



PILLAR 3 Disclosures

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ABC International Bank plc

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1. OVERVIEW

1.a. Background

The European Union Capital Requirements Directive (“the Directive”) came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority (“the FSA”)¹. The Basel II Framework is structured around three pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review) and Pillar 3 (market discipline). The disclosure requirements of Pillar 3 are designed to promote market discipline by providing market participants with key information on a Firm’s risk exposures and risk management processes. Pillar 3 aims to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

ABC International Bank plc (“ABCIB” or “the Bank”) adopted the Standardised Approach to credit risk from 1 January 2008. ABCIB also became subject to Pillars 2 and 3 from that date.

1.b. Basis and Frequency of Disclosures

This disclosure document has been prepared by ABCIB in accordance with the requirements of Pillar 3.

Unless otherwise stated, all figures are as at 31 December 2008, our financial year-end.

Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Annual Report.

1.c. Scope

ABCIB is a UK registered bank that is regulated by the FSA.

ABCIB has a small number of subsidiary companies (together referred to as “the Group”). Of its subsidiaries, ABC Investment Holdings Limited, ABCIB Leasing Limited and ABCIB Islamic Asset Management Limited all of which are registered in the UK.

ABCIB calculates and maintains regulatory capital ratios based on its own balance sheet. Capital held in the Bank’s subsidiary companies is not material.

1.d. Location and Verification

These disclosures have been reviewed by the Group’s Audit Committee and are published on the Group’s corporate website (www.arabbankingcorporation.com). The disclosures have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group’s Annual Report and Accounts.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.a. Introduction

The Board Risk Committee (BRC) is chaired by the Parent company President and Chief Executive and four other non-executive directors sit on this 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, reviewing ABCIB's risk strategy and risk appetite, return expectations and asset allocation limits, principally in terms of country, industry, ratings and tenor. BRC reviews risk levels in relation to individual borrowers/counterparties, industry sectors, countries, regions and products. 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 is the main credit risk decision-making forum of ABCIB. Chaired by the Head of Risk Management, IBCC members include the Chief Executive Officer and the ABC Group Chief Credit & Risk Officer. IBCC credit decisions are overseen by the BRC.

The risk infrastructure of ABCIB proved to be resilient throughout the market challenges of 2008 but a full review of risk management has been undertaken and processes have been strengthened where considered necessary.

2.b. Governance

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

The Management Committee (MANCOM) is the highest level management decision-making committee of ABCIB, reporting through the Chief Executive Officer to the Board of Directors. The Assets and Liabilities Committee (ALCO), and the Information Technology Steering Committee (ITSC) report 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. ITSC, chaired by the Head of Support, oversees enhancements to ABCIB's core IT and communications systems.

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 policy 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, who reports to the Group Chief Auditor, has direct access to and is accountable to 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, ABCIB's external auditor, Ernst & Young LLP, undertakes a detailed review and assessment of ABCIB's risk assets as part of the annual audit process.

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2.c. Risk management process

Risk is inherent to the Bank's business and the ability to identify, control, monitor and mitigate each type of risk to which the bank is exposed is vital to ensure financial stability and future success. Principal risks to which the bank is exposed include Credit Risk, Market Risk, Liquidity Risk and Operational Risk.

Over the last few years the Bank has invested into developing a comprehensive and robust risk management infrastructure.

Maintenance and review of the ABCIB's risk management policies and procedures are the responsibility of the Head of Risk Management under report to the BRC. This includes the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them.

Risk management policies are documented on the Bank's Intranet.

Operational processes are documented, where necessary in departmental manuals that are also subject to annual review and senior management approval. This ensures that primary responsibility for the identification of risk lies with operational areas with oversight and governance being provided by RMD.

The Group's ALCO and Board Risk Committee play an important role in the identification, monitoring and management of risk and through the review of risk management policies.

Internal Audit also has a significant role in the bank's risk management process by providing independent and objective assurance on the adequacy and effectiveness of the bank's risk management, control and governance processes, as designed and represented by management. It carries out an annual risk-based programme of work, which has been approved by the bank's Audit Committee, designed to evaluate and improve the bank's risk management and control environment. The result of Internal Audit's work, including management's progress in addressing identified issues, is formally reported to the Audit Committee on a quarterly basis.

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3. CAPITAL RESOURCES

3.a. Total available capital

At 31 December 2008 and throughout the year ABCIB complied with the capital requirements that were in force as set out by the FSA.

ABCIB's regulatory capital base and capital adequacy ratio at 31 December 2008 were as follows:

	£000
Tier 1 Capital	309,615
Tier 2 Capital	79,774
Deductions:	
Investment in unconsolidated subsidiaries	(4,166)
Connected lending of capital nature	(102,741)
Total regulatory capital	<u>282,482</u>

3.b. Tier 1 Capital

Tier 1 capital comprises equity shareholders funds.

3.c. Tier 2 Capital

Tier 2 capital comprises subordinated liabilities and allowance for collective impairment losses. Subordinated liabilities may not exceed 50% of Tier 1 capital.

4. CAPITAL ADEQUACY

4.a. Capital management

ABCIB has adopted the Standardised approach to credit risk, market risk and operational risk in order to calculate the Basel II Pillar 1 minimum capital requirement.

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 FSA 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 FSA supervises ABCIB and receives information on the capital adequacy. The FSA requires each bank to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance sheet transactions. ABCIB complied in full with the FSA's capital adequacy requirements during 2008 and 2007.

Banking operations are categorized 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 guarantee.

Banking book off-balance sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate position risks, and counterparty risk.

4.b. Internal Capital Adequacy assessment Process

ABCIB capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory ratio requirements.

4.c. Minimum capital requirement: Pillar 1

ABCIB's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and market risk.

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The following table shows ABCIB's minimum capital requirement:

	£000
Credit Risk	231,674
Market Risk	1,057
Operational Risk	12,246
Total Pillar I capital requirement	<u>244,977</u>
Capital in place	277,207
Excess of capital in place over minimum capital requirement	<u>32,229</u>

The following table shows both the ABCIB's Risk-weighted assets and Risk Asset Ratio under Pillar 1 at 31 December 2008:

	£000
<u>Risk-weighted assets</u>	<u>1,878,404</u>
	%
<u>Risk Asset Ratio</u>	<u>15.0</u>

4.d. Credit risk component

The following table shows ABCIB's minimum capital requirement for credit risk under the standardised approach at 31 December 2008:

	Capital Requirement £000	Exposure Value £000
Central governments or Central banks	498	563,177
Regional governments or local authorities	296	3,699
Multilateral development banks	-	25,495
Institutions	66,933	1,997,379
Corporates	69,223	1,064,591
Retail	9	147
Secured on real estate property	222	7,913
Past due items	187	10,607
Items belonging to high risk categories	58	485
Other items	4,629	64,237
Total	142,055	3,737,730

Under the Standardised approach, ABCIB uses S&P, Moody's and Fitch Ratings across its portfolios. Credit ratings are mapped to credit quality steps using the standard table below:

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Credit Quality Step

	S&P Rating	Moody's rating	Exposure value £000	Exposure values after mitigation £000
Central Governments and Central Banks				
1	AAA to AA-	Aaa to Aa3	506,320	506,320
3	BBB+ to BBB-	Baa1 to Baa3	5,581	5,581
4	BB+ to BB-	Ba1 to Ba3	13,178	332
7	Unrated	Unrated	<u>38,098</u>	<u>3,098</u>
			563,177	515,331
Regional governments or local authorities				
3	BBB+ to BBB-	Baa1 to Baa3	<u>6,699</u>	<u>3,699</u>
Multilateral development banks				
1	AAA to AA-	Aaa to Aa3	<u>24,495</u>	<u>24,495</u>
Institutions				
1	AAA to AA-	Aaa to Aa3	673,819	673,819
2	A+ to A-	A1 to A3	577,384	567,043
3	BBB+ to BBB-	Baa1 to Baa3	139,069	139,069
4	BB+ to BB-	Ba1 to Ba3	78,626	57,275
5	B+ to B-	B1 to B3	118,073	96,109
7	Unrated	Unrated	<u>410,407</u>	<u>241,621</u>
			1,997,379	1,774,937
Corporates				
2	A+ to A-	A1 to A3	5,363	5,363
3	BBB+ to BBB-	Baa1 to Baa3	64,786	49,371
4	BB+ to BB-	Ba1 to Ba3	44,846	741
7	Unrated	Unrated	<u>949,596</u>	<u>812,488</u>
			1,064,591	867,963
Retail				
7	Unrated	Unrated	<u>147</u>	<u>147</u>
Secured on real estate property				
7	Unrated	Unrated	<u>7,913</u>	<u>7,913</u>
Past due items				
1	AAA to AA-	Aaa to Aa3	293	293
6			7	7
7	Unrated	Unrated	<u>10,306</u>	<u>1,521</u>
			10,607	1,821
Items belonging to high risk categories				
6			<u>485</u>	<u>485</u>
Other items				
1	AAA to AA-	Aaa to Aa3	4,583	4,583
2	A+ to A-	A1 to A3	6,862	6,862
3	BBB+ to BBB-	Baa1 to Baa3	2,751	42
7	Unrated	Unrated	<u>50,042</u>	<u>50,042</u>
			64,239	61,530
			<u>3,737,730</u>	<u>3,259,320</u>

5. SOURCES OF RISK

5.a. 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 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. The Moody's MRA/MFA financial modelling system is used to derive the financial component of the obligor rating from financial accounts and peer group analysis. The risk asset portfolio is analysed and reviewed on the basis of ratings distribution. Obligor ratings are also a key input to ABCIB's risk adjusted return on capital assessment model.

The risk asset portfolio is reviewed daily by the Head of Risk Management using a number of different portfolio measures, such as geographical distribution, industry sector, maturity, risk rating, product type and large exposures. A selection of portfolio reports 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.

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Industry exposure

The table below analyses the industrial spread of certificates of deposit purchased, due from banks, financial assets designated at fair value through profit and loss, loans and advances to customers, financial investments – available-for-sale and financial investments– held to maturity.

	2008 £000
Financial institutions	1,592,929
Manufacturing	316,957
Construction	36,606
Governments	14,268
Trade	8,419
Other services	544,751
	2,513,930

Country exposure

The table below analyses the industrial spread of certificates of deposit purchased, due from banks, financial assets designated at fair value through profit and loss, loans and advances to customers, financial investments – available-for-sale and financial investments– held to maturity.

	2008 £000
United Kingdom	876,262
Saudi Arabia	231,216
USA	164,951
Turkey	144,227
Germany	100,460
Switzerland	94,822
UAE	57,173
Netherlands	47,890
Others	796,929
	2,513,930

Credit risk mitigation

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash and guarantees from banks. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Also, ABCIB uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and credit risks.

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The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within ABCIB. The effectiveness of hedges is monitored on quarterly basis.

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 is shown gross, before the effect of mitigation through the use of master netting and collateral agreements:

	2008 £000
Certificates of deposit purchased	241,000
Due from banks	712,359
Loans and advances to customers	1,140,532
Financial investments – available-for-sale	411,428
Financial investments – held to maturity	8,611
Others	20,891
	2,534,821
Contingent liabilities	2,086,790
Commitments	323,377
	2,410,167
Collateral held as security	2008 £000
Cash collateral	
Financial investments	7,649
Loans and advances to customers	252,067
Contingent liabilities	323,301
Commitments	30,956
Banks & Credit Agencies	
Loans and advances to customers	122,420
Contingent liabilities	141,418
Commitments	26,716
Risk concentration against individual counterparties	
Largest exposure to individual Bank before collateral	173,508
Largest exposure to individual Bank after collateral	77,893
Largest exposure to individual customer before collateral	138,083
Largest exposure to individual customer after collateral	69,041

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Credit quality per class of financial assets

Credit quality per class of financial assets

	Loans & receivables	Financial Investments AFS
	2008	2008
	£000	£000
Due from banks		
Investment grade	662,432	-
Sub investment grade	42,893	-
Borrowers requiring caution	7,034	-
Total	712,359	-
Loans and advances to customers		
Investment grade	244,884	-
Sub investment grade	889,124	-
Borrowers requiring caution	6,524	-
Total	1,140,532	-
Financial investments - available-for-sale		
Investment grade	-	411,428
Total	-	411,428
Certificates of deposit		
Investment grade	241,000	-
Total	241,000	-
Financial investments - held to maturity		
Investment grade	8,611	-
Total	8,611	-

5.b. Market and Liquidity risk

Market risk and liquidity risk are defined as follows:

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

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

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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 the exposures and limits.

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

The Board Risk Committee oversees the market risk management process. Market risk management and liquidity risk issues are also reviewed at the monthly Asset and Liability Management Committee ("ALCO"), the members of which include senior management of ABCIB, chaired by the Chief Executive Officer. ALCO reports to the Management Committee and 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 is 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 FSA for capital adequacy purposes. Thus, the FSA 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.

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ABCIB's VaR exposures:

	Maximum 2008 £000	Minimum 2008 £000
Trading	487	3
Banking	4,755	1,449

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 manages its liquidity risk actively, in view of the bank's reliance on funding from customers and bank correspondents. These deposits tend to be short-term but the bank has diversified its funding through its medium-term loan facility with a syndicate of banks. The bank's approach to funding means 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.

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 daily using data compiled by Internal Controls Department and reported to the Treasurer who has responsibility for day-to-day liquidity management. ABCIB's approach to liquidity monitoring involves a limit structure to control liquidity mismatches in particular time periods from "next day" through to "over 1 year". The time bands have specific limits set on the maximum mismatch allowable in the periods "sight to 8 days" and "sight to one month" of 0% and -5% respectively. Liquidity mismatches are calculated on the basis of the aggregate across all ABCIB branches of all assets and all liabilities, together with an allowance of 15% of undrawn commitments.

Funding gap control is supplemented by other analyses such as stress tests 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 the performance of the Treasurer in liquidity management

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

Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2008 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.

	2008				
	Not more Than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
	£000	£000	£000	£000	£000
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated liabilities	1,829,978	188,910	307,547	133,471	2,459,906

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. ABCIB is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The most prominent market risk factor for ABCIB is interest rates. This risk is minimized as ABCIB's rate sensitive assets and liabilities are mostly floating rates, where the duration risk is lower.

Currency risk

ABCIB is exposed to foreign exchange rate risk through its trading and structural portfolios. Foreign exchange rate risk is managed by trading limits and stop loss parameters which are approved at Board level.

5.c. Other risks

Operational risk

Operational Risk is defined as:

“The risk of loss resulting from inadequate or failed processes, people and systems, or from external events”.

Operational risk is inherent in all business activities and can never be eliminated entirely. In order to mitigate such a risk, ABCIB has developed an operational risk framework, which includes identification, measurement, management, and monitoring. A variety of processes are being deployed including risk & control self-assessments, Key Indicators (KI), event management, new product review and approval processes and business contingency planning. ABCIB’s policies specify that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions.

Each business line is responsible for employing the framework processes and control programmes to manage its operational risk within the guidelines set by ABCIB and to develop internal procedures that comply with these policies.

Support functions are also involved in the identification, measurement, management, monitoring and control of operational risk as appropriate.

Other risks

ABCIB is exposed to a range of other operational risks. In each case various risk mitigation techniques are adopted to control the risk. These risks include the following:-

- Legal risks. ABCIB enters into contracts both in the course of its ordinary business, but also as part of its banking activities. Specialist staff are employed to review and negotiate contract documents, and external legal counsel is also sought where appropriate.
- Settlement and confirmation risk. ABCIB seeks to employ, retain and train its staff to ensure that they are competent to carry out such procedures. Suitable computer systems to support such operations are maintained, and operational procedures are documented, and subject to regular review by Internal Audit.
- Litigation risks. Disputes arise from time to time in the course of ABCIB’s business. Such disputes are subject to early identification, and escalation to senior executives qualified to manage their resolution. External counsel’s opinions and assistance is sought as required.
- Pension Fund Risk. ABCIB offers defined benefit pension arrangements to some of its staff. There are risks that the liabilities associated with these arrangements may be higher than expected, or that the assets may not grow as expected. ABCIB recognises that these are long term obligations, and seeks to manage the risks through the use of conservative assumptions, and investment strategies designed to reduce the various risks.

6. Equity Investments

ABCIB owns the following investment in subsidiaries and associated companies:

	Business	Ownership %
ABCIB Islamic Asset Management Limited	Advisory	100%
ABCIB Leasing Limited	Asset Trade	100%
The General Leasing Company (Cayman Islands) Limited I	Leasing	20%
Alphabet Nominees Limited	Nominee	100%
Abcibt Nominees Limited	Nominee	100%
The General Leasing Company (Cayman Islands) Limited II	Leasing	20%
Bronco Fund LLC	Property	45%

Part of the investments above form part of effective fair value hedging relationship in relation to foreign currency risk, with certain foreign currency denominated borrowings.

Equity investments are stated in the financial statements of ABCIB at cost less impairment losses. Reversal of impairment losses are recognised in the profit and loss account if there has been a change in the estimates used to determine the recoverable amount of the investment.

7. Impairment Provisions

Accounting Policy

Impairment losses on loans and advances

ABCIB reviews its problem loans and advances at each reporting date to assess whether a provision for impairment should be recorded in the profit and loss account. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

In addition to the specific provision against individually significant loans and advances, ABCIB maintains a collective impairment reserve to cover an identified part of the portfolio where observable data indicates that impairment is likely to have occurred even though there is not yet any specific evidence of impairment of any individual loan within that group of assets.

Credit facilities subject to collective impairment provisions represent on-balance sheet exposures not subject to specific provision, with an internal credit risk rating of 7+ to 10 and with an original maturity of more than 6 months.

ABC International Bank plc

Pillar 3 Disclosures

**Movements in allowance for
impairment losses**

	Individually assessed		Collectively assessed		Total £000
	Banks £000	Customers £000	Banks £000	Customers £000	
Brought forward 1/1/08	2,327	1,651	500	1,513	5,991
Provision for the year	-	999	-	-	999
Amounts written back	-	(81)	-	-	(81)
Amounts written off	(1,106)	(680)	-	-	(1,786)
Foreign currency adjust.	190	773	-	-	963
Carried forward 31/12/08	1,411	2,662	500	1,513	6,086