2,696,707**
Operating liabilities	**739,887**	**7,687**	**1,373,435**	**26,905**	**548,794**	**2,696,707**

Year ended 31st December 2013	Trade Finance	Project Finance	Treasury	Islamic	Others	Total
	£000	£000	£000	£000	£000	£000
Profit and loss account:						
Net interest and similar income	21,697	2,877	7,818	5,957	2,163	40,512
Net fees and commission	32,472	1,449	(15)	6,487	(924)	39,469
Other income	(2,522)	(336)	524	76	2,632	374
Total operating income	**51,647**	**3,990**	**8,327**	**12,520**	**3,871**	**80,354**
General and administrative expenses	(19,256)	(2,672)	(2,351)	(2,442)	(14,311)	(41,032)
Impairment (loss)/ gain	(9,526)	(1,543)		605	(437)	(10,901)
Profit before tax	**22,865**	**(225)**	**5,976**	**10,683**	**(10,877)**	**28,421**
Taxation	-	-	-	-	(7,971)	(7,971)
Segment profit/ (loss)	**22,865**	**(225)**	**5,976**	**10,683**	**(18,848)**	**20,450**
Operating assets	**1,330,061**	**187,651**	**701,574**	**271,186**	**410,278**	**2,900,751**
Operating liabilities	**715,654**	**16,344**	**1,532,688**	**37,530**	**598,535**	**2,900,751**

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

	2014	2013
	£000	£000
Total Operating Income		
MENA	**14,545**	25,969
Europe	**48,868**	46,953
North and Latin America	**1,280**	2,182
Others	**4,671**	5,250
	69,364	80,354

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