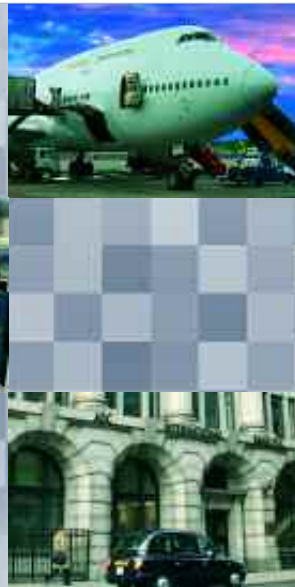
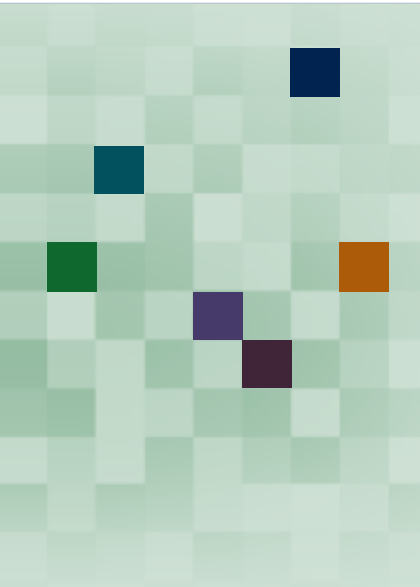


Annual Report 2006

ABC International Bank plc





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ABC International Bank plc (“ABCIB”) was established in 1991 as a wholly-owned UK subsidiary of Arab Banking Corporation (BSC) Bahrain (“ABC”). Today, as then, the principal thrust of ABCIB’s strategy is to enhance the ABC Group’s international reach and allow it better to serve its clients with a view to increasing the flows of trade and investments between Europe and the MENA region. ABCIB’s core business comprises trade and commodity finance, project, export and structured finance, Islamic asset management and treasury services. ABCIB, headquartered in London, has branches in Paris, Frankfurt and Milan, marketing offices in Rossendale (in the North of England) and Stockholm, and representative offices in Istanbul and Madrid.



Directors' Report



Farhat O Ekdara
Chairman

For the fourth consecutive year 2006 saw a continuing growth in the global economy of around 5% and a growth of world trade volumes of almost 10%.

The Middle East and North Africa ("MENA") region, which is the main focus of ABC International Bank plc's ("ABCIB") operations, again outperformed the global economy in terms of output and trade growth. MENA energy (oil and gas) exporters, buoyed by strong oil demand and historically high prices, experienced widening surpluses on their fiscal and current accounts and rising reserves. This supported significant domestic spending initiatives and reinforced their position as important net capital exporters to the MENA's non-oil producers and also to the rest of the world.

Against strong competition, ABCIB continued to expand its client base and maintain its market share of financing trade and project and structured finance flows between Europe and the MENA region. In 2006, ABCIB reported a pre-tax profit of £16.8 million compared with £16.2 million in 2005. The Bank's total operating income stood at £46.3 million (compared with £45.7 million at the end of 2005) of which 56% related to interest income and the balance to fee and commission income.

Earnings from our four main product groups were as follows: Trade & Commodity Finance & Financial Institutions contributed £21.9 million in operating income, Project & Structured Finance £5.0 million, Islamic Asset Management £4.1 million and Treasury £3.1 million.

Income from Head Office operations, investments and capital contributed an additional £12.2 million. Total administrative expenses reduced to £28.6 million from £30.6 million in 2005. The cost/income ratio fell to 64% from 69% at the end of 2005. It is the Board's express policy to achieve a lower ratio over the years ahead towards a target ratio of 50%.

The introduction of matrix management has increased cooperation between the Arab Banking Corporation Group's ("ABC") business units and enhanced the Bank's marketing efforts to positive effect in servicing its customers. The ABC Group's Trade and Commodity Finance team has its major presence in London which emphasises the importance the Bank gives to European trade with the MENA region. Where appropriate the essential support services of the Bank's operations in continental Europe have also been centralised in London which has proved to be more efficient and also contributes to cost savings.

At the end of 2006, ABCIB's Risk Asset Ratio stood at 17% calculated on the basis of risk weighted assets of £1.3 billion. This compares with a Risk Asset Ratio of 16.8% at the end of 2005.

The Bank's product divisions and business strategy for 2007 is summarised in the Chief Executive Officer's Report and Business Review.

On 30th April 2006 Mr Michael Duval resigned as the Managing Director of the Bank. His position was replaced by Mr Nofal Barbar who serves as the Chief Executive Officer of the Bank.

On 26th October 2006 Mr Jean Deflassieux resigned as a Director of the Board. The Board would like to thank both former Directors for their contribution to the development of the Bank.

The ABCIB Group had 209 permanent employees as at 31st December 2006 (excluding Directors) compared with 220 at the end of 2005.

As in 2005, the Bank did not declare a dividend for the period.

None of the Directors had an interest in ABCIB shares during 2006 and no option to purchase shares has been granted to any Director.

Charitable donations amounting to £83,000 will be paid in respect of 2006.

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

During 2007, another year of global economic growth, increased trade flows and infrastructure finance is anticipated, particularly in the MENA region, although there are increasing signs to show that the rate of growth may be beginning to slow down.

On behalf of the Board, I would like to thank the entire staff of ABCIB based in London, and in its branches, marketing and representative offices throughout Europe, for all their efforts and dedication in growing ABCIB's business. To meet the challenges ahead such efforts are an essential contribution to the ABC Group and for the future success of the Bank in an increasingly competitive environment.

■ Disclosure of Information to the Auditor

In so far as the Directors are aware:

- there is no relevant audit information of which the bank's auditor is unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

■ Re-appointment of Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for re-appointment of Ernst & Young LLP as auditor of the Bank.

Farhat O Ekdara
Chairman
28th March 2007

Board of Directors



FARHAT OMER EKDARA
Chairman

Governor

Central Bank of Libya

Former Director

Arab Banking Corporation (BSC)



STANISLAS M YASSUKOVICH CBE *
Deputy Chairman

Chairman

Henderson Euro-Trust plc

Chairman

Manek Investment Management Limited

Chairman

Park Place Capital Limited

Chairman

Cayzer Continuation PCC Limited

Former Chairman

Merrill Lynch Europe & Middle-East

Former Deputy Chairman

London Stock Exchange



TERENCE JOHN STONE OBE, FCA *
Director

Middle East Chairman

International Financial Services London

Director

Middle East Association

Director

Arab-British Chamber of Commerce

Former Partner

Ernst & Young



KHALIFA MOHAMMED AL-KINDI
Director

Deputy Chairman

Arab Banking Corporation (BSC)

Managing Director

Abu Dhabi Investment Council

Chairmen

National Bank of Abu Dhabi

Director

Abu Dhabi Aviation

Director

International Petroleum Investment Company,
Abu Dhabi

Vice Chairman

TABREED, Abu Dhabi



HILAL MISHARI AL-MUTAIRI
Director

Deputy Chairman

Arab Banking Corporation (BSC)

Vice Chairman

Kuwait Chamber of Commerce & Industry

Director

Kuwait Investment Authority

Former Minister of Trade & Industry

Government of the State of Kuwait



HASSAN ALI JUMA *
Director

Managing Director

National Bank of Bahrain

Director

Arab Banking Corporation (BSC)

Former Chairman

Bahrain Telecommunication Co



ABDULMAGID A BREISH
Director (formerly Managing Director and
Chief Executive Officer up to 20th December 2002)

Deputy Chief Executive & Chief Banking Officer

Arab Banking Corporation (BSC)

Chairman

ABC Islamic Bank (EC)

Director

Banco ABC Brasil SA

Director

Bahrain Stock Exchange

Chairman

Libyan Economic & Social Development Fund

JEAN S DEFLASSIEUX
Director

(resigned 26th October 2006)

MICHAEL J DUVAL

Managing Director and

Chief Executive Officer

(resigned 30th April 2006)

DAVID A BOWEN-JONES

Corporate Secretary

* Member of Audit Committee

Chief Executive Officer's Report and Business Review



Nofal Barbar
Chief Executive Officer

Strategically located in London, the premier financial centre in Europe, ABC International Bank plc ("ABCIB") is positioning itself successfully as the best partner for European corporates doing business in the Middle East and North Africa ("MENA") region.

Overview

With significant projects being awarded to European-based companies, ABCIB is situated conveniently in London with branches in Paris, Frankfurt and Milan, representative offices in Istanbul and Madrid, and marketing offices in Rossendale and Stockholm. This network enables the Bank to deliver value-added financial products with quality service to its customers at competitive pricing, and in a timely manner.

Our success is credited to a sharp focus on trade and investment flows and project finance between Europe and the Arab world. ABCIB aims to attract key players throughout the entire value chain of industries critical to the infrastructure development of the Arab world economies including oil and gas, power, transportation, telecommunications, water and mining.

The primary focus of the Bank is its highly successful trade finance business. We have also continued to develop our growing activities in project finance, Islamic banking and treasury services. We also launched an initiative in 2006 to work in partnership with a select group of European banks on complex financing transactions for public and private MENA sponsors. In 2007, we plan to play an active role in promoting London as a global centre for Islamic finance, trade and investment to our MENA clients.

Despite intensifying competition for business in our strategic MENA markets, and increasing willingness by major international banks to take more risk in the Arab world, ABCIB has continued to move steadily forward and consolidate the benefits of the relationships and support structures we have put in place since 2005. There has been pressure on the pricing of transactions, as competition has intensified and the risk ratings of the region's economies have benefited from hydrocarbon export earnings and the general increase in world trade. To face these challenges ABCIB has been resourceful in securing key customer relationships by providing solutions and offering fresh financing techniques for customer needs. Also, in both our Trade Finance and Project Finance activities, we have exploited the synergies offered by the ABC Group network to good effect and we have strengthened our position as a European bank with extensive Arab world expertise.

We will build on the progress we have made to ensure that ABCIB remains at the forefront of Europe-MENA business flows and continues to be a valuable part of the ABC Group global franchise.

Financial Review

In terms of the Bank's balance sheet, total assets amounted to £1,776 million compared with £1,971 million at the end of 2005. Due from banks totalled £506.6 million as at 31st December 2006, representing 28.5% of ABCIB's total assets. Loans and advances to non-bank customers totalled £720.4 million, representing 40.6% of total assets. Financial investments - available-for-sale, financial assets designated at fair value and certificates of deposit purchased totalled £486.1 million, representing 27.4% of total assets.

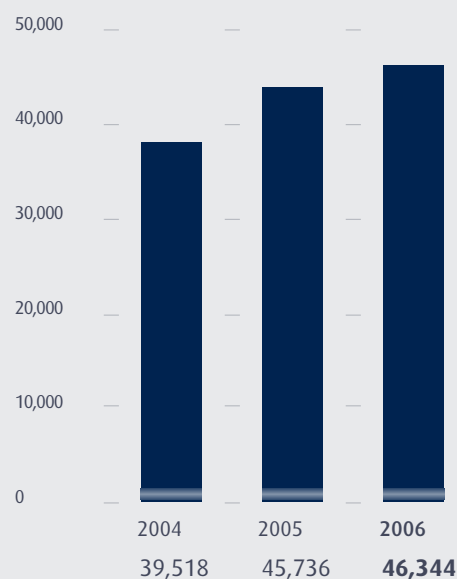
ABCIB's total outstanding portfolio of due from banks and loans and advances to customers before provisions decreased by 14% to £1,236 million as at 31st December 2006, compared with £1,442 million at the end of 2005. Of this, £833 million was for maturities of up to one year, compared with £994 million for 2005.

ABCIB's balance sheet continues to be managed prudently with a formal "Risk Strategy" document having been approved by the Bank's Board Risk Committee, setting out detailed parameters for risk appetite and acceptable types of business. The Bank's Risk Management Department takes a proactive role and works with the business units to ensure that business development is in line with the risk strategy.

The Bank's risk asset portfolio remains well diversified across a wide range of borrowers, industries and countries and there have been no significant changes in the asset mix. The main areas of risk asset exposure are in banks/financials, energy (oil and gas), transportation, contractors, engineering, telecommunications and sovereign exposure, including export credit agencies. Country risk is concentrated on the key markets of the Bank, with 52% of risk assets being in Western Europe, 31% in the Arab world and 17% in the rest of the world. At the end of 2006 our short term exposures to banks and customers, repayable within two years, stood at 74% of the total portfolio, which emphasises the conservative maturity structure of the asset book. The credit quality of the risk assets is considered to be good, with the weighted average risk rating of the portfolio being above investment grade.

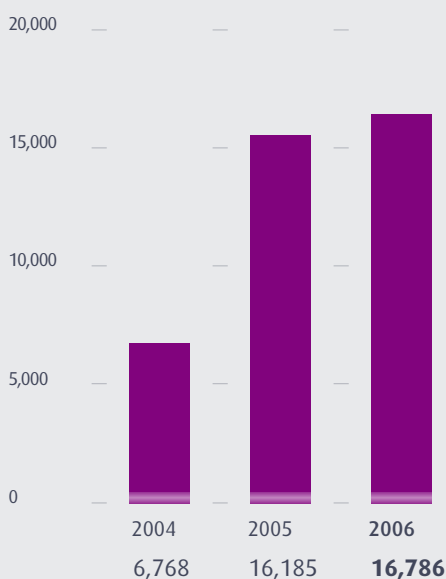
Total Operating Income

£ thousands



Profit before Tax

£ thousands



Business Units

ABCIB is an integrated European Bank, with business carried out from its branches in London, Paris, Frankfurt and Milan, as well as marketing offices in Rossendale in the North of England and Stockholm, and representative offices in Istanbul and Madrid.

The Bank's business continues to be focused primarily on four product areas:

Trade & Commodity Finance

Highlights of the Year

- 15.5% increase in Gross Revenue from 2005 principally derived from significant growth in MENA region business. Operating profit up 35%.
- Effective marketing in all offices with Istanbul recording an impressive first year
- Total volumes for on and off balance sheet business exceeded £3.2 billion (US\$6.3 billion), a 15% year on year growth
- Successfully structured and concluded trade business in 19 Arab world countries

Against the background of a generally favourable economic operating environment, typified by strong MENA region growth in output and trade, and accompanied by buoyant market liquidity, ABCIB's Trade Finance team has successfully expanded both its origination capabilities and asset distribution activities during 2006, resulting in another year of record performance at both the revenue and net income levels.

Attention to the needs of ABCIB's established client base remains at the heart of the Trade Finance team's operational success. Those customers range from small to medium size enterprises to global leaders in their field, covering sectors as diverse as basic agricultural commodities, high-tech telecommunications and transport equipment. During 2006, we focused on both enlarging the client base and deepening existing 'core' client relationships. In terms of the former, the intensive and coordinated marketing activities of our trade finance specialists located at ABCIB London as well as in all our overseas branches, representative and marketing offices have produced excellent results, with the

contribution of the Istanbul office, in its first full year of operation, surpassing expectations. Integral to our successful efforts to deepen our 'core' client relationships has been the Bank's niche ability to accommodate a wide – and expanding – range of MENA region risks, maintaining our credit lines in the face of conditions to which other institutions have reacted by reducing or even freezing limit availability. Equally, we have endeavoured to remain at the forefront of product choice, continuing to build upon our existing, diversified range of traditional trade finance products – including documentary letters of credit, guarantees, bonding, ECA-supported business and forfaiting – by further developing innovative trade receivables discounting facilities with hybrid corporate and credit insurance structures. Our recognised ability to provide tailor-made trade finance solutions has once again been an essential part of our continued successful performance and maintenance of client relations.

Performance in 2006 has been supported at every step by the Group's matrix management structure, which is now firmly embedded. This allowed us to take full advantage of the ABC Group's expanding network of international offices – now spanning the Americas, Europe, MENA and Asia – and work closely with the parallel trade finance hub in ABC Bahrain, utilising their regional trade distribution capabilities.

Looking forward to 2007, we anticipate a broad continuation of favourable global and regional trends in output and trade growth and believe we have the structures and staff in place to take full advantage of this environment. With the continuing expansion of the EU, we also look forward to further opportunities to build our European client base and develop our trade product offerings.

Chief Executive Officer's Report and Business Review

Business Units (continued)

Project and Structured Finance

Highlights of the Year:

- € 290 million refinancing for a major telecommunications company in Tunisia which holds the second GSM licence in Tunisia. Successful company operations from start-up, two years earlier (arranged by ABCIB), resulted in improved financing terms.
- US\$ 40 million Reserve Base Lending Facility arranged for a quoted Scandinavian oil exploration and production company for the development of its offshore oil and gas assets in Tunisia which were acquired in 2005. The Bank also acted as the financial adviser for this transaction relating to its activities in Tunisia.
- A significant airport advisory mandate, secured late in the year for a major international bidder on the Enfidha Airport Concession in Tunisia.

Project development in the countries of North Africa and the Levant generally followed the development pattern that was forecast in last year's report. The cautionary commentary on potential postponement of some projects against a backdrop of high demand for contractor resources, related project supplies and equipment, manifested itself in some areas, especially those where economic returns were especially sensitive to high costs such as gas-to-liquids projects. Despite this, the high level of regional liquidity continued to drive investments in many greenfield projects within the MENA region. This increasingly benefited from cross border investment from existing national energy giants, and private sector investors, most often investing through the medium of newly-established private equity vehicles and funds.

The extensive correction in the regional equity markets did not unduly impact banking liquidity and long term project investment. On the contrary, some notable project re-financings were achieved for which ABCIB was at the forefront.

Generally, the ABCIB project finance team directed its activities towards the origination and execution of flagship projects within its franchise region, achieving notable success as mandated lead



arranger in Egypt for three downstream hydrocarbon projects. Additionally at the end of the year, ABCIB was short-listed as underwriter on a world scale fertiliser project located at Damietta, Egypt.

Activities over the year in Tunisia also merit a special note. Working closely with our local network, we concluded two significant financing mandates as noted above, in addition to the Enfidha airport advisory mandate. ABCIB ended the year well positioned with prominent public and private sector entities in the energy and chemicals sector which are on the verge of undertaking significant investments in 2007.

Over the coming year we anticipate capitalising on our active origination work over the past twelve months, particularly in Libya, Algeria and Turkey. Wherever possible, we will leverage the ABC Group network and work through other local and international alliances. More importantly, we will be collaborating even more closely with ABC team members domiciled in the Bahrain project finance unit to maximise and optimise our overall underwriting capability and service quality.

Islamic Financial Services

Highlights of the Year

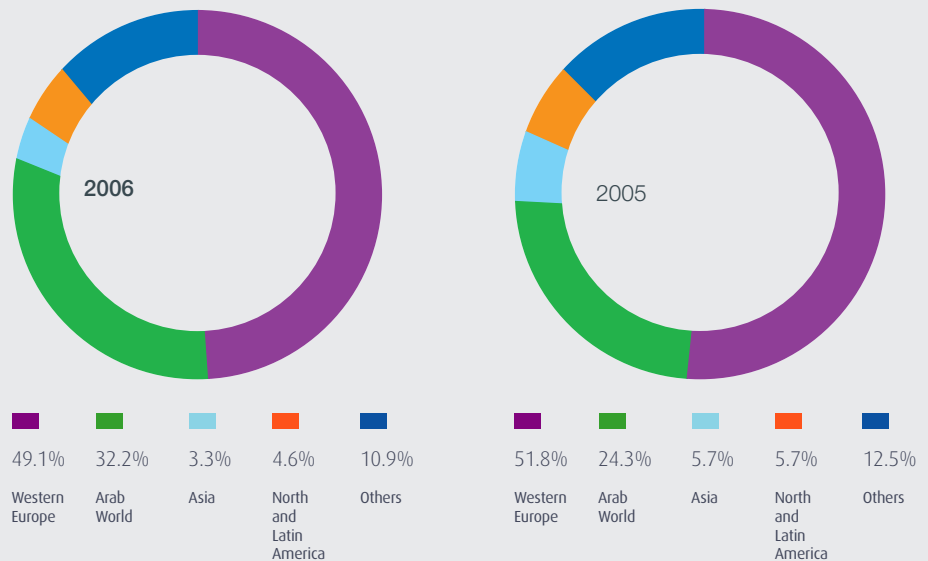
- International awards for two ABCIB Islamic products
- Extension of the range of the *alburaq* products for the British Muslim community
- Finalisation of a value-added US real estate fund which will accept its first subscriptions in early 2007
- Excellent performance of the equipment leasing portfolio with strong end of lease gains

At the end of 2006, ABCIB was presented with two 'Excellence in Real Estate' awards at the leading global event for Islamic property investment and banking. The Bank was honoured with the award for 'Best Islamic Mortgage Provider' for the *alburaq* retail home financing product, and with the award for 'Most Innovative Islamic Finance Structure' for the 'Parallel Phased Istisna' instrument which was developed to support UK residential property development projects.



Chief Executive Officer's Report and Business Review

Breakdown of Assets by Region
Percentage



Business Units (continued)

Islamic Financial Services continued

ABCIB's unique *alburraq*-branded suite of retail Islamic financial products expanded steadily with another UK bank joining the existing distribution network of two major UK retail banks for our Islamic "mortgage" product. By year-end, annual asset volumes had risen significantly and the transaction pipeline of approvals in principle is strong – at time of writing in excess of £250 million. Further development of the *alburraq* product range is planned for 2007.

The Al Bait Property Fund, for which ABCIB Islamic Asset Management Limited ("IAM") acts as Property Investment Manager, and which holds a diversified portfolio of UK assets valued at more than £50 million, performed well in attractive market conditions during the year. IAM is in the process of arranging the sale of the Fund, which should produce significant capital gains for investors. A further real estate fund is being brought to market at the beginning of 2007 and will focus on value-added investments in the office and industrial sectors in the United States.

In addition to its real estate activities, the IAM team has built up an impressive track record in producing income distribution and capital profits for itself and for its investors from equipment leasing and 2006 saw end of lease gains of approximately US\$2.5 million on equipment disposals.

Treasury

Highlights of the Year

- Raised US\$200 million through a 5 year syndicated loan facility
- Grown our available-for-sale bond portfolio
- Continuing consolidation of European Treasury operations to improve efficiency

ABCIB Treasury is part of the Bahrain and London twin-hub approach for Treasury management in the ABC Group. The twin-hub approach has helped to strengthen relationships with financial institutions and counterparties through coordinated calling programmes and regular interaction, enabling Treasury to leverage its expertise in asset and liability management. Treasury provides a customer related service whilst also managing proprietary investment portfolios alongside foreign exchange and bond trading books.

ABCIB's European Treasury activity was centralised in London in 2005 and we have seen the benefit of efficiency and improved communication leading to cost savings in 2006.

As part of the Bank's strategy of maintaining a diversified and well-spread funding base for its activities, Treasury raised US\$200 million in 2006 with a 5 year term loan facility. The facility was underwritten and arranged by a wide range of major banks in

Europe, Asia and the Middle East. The success of this financing facility is underlined by the fact that the amount was increased from its original launch figure of US\$150 million to US\$200 million as a result of oversubscription during syndication. The loan was closed at a very competitive margin of LIBOR plus 37.5 basis points. The proceeds of the facility are being used for general corporate purposes and to assist in the business growth of ABCIB.

To improve funding and liquidity further, Treasury has broadened its deposit base and lengthened the liability profile during the year through marketing to our existing customers and gaining deposits from developing new customer relationships.

In 2007 Treasury will focus on growth from our existing customer base and will seek to attract new clients from Europe and the MENA region.

The Year Ahead

The business environment for banks serving the MENA region will be no less challenging in 2007. However, ABCIB is well-placed to exploit the considerable opportunities that exist in the region for all of the Bank's key business lines. We are proud of the quality, skills and motivation of the people in all of our offices. Their dedication to the development and success of the Bank is a major factor behind building a strong and profitable European franchise for the ABC Group.

In 2007 growth is expected from all business lines. In particular, we are forecasting growth in the Project Finance loan book, organic expansion and product development in Treasury and Islamic Financial Services, and further strengthening of the position of the Trade Finance business as a centre of excellence for this activity within ABC globally.

Alongside the development of the business lines, we will continue to tailor our support infrastructure to exploit the considerable skills of our people in those areas to the best effect in serving the Bank's clients.

We are looking forward to another prosperous year for the Bank in 2007 with further development of the ABC brand and enhancement of the Bank's reputation in European and Arab world markets.

Nofal Barbar
Chief Executive Officer
28th March 2007

Corporate Governance and Risk Management



Governance Committees

The Board has three principal committees. The Board Risk Committee and the Audit Committee are described in more detail below. The Compensation Committee, chaired by Mr Stanislas Yassukovich, reviews compensation policy generally, plus the overall remuneration of the Bank's senior managers.

The Management Committee (MANCOM) is the highest level management decision-making committee of the Bank, reporting through the Chief Executive Officer to the Board of Directors. The Assets and Liabilities Committee (ALCO), and the Information Technology Steering Committee (ITSC) report to MANCOM. ALCO is chaired by the Chief Executive Officer and meets regularly, focusing on the funding of the Bank's assets, liquidity, interest rates, trading risks and the investment of the Bank's capital. ITSC, chaired by the Head of Support, oversees enhancements to the Bank's core IT and communications systems.

Risk Management

The Board Risk Committee (BRC) is chaired by Mr Hassan Juma. Other members of the Committee are Mr Stanislas Yassukovich, Mr Khalifa Al-Kindi and Mr Hilal Al-Mutairi, who are all non-executive Directors. Mr Hassan Juma is a member of the main ABC Group Board, the ABC Group BRC and the ABC Group Audit Committee.

The BRC has overall responsibility for risk policy, within the parameters set for the ABC Group. Its responsibilities include setting and reviewing all risk policies and procedures, including credit risk, establishing the annual risk strategy and risk appetite within which business strategy will be set and agreeing the capital allocation to risk, return expectations and asset allocation limits, principally in terms of country, industry, ratings and tenor. The Committee also sets market risk and trading limits and parameters for investment portfolios and trading. It delegates authority to senior management to conduct business within the terms of the risk strategy.

Credit risk is managed by the Credit Committee (IBCC), which also reviews risk levels in relation to individual borrowers/counterparties, industry sectors, countries, regions and products. Chaired by the Head of Risk Management, IBCC members include the Chief Executive Officer and the Group's Chief Credit & Risk Officer. IBCC credit decisions are overseen by the BRC.

Credit Risk

The Group's credit policies and procedures govern all aspects of the credit risk process, including risk approval and control. All credit applications from the Bank's branches are reviewed by the Risk Management Department in London and approved (or otherwise) by the IBCC and, if required, by the BRC. All limits, including those for banks and sovereign entities, are reviewed at least yearly and include an assessment of all relevant risk factors.

The treatment of large exposures and provision for bad and doubtful loans are governed by the Bank's Large Exposure Policy Statement and its Credit Risk Provisioning Policy updated in line with FRS 26, both approved by the Board. Where monies are owing, or where there is doubt that they will be received by the Bank, all loans to that customer are automatically placed on a non-accrual basis unless a specific exemption is given by the IBCC. Any interest charged to the customer, but not paid, is written back and not taken into the Bank's profit and loss account.

There have been no significant new impaired exposures in 2006 and the quality of our risk portfolio is considered to be good. The weighted average risk rating of the Bank's risk asset book is equivalent to investment grade. ABCIB's non-performing loans have decreased from £18.1 million at the end of 2005 to £6.4 million a year later. Specific provisions at year end covered 75% of non-performing debt compared with 90% in 2005.

ABCIB has prudent policies and procedures to build up reserves against possible losses on 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 is likely to have occurred even though there is not yet any specific evidence of impairment of any individual loan in that group. This reserve stood at £4.5 million at year-end.

The Bank's Maximum Credit Risk Exposure by Region is as follows:

	2006 £000	2005 £000
Western Europe	1,495,718	1,555,541
Arab world	896,704	753,735
Others	485,046	476,057
	2,877,469	2,785,333

Corporate Governance and Risk



Market Risk, Operational Risk and Other Risk

The Bank uses the Value at Risk (VaR) method of risk management of currency and interest rate exposures on a daily basis. All market risk is managed in London and overseen on a global basis by ABC Bahrain. The Head of Risk Management, the Treasurer and the Head of Internal Control 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 which has been approved by the Board and the Financial Services Authority (FSA).

Derivative instruments are used by the Bank 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. Proprietary trading is kept within a modest VaR limit and other market risk parameters, as determined by ALCO.

ABCIB is placing increasing emphasis on managing operational risk. Operational risk is managed day-to-day by the internal support functions and overseen by the Risk Management Department. The Bank's operational risk framework is being rolled-out in co-ordination with the ABC Group Head of Operational Risk.

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

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 the Bank's policy on internal and external financial reporting, controls and compliance. The Committee is chaired by Mr Terence Stone (a non-executive Director). The other members of the Committee are Mr Stanislas Yassukovich and Mr Hassan Juma (both non-executive Directors). Mr Hassan Juma is a member of the main ABC Group Board, the ABC Group BRC and the ABC Group Audit Committee.

ABCIB has an established internal audit function, with the Head of Internal Audit reporting directly to the Chairman of the Audit Committee. 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. In addition, the Bank's external auditor, Ernst & Young LLP, undertakes a detailed annual review and assessment of the Bank's risk assets at the end of the third quarter.

Compliance

The Compliance Officer, who is also the Bank's Company Secretary and Chief Money Laundering Reporting Officer (MLRO), reports directly to the Chief Executive Officer and the Board. He is a co-opted attendee of the Audit Committee and provides a formal report at each meeting of the Audit Committee on compliance matters and related issues.

The implementation of the Bank's Anti-Money Laundering Compliance and Procedures Manual is supervised by the Chief MLRO and Compliance Officer to ensure strict adherence with the FSA's regulatory requirements and the Financial Services and Markets Act 2000 and other relevant laws and regulations (such as the revised Joint Money Laundering Steering Group's Guidelines and the additional nine recommendations for Combating the Finance of Terrorism issued by the Financial Action Task Force). Such implementation is also subject to independent internal audit. The General Managers of Frankfurt, Milan and Paris Branches have responsibility for local matters of regulatory compliance including those of anti-money laundering though within a framework of local laws and regulations and the policies and operating standards established by Compliance and approved by the Board. Each branch has a local MLRO reporting direct to ABCIB's Chief MLRO.