

# Statement of Directors' Responsibilities in respect of the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the profit and loss of the Bank for that period. In preparing those 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 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 irregularities.

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## Independent Auditors' Report

To members of ABC International Bank plc

We have audited the Bank's financial statements for the year ended 31st December 2004 which comprise the profit and loss account, balance sheet and the related notes 1 to 34. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in the 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 Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Bank's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if any information specified by law regarding Directors' remuneration and transactions with the Bank is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank as at 31st December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London  
17th February 2005

# Profit and Loss Account

For the year ended 31st December 2004

	Note	2004 £000	2003 £000
Interest receivable and similar income arising from debt securities and certificates of deposit purchased		<b>18,110</b>	7,017
Other interest receivable and similar income		<b>52,620</b>	41,077
		<b>70,730</b>	48,094
Interest payable	2	<b>46,978</b>	28,198
<b>Net interest income</b>		<b>23,752</b>	19,896
Fees and commissions receivable		<b>16,754</b>	10,219
Fees and commissions payable		<b>(3,103)</b>	(1,574)
Dealing profits		<b>183</b>	-
Other operating income	3	<b>1,932</b>	3,814
		<b>15,766</b>	12,459
Total operating income		<b>39,518</b>	32,355
Administrative expenses	4	<b>(33,238)</b>	(26,630)
Depreciation and amortisation		<b>(1,213)</b>	(996)
Provision release	5	<b>1,494</b>	3,371
		<b>(32,957)</b>	(24,255)
<b>Profit on ordinary activities before tax</b>	6	<b>6,561</b>	8,100
Tax (charge)/ credit on ordinary activities	7	<b>(129)</b>	523
<b>Profit for the financial year</b>		<b>6,432</b>	8,623

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A statement of total recognised gains and losses has not been included as there were no recognised gains or losses for the current or previous financial year other than those already dealt with in the profit and loss account.

# Balance Sheet

As at 31st December 2004

	Note	2004 £000	2003 £000
<b>Assets</b>			
Cash and balances at central banks		<b>24,223</b>	8,098
Certificates of deposit purchased	8	<b>190,000</b>	239,441
Loans and advances to banks	9	<b>695,260</b>	287,482
Loans and advances to customers	10	<b>896,427</b>	664,224
Debt securities	13	<b>79,117</b>	18,341
Interest in associated undertakings	14	<b>4,809</b>	923
Shares in Group undertakings	15	<b>1,075</b>	1,165
Tangible fixed assets	16	<b>3,613</b>	2,931
Other assets		<b>3,292</b>	1,340
Prepayments and accrued income	17	<b>17,035</b>	13,112
<b>Total assets</b>		<b>1,914,851</b>	1,237,057
<b>Liabilities</b>			
Deposits from banks and other financial institutions	18	<b>1,246,744</b>	585,381
Deposits from customers	19	<b>116,855</b>	132,750
Certificates of deposit issued	20	<b>32,119</b>	40,112
Other liabilities	21	<b>27,683</b>	13,058
Accruals and deferred income	22	<b>12,864</b>	12,182
Term borrowing	23	<b>185,594</b>	196,289
		<b>1,621,859</b>	979,772
Subordinated liability	24	<b>44,154</b>	47,175
Called up share capital	26	<b>182,296</b>	150,000
Profit and loss account		<b>66,542</b>	60,110
Equity shareholders' funds	27	<b>248,838</b>	210,110
Capital resources		<b>292,992</b>	257,285
<b>Total liabilities and shareholders' funds</b>		<b>1,914,851</b>	1,237,057
<b>Memorandum items</b>			
<b>Contingent liabilities</b>			
Acceptances and endorsements		<b>13,798</b>	3,387
Guarantees and letters of credit		<b>633,946</b>	334,205
		<b>647,744</b>	337,592
<b>Commitments</b>			
Other commitments	30	<b>176,575</b>	121,421
		<b>176,575</b>	121,421

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**Farhat O. Ekdara**

Chairman

11th February 2005

# Notes to the Accounts

## 1 / Accounting policies

### a. Basis of preparation

The accounts are prepared under the historical cost convention. They are prepared in accordance with the special provisions of part VII of the Companies Act 1985 relating to banking companies, and applicable accounting standards.

This year's figures include both Milan and Frankfurt branches which were integrated into ABCIB on 1st January 2004. The 2003 comparatives do not include the newly integrated units figures.

The Bank is not required to prepare group accounts since it qualifies for the exemptions available under Section 228 of the Companies Act 1985. In addition there is no requirement to prepare a statement of cash flows in accordance with Financial Reporting Standard number 1.

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### b. Interest and fees

Interest receivable and payable is recognised on a time proportion basis taking account of the principal outstanding and rate applicable. If the collection of interest is considered to be doubtful it is suspended and excluded from the profit and loss account until received. Fees in respect of services are recognised as the right to consideration accrues through performance to customers. Loan origination fees: up-front lending fees are recognised as income when receivable except where they are charged in lieu of interest or charged to cover the cost of a continuing service to the borrower, in which case they are credited to income over the life of the advance. Fee expense is recognised when incurred.

### c. Fixed assets and depreciation

Fixed assets are depreciated on a straight line basis so as to write off the cost of all asset categories over the following periods:

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

### d. Debt securities and equity shares

Debt securities and equity shares are held for investment purposes, as fixed assets, where intended for use on a continuing basis in the activities of the Bank.

Debt securities acquired for the long term at a premium or discount are stated in the balance sheet at amortised cost with provision for any permanent decline in value. Premiums and discounts are amortised on a straight line basis from date of purchase to date of maturity. Other securities which are held as fixed assets are shown at cost, less any provision for impairment.

Trading securities are stated at market value for listed securities and Directors' estimate of market value for unlisted securities. Gains and losses on trading and market value adjustments are taken to the profit and loss account.

### e. Foreign currency translation

Assets and liabilities in foreign currencies have been translated at market rates of exchange ruling at the balance sheet date. Gains and losses on forward exchange contracts, arising from the difference between spot and forward rates, which are entered into in connection with loans and deposits, are amortised over the periods of the related contracts. Other forward exchange contracts are valued at market rates applicable to their respective maturities at the balance sheet date and the resulting gain or loss taken to the profit and loss account.

### f. Provisions

Specific provisions are made when required in respect of potential losses on the collection of certain exposures. In addition general provisions are raised in respect of losses which, not specifically identified, are inherently present in any portfolio of loans and advances. A description of the Bank's credit policy including provisioning is included in the Economic and Business Review.

### g. Term borrowing

The discount on the zero coupon bond is amortised on a yield to maturity basis.

**h. Deferred taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**i. Off-balance sheet instruments**

Off-balance sheet instruments are valued at market prices and resultant profits and losses are included in profit on ordinary activities before tax, except those in respect of specifically designated hedging transactions which are taken to the profit and loss account in accordance with the accounting treatment of the risk being hedged.

**j. Segmental reporting**

The Directors consider that the Bank does not have more than one class of business and regard Europe as a single geographical segment. This is based on the location of office where transactions are recorded rather than location of customer, as the directors believe this more fairly reflects the nature of the business.

**k. Leases**

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Income from operating leases is credited to the profit and loss account on a straight-line basis over the lease term. Equipment on an operating lease is capitalised as a fixed asset and is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost less residual value over the primary lease term.

**l. Pension benefits**

The Bank participates in a defined benefit pension scheme and a defined contribution scheme, and a number of employees are members of other defined contribution schemes. The pension cost of the defined benefit scheme is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives.

**2 / Interest payable**

Interest payable includes £1,279,521 in respect of interest on the subordinated liability (2003 - £1,370,803).

**3 / Other operating income**

	2004 £000	2003 £000
Rental income	885	909
Profit on sale of lease portfolios	151	1,785
Operating lease income	64	411
Dividends received	310	-
Profit on sale of investment securities	153	-
(Loss) on disposal of fixed assets	(121)	-
Other	490	709
	<b>1,932</b>	<b>3,814</b>

# Notes to the Accounts

## 4 / Administrative expenses

	2004 £000	2003 £000
Staff costs:		
Salaries	<b>12,951</b>	9,255
Social security costs	<b>2,431</b>	1,747
Pension costs	<b>1,731</b>	1,298
Redundancy costs	<b>1,105</b>	3,457
	<b>18,218</b>	15,757
Other administrative expenses	<b>15,020</b>	10,873
	<b>33,238</b>	26,630

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	2004 Number	2003 Number
The average number of employees (excluding Directors) during the year	<b>232</b>	147
The aggregate emoluments of the Directors of ABC International Bank plc are:		
	2004 £000	2003 £000
Emoluments	<b>306</b>	311
	<b>306</b>	311

## 5 / Provision release

	2004 £000	2003 £000
The credit for the year in respect of provisions is made up as follows:		
Loans and advances to customers	<b>296</b>	2,776
Loans and advances to banks	<b>939</b>	-
Recoveries in respect of advances previously written off	<b>259</b>	595
	<b>1,494</b>	3,371

## 6 / Profit on ordinary activities before tax

	2004 £000	2003 £000
Profit is stated after (charging)/crediting :		
Foreign currency gains	<b>77</b>	1
Auditors' remuneration: audit services	<b>(218)</b>	(130)
non-audit services	<b>(173)</b>	(244)
Operating lease rentals: hire of equipment	<b>(797)</b>	(475)
land and buildings	<b>(3,200)</b>	(2,765)
Income from listed securities	<b>38</b>	260

# Notes to the Accounts

## 7 / Taxation

	2004 £000	2004 £000	2003 £000	2003 £000
Tax on profit on ordinary activities				
UK corporation tax				
UK corporation tax on profits of the year	-		-	
Adjustment in respect of previous years	<b>14</b>		498	
		<b>14</b>		498
Foreign tax				
Current tax	<b>(143)</b>		-	
Adjustments in respect of previous years	-		25	
		<b>(143)</b>		25
		<b>(129)</b>		<b>523</b>

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### Factors affecting tax charge for the year

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	<b>6,561</b>	8,100
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	<b>(1,968)</b>	(2,430)
Effect of:		
Disallowed expenses and non-taxable income	<b>(97)</b>	(45)
Depreciation in excess of capital allowances	<b>47</b>	(28)
Increase in other unrecognised deferred tax assets	<b>(150)</b>	(150)
Adjustments in respect of previous years	<b>14</b>	523
Tax losses utilised	<b>1,895</b>	2,380
Group relief	<b>273</b>	273
Others	<b>(143)</b>	-
Tax (charge)/credit	<b>(129)</b>	523

### Factors that may affect future tax charges

At the year end, the bank has considerable tax losses available. No deferred tax is recognised on these tax losses accrued due to uncertainty surrounding the availability of taxable profits against which these could be offset. The total deferred tax asset unrecognised at the year end is £29.2m (2003 - £31.4m).

## 8 / Certificates of deposit purchased

	2004 £000	2003 £000
Analysed by maturity:		
within three months	<b>190,000</b>	33,220
between three months and one year	-	206,221
	<b>190,000</b>	239,441

# Notes to the Accounts

## 9 / Loans and advances to banks

	2004 £000	2003 £000
Repayable:		
on demand	<b>13,288</b>	11,118
within three months	<b>528,869</b>	211,267
between three months and one year	<b>62,559</b>	15,001
between one and five years	<b>55,773</b>	26,637
after five years	<b>47,310</b>	37,401
	<b>707,799</b>	301,424
Provision for loans to banks (note 11)	<b>(12,539)</b>	(13,942)
	<b>695,260</b>	287,482

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

**59,409**                      11,777

## 10 / Loans and advances to customers

	2004 £000	2003 £000
Repayable:		
on demand	<b>5,732</b>	3,540
within three months	<b>292,896</b>	204,978
between three months and one year	<b>194,441</b>	115,750
between one and five years	<b>181,465</b>	220,427
after five years	<b>239,023</b>	139,298
	<b>913,557</b>	683,993
Provision for loans to customers (note 11)	<b>(17,130)</b>	(19,769)
	<b>896,427</b>	664,224

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

**85,026**                      82,593

## 11 / Movements in provision for loans and advances

	Banks £000	Customers £000	Total £000
Brought forward 1st January 2004	<b>13,942</b>	<b>19,769</b>	<b>33,711</b>
Provision for the year	-	<b>3,606</b>	<b>3,606</b>
Amounts written back in the year	<b>(939)</b>	<b>(3,902)</b>	<b>(4,841)</b>
Amounts written off in the year	-	<b>(1,739)</b>	<b>(1,739)</b>
Foreign currency translation adjustment	<b>(464)</b>	<b>(604)</b>	<b>(1,068)</b>
<b>Carried forward 31st December 2004</b>	<b>12,539</b>	<b>17,130</b>	<b>29,669</b>

Of the £29,669,000 (2003 - £33,711,000) provision held at the end of the year, £4,500,000 (2003 - £4,000,000) represents a general provision. Provision for loans and advances to banks and customers includes provision for country risk.

**12 / Movements in provision for suspended interest**

	2004 £000	2003 £000
Brought forward 1st January 2004	<b>13,230</b>	12,506
Interest suspended during the year	<b>676</b>	1,177
Interest written off during the year	<b>(1,595)</b>	-
Foreign currency translation adjustment	<b>(489)</b>	(453)
<b>Carried forward 31st December 2004</b>	<b>11,822</b>	13,230

Loans and advances where interest is suspended at year end

Before debt provisions	<b>25,735</b>	27,272
After debt provisions	<b>544</b>	2,588

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**13 / Debt securities**

	2004 £000	2003 £000
Listed	<b>67,389</b>	8,396
Unlisted	<b>11,728</b>	9,945
	<b>79,117</b>	18,341
Due within one year	<b>10,590</b>	8,396
Due after more than one year	<b>68,527</b>	9,945
	<b>79,117</b>	18,341
Issued by public bodies	<b>56,799</b>	-
Issued by other issuers	<b>22,318</b>	18,341
Net book value	<b>79,117</b>	18,341

All debt securities were held for investment purposes.

The market value of all listed debt securities was £67,329,000 (2003 - £8,460,000). Unlisted debt securities are valued at £11,694,000 (2003 - £10,115,000).

The movement on debt securities held for investment purposes is as follows:

	£000
<b>At 1st January 2004</b>	<b>18,341</b>
Additions due to integration of Milan and Frankfurt branches' operations	<b>85,283</b>
Repayments and disposals	<b>(22,598)</b>
Amortisation of premiums and discounts	<b>(136)</b>
Exchange movements	<b>(1,773)</b>
<b>At 31st December 2004</b>	<b>79,117</b>

The net unamortised premium at 31st December 2004 was £nil (2003 - £18,978).

# Notes to the Accounts

## 14 / Interest in associated undertakings

The movement on unlisted associates held for investment purposes is as follows:

	£000
At 1st January 2004	<b>923</b>
Additions	<b>4,571</b>
Redemption	<b>(550)</b>
Exchange movements	<b>(135)</b>
<b>At 31st December 2004</b>	<b>4,809</b>

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The directors valuation of unlisted associates held for investment purposes is £4.8m (2003 - £0.9m). The Bank owns the following investment in associated companies:

	Nature of business	Country of registration	Ownership %
The General Leasing Company (Cayman Islands) Limited I	Leasing	Cayman Is.	20%
The General Leasing Company (Cayman Islands) Limited II	Leasing	Cayman Is.	20%
Albait UK Real Estate Fund	Property	Cayman Is.	14%

## 15 / Shares in Group undertakings

The movement on unlisted subsidiaries is as follows:

	£000
At 1st January 2004	<b>1,165</b>
Exchange movements	<b>(90)</b>
<b>At 31st December 2004</b>	<b>1,075</b>

The Bank 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%
MFAD Galleria Inc.	Property investment	USA	100%
MFAD Galleria I Limited	Property investment	Jersey	100%
MFAD Galleria II Limited	Property investment	Jersey	100%
MFAD Galleria III Limited	Property investment	Jersey	100%
MFAD Galleria IV Limited	Property investment	Jersey	100%
MFAD Galleria V Limited	Property investment	Jersey	100%

# Notes to the Accounts

## 16 / Tangible fixed assets

	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1st January 2004	1,228	732	4,919	121	7,000
Additions	473	186	1,564	162	2,385
Disposals	(851)	(238)	(691)	(62)	(1,842)
Exchange & other adjustments	(2)	13	(46)	(4)	(39)
<b>At 31st December 2004</b>	<b>848</b>	<b>693</b>	<b>5,746</b>	<b>217</b>	<b>7,504</b>
Depreciation					
At 1st January 2004	878	491	2,579	121	4,069
Charge for the year	106	69	1,006	32	1,213
Disposals	(741)	(223)	(386)	(22)	(1,372)
Exchange & other adjustments	(14)	-	(5)	-	(19)
<b>At 31st December 2004</b>	<b>229</b>	<b>337</b>	<b>3,194</b>	<b>131</b>	<b>3,891</b>
Net book value					
<b>At 31st December 2004</b>	<b>619</b>	<b>356</b>	<b>2,552</b>	<b>86</b>	<b>3,613</b>
At 31st December 2003	350	241	2,340	-	2,931

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## 17 / Prepayments and accrued income

	2004 £000	2003 £000
Prepayments and accrued income	<b>3,061</b>	2,159
Interest receivable	<b>13,974</b>	10,953
	<b>17,035</b>	13,112

## 18 / Deposits from banks and other financial institutions

	2004 £000	2003 £000
Repayable:		
on demand	<b>75,838</b>	12,937
within three months	<b>1,064,872</b>	554,460
between three months and one year	<b>102,148</b>	17,984
between one and five year	<b>3,886</b>	-
	<b>1,246,744</b>	585,381
Included in the above are balances due to ABC Group undertakings of	<b>246,485</b>	193,007

# Notes to the Accounts

## 19 / Deposits from customers

	2004 £000	2003 £000
Repayable:		
on demand	<b>42,695</b>	44,409
within three months	<b>63,536</b>	78,427
between three months and one year	<b>5,952</b>	-
between one and five years	<b>4,672</b>	9,914
	<b>116,855</b>	132,750

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Included in the above are balances due to ABC Group undertakings of **141** 87

## 20 / Certificates of deposit issued

	2004 £000	2003 £000
Repayable:		
within three months	<b>15,541</b>	40,112
between three months and one year	<b>16,578</b>	-
	<b>32,119</b>	40,112

## 21 / Other liabilities

	2004 £000	2003 £000
Foreign exchange and interest rate contracts (note 31a)	<b>11,504</b>	8,273
Debt service reserve	<b>6,342</b>	-
Other liabilities	<b>9,837</b>	4,785
	<b>27,683</b>	13,058

## 22 / Accruals and deferred income

	2004 £000	2003 £000
Interest payable	<b>5,237</b>	2,437
Accruals and deferred income	<b>7,627</b>	9,745
	<b>12,864</b>	12,182

## 23 / Term borrowing

	2004 £000	2003 £000
Repayable:		
within one year	<b>103,643</b>	93,906
between two and five years	<b>81,951</b>	102,383
	<b>185,594</b>	196,289

Included in the above are balances due to ABC Group undertakings of **35,000** 35,000

**24 / Subordinated liability**

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

	2004 £000	2003 £000
US\$58 million floating rate note	<b>30,047</b>	32,539
US\$25 million zero coupon bond	<b>14,107</b>	14,636
	<b>44,154</b>	47,175

In March 1998 the Bank issued a subordinated floating rate note of US\$100 million due in 2013. Interest is charged at a rate of LIBOR +5/8% per annum. In April 2002 the Bank repaid US\$42 million. This issue is quoted on the Luxembourg Stock Exchange. On 31st December 2002 the Bank issued a subordinated zero coupon bond for US\$25 million, repayable at par of US\$33.8 million on 4th January 2010.

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**25 / Deferred taxation**

No deferred taxation has been recognised in the accounts (see note 7).

**26 / Called up share capital**

	2004 & 2003 Authorised	2004 Issued	2003 Issued
Ordinary shares of £1 each	<b>300,000,000</b>	<b>182,296,000</b>	150,000,000

**27 / Shareholders' funds**

	Ordinary Share Capital £000	Profit & Loss Account £000	Total £000
Brought forward at 1st January 2004	<b>150,000</b>	<b>60,110</b>	<b>210,110</b>
Profit for the year	-	<b>6,432</b>	<b>6,432</b>
New capital issued	<b>32,296</b>	-	<b>32,296</b>
<b>Carried forward at 31st December 2004</b>	<b>182,296</b>	<b>66,542</b>	<b>248,838</b>
Brought forward at 1st January 2003	150,000	51,487	201,487
Profit for the year	-	8,623	8,623
Carried forward at 31st December 2003	150,000	60,110	210,110

Shareholders' funds are all attributable to equity interests for 2004 and 2003.

**28 / Ultimate parent undertaking and parent undertakings**

The ultimate parent undertaking is the Arab Banking Corporation (B.S.C.) incorporated in the Kingdom of Bahrain. The Bank is a subsidiary undertaking of ABC Investment Holdings Ltd which is registered in England. Copies of the group accounts of ABC Investment Holdings Ltd and Arab Banking Corporation (B.S.C.) may be obtained from Arab Banking Corporation House, 1-5 Moorgate, London EC2R 6AB.

# Notes to the Accounts

## 29 / Transactions with Directors and officers

The aggregate amounts outstanding at 31st December under transactions, arrangements and agreements made by the Bank for Directors and for officers, within the meaning of Schedule 9 to the Companies Act 1985, of the Bank were:

	2004		2003	
	Number of persons	£000	Number of persons	£000
Loans to officers:	1	6	1	8

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## 30 / Commitments

Contract or underlying principal amount:	2004 £000	2003 £000
--	--------------	--------------

Formal standby facilities, credit lines and other commitments to lend:

One year and over	<b>113,893</b>	102,702
Other financial commitments	<b>62,682</b>	18,719
	<b>176,575</b>	121,421

	2004 £000	2003 £000
There are contracted capital commitments of	-	64

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

	2004		2003	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Leases which expire:				
within two years	495	-	188	-
within two to five years	339	795	231	668
between five and ten years	2,200	-	2,200	-

**31 / Financial instrument contracts****a) Derivative contracts**

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

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.

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**1) Derivatives held for trading purposes**

	One year or less £m	2004 One to two years £m	Total £m	One year or less £m	2003 One to two years £m	Total £m
<b>Notional principal amounts</b>						
<b>Exchange rate related contracts</b>						
Spot and forwards	444	-	444	210	-	210
<b>Total at 31st December</b>	<b>444</b>	<b>-</b>	<b>444</b>	<b>210</b>	<b>-</b>	<b>210</b>

**Notional principal amounts of trading contracts by currency**

	Sterling	US dollar	2004 Euro	Other	Total
<b>Exchange rate related contracts</b>					
Spot and forwards	70	334	39	1	444
<b>Total at 31st December 2004</b>	<b>70</b>	<b>334</b>	<b>39</b>	<b>1</b>	<b>444</b>
			2003 Euro	Other	Total
<b>Exchange rate related contracts</b>					
Spot and forwards	1	200	9	-	210
<b>Total at 31st December 2003</b>	<b>1</b>	<b>200</b>	<b>9</b>	<b>-</b>	<b>210</b>

# Notes to the Accounts

## 31 / Financial instrument contracts (continued)

	One year or less £m	2004 One to two years £m	Total £m	One year or less £m	2003 One to two years £m	Total £m
<b>Positive fair values</b>						
Exchange rate related contracts						
Spot and forwards	24	-	24	38	-	38
<b>Total at 31st December</b>	<b>24</b>	<b>-</b>	<b>24</b>	<b>38</b>	<b>-</b>	<b>38</b>

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### Negative fair values

	Total 2004 £000	Total 2003 £000
Exchange rate related contracts		
Spot and forwards	11,528	8,311
<b>Total at 31st December</b>	<b>11,528</b>	<b>8,311</b>

### II) Derivatives held for non trading purposes

	One year or less £m	2004 One to five years £m	Total £m	One year or less £m	2003 One to five years £m	Total £m
<b>Notional principal amounts</b>						
Interest rate related contracts						
Interest rate swaps	17	24	41	-	7	7
<b>Total at 31st December</b>	<b>17</b>	<b>24</b>	<b>41</b>	<b>-</b>	<b>7</b>	<b>7</b>

# Notes to the Accounts

Fair and book values	2004			
	Fair value		Book value	
	Positive £000	Negative £000	Positive £000	Negative £000
<b>Interest rate related contracts</b>				
Interest rate swaps	<b>224</b>	<b>364</b>	<b>133</b>	<b>48</b>
<b>Total at 31st December</b>	<b>224</b>	<b>364</b>	<b>133</b>	<b>48</b>

Interest rate related contracts	2003			
	Fair value		Book value	
	Positive £000	Negative £000	Positive £000	Negative £000
Interest rate swaps	-	199	-	67
<b>Total at 31st December</b>	-	199	-	67

Unrecognised gains and losses on hedges	Gains £000	Losses £000	Total net (losses) £000
			£000
At 1st January 2004	-	(132)	(132)
Gains and losses on hedges arising in previous years that were recognised in the current year	-	-	-
Gains and losses on hedges arising in previous years that were not recognised in the current year	-	(132)	(132)
Gains and losses on hedges arising in the current year that have not been recognised	<b>91</b>	<b>(184)</b>	<b>(93)</b>
<b>At 31st December 2004</b>	<b>91</b>	<b>(316)</b>	<b>(225)</b>
Of which:			
Gains and losses on hedges expected to be recognised next year	-	(63)	(63)
Gains and losses on hedges expected to be recognised in more than one year	<b>91</b>	<b>(253)</b>	<b>(162)</b>

# Notes to the Accounts

## 31 / Financial instrument contracts (continued)

### b) Other financial instruments

#### I) Fair values

The Bank's trading book comprises solely foreign currency and interest rate derivatives, which have been included in the balance sheet at fair value and disclosed in part a of this note.

The fair value of listed and publicly traded securities held for non-trading purposes is disclosed under the relevant balance sheet note.

#### II) Interest rate repricing

The table below summarises the non-trading book mismatches of the dates in 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.

	2004						Total £m
	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	
<b>Assets</b>							
Cash and balances at central banks	24.2	-	-	-	-	-	24.2
Certificates of deposit purchased	190.0	-	-	-	-	-	190.0
Loans and advances to banks	576.6	81.7	14.6	20.7	13.6	(12.0)	695.2
Loans and advances to customers	623.4	134.3	54.4	30.5	73.9	(20.1)	896.4
Debt securities	18.4	-	-	60.7	-	-	79.1
Equity shares	-	-	-	-	-	5.9	5.9
Other assets	-	-	-	-	-	20.4	20.4
Fixed assets	-	-	-	-	-	3.6	3.6
<b>Total assets</b>	<b>1,432.6</b>	<b>216.0</b>	<b>69.0</b>	<b>111.9</b>	<b>87.5</b>	<b>(2.2)</b>	<b>1,914.8</b>
<b>Liabilities</b>							
Deposits from banks	1,144.4	90.4	8.1	3.9	-	-	1,246.8
Deposits from customers	106.2	5.9	-	4.7	-	-	116.8
Certificates of deposit issued	15.5	16.6	-	-	-	-	32.1
Other liabilities	-	-	-	-	-	40.5	40.5
Term borrowing	190.3	16.8	5.2	-	17.5	-	229.8
Shareholders' funds	-	-	-	-	-	248.8	248.8
<b>Total liabilities</b>	<b>1,456.4</b>	<b>129.7</b>	<b>13.3</b>	<b>8.6</b>	<b>17.5</b>	<b>289.3</b>	<b>1,914.8</b>
Net position	(23.8)	86.3	55.7	103.2	70.0	(291.5)	
Off balance sheet	(1.3)	(14.6)	2.0	10.2	3.7	-	
<b>Interest rate sensitivity gap</b>	<b>(25.1)</b>	<b>71.7</b>	<b>57.7</b>	<b>113.4</b>	<b>73.7</b>	<b>(291.5)</b>	
<b>Cumulative gap</b>	<b>(25.1)</b>	<b>46.6</b>	<b>104.3</b>	<b>217.8</b>	<b>291.5</b>	<b>-</b>	

# Notes to the Accounts

	2003						Total £m
	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	
<b>Assets</b>							
Cash and balances at central banks	8.1	-	-	-	-	-	8.1
Certificates of deposit purchased	33.2	11.2	195.0	-	-	-	239.4
Loans and advances to banks	249.5	43.9	2.8	4.6	-	(13.3)	287.5
Loans and advances to customers	520.5	110.7	15.1	38.3	-	(20.3)	664.3
Debt securities	14.0	2.8	-	1.5	-	-	18.3
Equity shares	-	-	-	-	-	2.1	2.1
Other assets	-	-	-	-	-	14.5	14.5
Fixed assets	-	-	-	-	-	2.9	2.9
<b>Total assets</b>	<b>825.3</b>	<b>168.6</b>	<b>212.9</b>	<b>44.4</b>	<b>-</b>	<b>(14.1)</b>	<b>1,237.1</b>
<b>Liabilities</b>							
Deposits from banks	568.2	2.1	15.1	-	-	-	585.4
Deposits from customers	122.9	-	-	9.9	-	-	132.8
Certificates of deposit issued	40.1	-	-	-	-	-	40.1
Other liabilities	-	-	-	-	-	25.2	25.2
Term borrowing	228.8	-	-	-	14.7	-	243.5
Shareholders' funds	-	-	-	-	-	210.1	210.1
<b>Total liabilities</b>	<b>960.0</b>	<b>2.1</b>	<b>15.1</b>	<b>9.9</b>	<b>14.7</b>	<b>235.3</b>	<b>1,237.1</b>
Net position	(134.7)	166.5	197.8	34.5	(14.7)	(249.4)	
Off balance sheet	(6.5)	-	-	2.6	3.9	-	
Interest rate sensitivity gap	(141.2)	166.5	197.8	37.1	(10.8)	(249.4)	
<b>Cumulative gap</b>	<b>(141.2)</b>	<b>25.3</b>	<b>223.1</b>	<b>260.2</b>	<b>249.4</b>	<b>-</b>	

## Currency risk

Derivative instruments are used by the Bank against 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.

	2004 £000	2003 £000
<b>Dealing profits</b>		
Dealing profits are analysed as follows:		
Foreign exchange	122	2
Interest rate products	61	(2)
	<b>183</b>	<b>-</b>

# Notes to the Accounts

## 32 / Assets and liabilities in foreign currencies (continued)

	2004 £000	2003 £000
Denominated in sterling	<b>423,939</b>	387,816
Denominated in US dollar	<b>1,145,731</b>	679,163
Denominated in other currencies	<b>345,181</b>	170,078
<b>Total assets</b>	<b>1,914,851</b>	1,237,057
Denominated in sterling	<b>423,937</b>	387,816
Denominated in US dollar	<b>1,145,785</b>	679,133
Denominated in other currencies	<b>345,129</b>	170,108
<b>Total liabilities</b>	<b>1,914,851</b>	1,237,057

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The Bank's balance sheet consists entirely of monetary items, except for fixed assets totalling £3.6million, which have been included as part of assets denominated in Sterling.

The above summary should not be considered as an indication of the Bank's exposure to foreign exchange risk due to the existence of compensating forward contracts held for hedging purposes as disclosed in note 31.

## 33 / Related party transactions

A Director, Mr S. Yassukovich, has a controlling interest in S. M. Yassukovich & Co Limited which received professional fees of £20,796 (2003 - £19,170) in relation to administration services provided to the Bank during the year. There were no outstanding balance owed to S. M. Yassukovich & Co Limited at 31st December 2004.

As the Bank is a 100% subsidiary undertaking, and consolidated financial statements for the Group are publicly available, Group transactions have not been disclosed pursuant to the exemptions permitted in Financial Reporting Standard number 8.

## 34 / Pensions

The bank participates in a contributory defined benefit pension scheme operated by ABCIB for its UK permanent employees, providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Bank and are administered by the fund's Trustees who include employees of the Bank.

An actuarial valuation of the scheme was carried out as at 1st October 2002, using the projected unit method of valuation. The liabilities were assessed on an ongoing basis. The market value of the assets as at 1st October 2002 amounted to £5,096,000. The results of the valuation indicate that the market value of the assets as at 1st October 2002 was sufficient to cover 43% of the current value of the benefits accrued to that date with provision for future salary increases. The current contribution rate is 25% of total pensionable salaries which includes provision for restoring the funding level to 100% over the expected average future working lifetime of current employees, on the basis of the assumptions made.

The valuation used for FRS17 disclosure has been based on the most recent interim actuarial valuation updated to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31st December 2004. The update was performed by an independent actuary. Scheme assets are stated at their market values at 31st December 2004.

The major assumptions used by the actuary were:

	2004 % per annum	2003 % per annum
Inflation	<b>2.80</b>	2.75
Rate of increase in salaries	<b>4.80</b>	4.75
Rate of increase of pensions in payment	<b>5.00</b>	5.00
Rate of increase for deferred pensions	<b>2.50</b>	2.50
Discount rates	<b>5.20</b>	5.30
Investment return	<b>7.60</b>	6.90

# Notes to the Accounts

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

	2004	2004
	Fair value	Long term
	£m	rate of return
		expected
		%
Equities	<b>8.4</b>	<b>8.1</b>
Bonds	<b>1.5</b>	<b>5.2</b>
Other	<b>0.4</b>	<b>4.0</b>
<b>Total value of assets</b>	<b>10.3</b>	<b>7.6</b>

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	2003	2003
	Fair value	Long term
	£m	rate of return
		expected
		%
Equities	6.5	8.3
Bonds	1.2	4.5
Property	0.1	6.5
Other	0.3	3.5
<b>Total value of assets</b>	<b>8.1</b>	<b>7.5</b>

## Movement in scheme deficit

	2004
	£m
(Deficit) in the plan before tax at 1st January 2004	<b>(5.3)</b>
Contribution paid	<b>1.4</b>
Current service cost	<b>(1.0)</b>
Other finance charge	<b>(0.2)</b>
Actuarial gain	<b>0.9</b>
Related deferred tax liability	<b>(0.3)</b>
<b>Net pension liability at 31st December 2004</b>	<b>(4.5)</b>

# Notes to the Accounts

## 34 / Pensions (continued)

### FRS 17 additional disclosure requirements

The following information is provided to comply with FRS17 additional disclosure requirements. This is not reflected in the Bank's profit and loss account and balance sheet. Had all the FRS17 requirements been fully implemented at year end, the impact would be as outlined below.

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	2004 £m
Retained earnings excluding pension liability	<b>66.5</b>
Pension deficit	<b>(4.5)</b>
Retained earnings	<b>62.0</b>

### Amount charged to the profit and loss account

	2004 £000	2003 £000
Current service cost	<b>979</b>	1,366

### Amount credited to other financial income

	2004 £000	2003 £000
Expected return on pension scheme assets	<b>661</b>	459
Interest on pension scheme liabilities	<b>(828)</b>	(696)
	<b>(167)</b>	(237)

### Amount recognised in the statement of recognised gains and losses

	2004 £000	2003 £000	2002 £000
Actual less expected return on assets	<b>165</b>	917	(1,325)
Experience gains on liabilities	<b>1,293</b>	369	-
Changes in assumptions underlying present value of liabilities	<b>(535)</b>	(1,307)	(891)

### Actuarial gain/(loss) recognised in the statement of recognised gains and losses

	<b>923</b>	(21)	(2,216)
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### % of asset value at balance sheet date represented by:

	2004 %	2003 %	2002 %
Actual less expected return on assets	<b>1.6</b>	11.4	24.2

### % of liability value at balance sheet date represented by:

	2004 %	2003 %	2002 %
Experience gains on liabilities	<b>7.7</b>	2.4	-
Changes in assumptions underlying present value of liabilities	<b>(3.2)</b>	(8.4)	(7.0)
Actuarial gain/(loss) recognised in the statement of recognised gains and losses	<b>5.5</b>	(0.1)	(17.5)

## Head Office

(and Registered Office)

### ABC INTERNATIONAL BANK PLC

Arab Banking Corporation House  
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Telephone: (44) (20) 7776 4000  
Telefax: (44) (20) 7606 9987

## Branches

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Telefax: (44) (20) 7606 9987

#### Treasury

Telephone: (44) (20) 7726 4091  
Telefax: (44) (20) 7606 1710  
Reuters: ABCL

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Telefax: (33) (1) 47 20 74 69  
Reuters: ABCL

### FRANKFURT BRANCH

#### ABC International Bank plc

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60325 Frankfurt am Main  
Germany

#### Postal address

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60076 Frankfurt am Main  
Germany

Telephone: (49) (69) 71403-0  
Telefax: (49) (69) 71403-240  
Reuters: ABCL

In mid 2005 ABC International Bank plc's  
Frankfurt Branch will be moving to:

Neue Mainzer Strasse 75  
60311 Frankfurt am Main

Telephone and fax numbers will  
remain unchanged

### MILAN BRANCH

#### ABC International Bank plc

Via Turati 16/18, 20121 Milan  
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Telefax: (39) (02) 86450117  
Reuters: ABCL

## Marketing Offices

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John Clegg

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#### ABC International Bank plc

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Usama Zenaty

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Klas Henrikson

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### TURKEY

#### ABC International Bank plc

Muzaffer Aksoy

Email: muzaffer.aksoy@arabanking.com

# Management Structure

## ABCIB Group Head Office

Michael Duval	Chief Executive Officer
Prasad Abraham	Deputy Chief Executive Officer
William Playle	Head of Risk Management
Peter Moore	Chief Operating Officer
Robert Large	Head of Internal Audit
Yvonne Sadowski	Head of Human Resources
Peter Downham	Head of Finance
David Bowen-Jones	Corporate Secretary and Compliance
Carolyn Kidman	Public Relations Manager

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## ABCIB Group Product Heads

### TRADE & COMMODITY FINANCE AND FINANCIAL INSTITUTIONS

Paul Jennings	European Head of Trade & Commodity Finance and Financial Institutions
Jeff Fallon	Head of European Trade Finance Marketing
Sami Bengharsa	Head of Financial Institutions and Corporates - North Africa, Levant and Turkey

### PROJECT AND STRUCTURED FINANCE

Keith Louch	European Head of Project and Structured Finance
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### ISLAMIC FINANCIAL SERVICES

Richard Thomas	Head of Islamic Financial Services
Keith Leach	<i>alburaq</i>

### TREASURY

Sami Rais	Head of Treasury - Europe
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## ABCIB Group European Branch Managers

### PARIS BRANCH

Alexander Ashton	General Manager
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### FRANKFURT BRANCH

Jürgen Blumschein	General Manager
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### MILAN BRANCH

Paolo Provera	General Manager
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