

INDEPENDENT AUDITOR'S REPORT

To Members of ABC International Bank plc ("ABCIB")

We have audited ABCIB's financial statements for the year ended 31st December 2008, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 45. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to ABCIB'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 ABCIB's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than ABCIB and ABCIB'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

The Directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, ABCIB has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chief Executive Officer's Report and the Corporate Governance and Risk Management Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

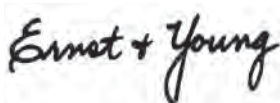
We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment 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 ABCIB'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of ABCIB's affairs as at 31st December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style font.

Ernst & Young LLP
Registered Auditor
London
20th February 2009

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2008

	Notes	2008 £000	2007 £000
Interest receivable and similar income arising from debt securities and certificates of deposit purchased		34,744	29,624
Other interest receivable and similar income		115,811	107,060
		150,555	136,684
Interest payable	3	115,501	106,575
NET INTEREST INCOME		35,054	30,109
Fees and commissions receivable		31,926	23,280
Fees and commissions payable		(7,394)	(4,397)
Dealing losses	41	(21)	(258)
Other operating income	5	3,444	4,023
		27,955	22,648
Total operating income		63,009	52,757
Administrative expenses	6	(32,808)	(32,117)
Depreciation and amortisation		(845)	(1,523)
Provisions	7	(19,470)	2,144
		(53,123)	(31,496)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	8	9,886	21,261
Tax credit/(charge) on ordinary activities	9	254	(1,282)
PROFIT FOR THE FINANCIAL YEAR		10,140	19,979

The results for the years ended 31st December 2008 and 31st December 2007 are derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st December 2008

		2008	2007
	Notes	£000	£000
Profit for the financial year		10,140	19,979
Actuarial gains/(losses) recognised on defined pension scheme	45	3,673	(1,687)
Deferred tax (charge)/credit relating to pension schemes		(424)	264
Change in fair value of available for sale investments	18	(43,909)	(10,771)
Deferred tax relating to fair value of available for sale investments		6,584	-
TOTAL RECOGNISED (LOSSES)/PROFITS SINCE LAST ANNUAL REPORT		(23,936)	7,785

BALANCE SHEET

As at 31st December 2008

	Notes	2008 £000	2007 £000
ASSETS			
Cash and balances at central banks		128,751	21,986
Certificates of deposit purchased	10	241,000	278,000
Due from banks	12	712,359	424,232
Financial assets designated at fair value through profit and loss	13	-	6,184
Loans and advances to customers	14	1,140,532	981,449
Financial investments - available-for-sale	18	411,428	322,974
Financial investments - held to maturity	19	8,611	-
Interest in subsidiaries and associated undertakings	20	4,166	3,427
Tangible fixed assets	22	1,294	1,383
Deferred tax asset	23	10,584	4,000
Other assets	24	28,047	9,041
Prepayments and accrued income	25	41,541	38,034
Total Assets		2,728,313	2,090,710
LIABILITIES			
Deposits from banks and other financial institutions	26	1,794,060	1,326,081
Deposits from customers	27	203,395	137,554
Other liabilities	28	55,681	16,217
Accruals and deferred income	29	13,860	19,243
Term borrowing	30	309,048	234,591
Pension scheme liability	45	2,411	5,798
		2,378,455	1,739,484
Subordinated liabilities	31	90,162	65,761
Called up share capital	32	182,296	182,296
Profit and loss account		127,319	114,336
Fair value reserve		(49,919)	(11,167)
Equity shareholders' funds	33	259,696	285,465
Capital Resources		349,858	351,226
Total Liabilities and Shareholders' Funds		2,728,313	2,090,710
MEMORANDUM ITEMS			
Contingent Liabilities			
Acceptances and endorsements		10,997	19,132
Guarantees and letters of credit	35	2,075,793	1,241,991
		2,086,790	1,261,123
Commitments			
Other commitments	35	323,377	389,544



Farhat O. Bengdara
Chairman
20th February 2009

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

1.1 Basis of preparation

The financial statements of ABC International Bank plc ("ABCIB") are prepared under the historical cost convention, except for available-for-sale investments, derivative financial assets and liabilities and financial assets held at fair value through profit and loss, that have been measured at fair value. The financial statements are prepared in accordance with the special provisions of part VII of the Companies Act 1985 relating to banking companies, and applicable accounting standards. The accounting policies adopted are consistent with those used in the previous financial year.

ABCIB 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 1.

1.2 Significant accounting judgements and estimates

In the process of applying ABCIB's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but, where this is not feasible, a degree of judgement is required in establishing fair values.

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.

Impairment of equity investments

ABCIB treats investment securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. ABCIB treats 'significant' generally as 20% or more and 'prolonged' greater than 6 months. In addition, ABCIB evaluates other factors, such as share price volatility.

Deferred tax assets

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

Pensions

The cost of the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 45 for the assumptions used.

1.3 Summary of Significant Accounting Policies

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

a. Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Other operating income' in the profit and loss account.

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

b. Financial Instruments - Initial Recognition and Subsequent Measurement

i) Date of recognition

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

ii) Initial recognition of financial instruments

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

iii) Derivatives recorded at fair value through profit and loss

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

iv) Financial assets held for trading

Financial assets held for trading are recorded in the balance sheet at fair value. Changes in fair value are recognised in 'Other operating income'. Interest and dividend income or expense are recorded in 'Other operating income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

v) Financial assets designated at fair value through profit and loss

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on a different basis; or
- The assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at fair value through profit and loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in 'Other operating income'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

vi) Due from banks and loans and advances to customers

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

vii) Available-for-sale financial investments

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

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

viii) Debt issued and other borrowed funds

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

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

c. Determination of fair value

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

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

d. Impairment of financial assets

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

i) Due from banks and loans and advances to customers

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of ABCIB's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

ii) Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence will include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account - is removed from equity and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the profit and loss account, and increases in their fair values after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest receivable and similar income arising from debt securities and certificates of deposit purchased'. If, in a subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

e. Hedge Accounting

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

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

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. The hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair values or cash flows attributable to the hedged risk during the period for which it is designated are expected to offset in a range of 80% to 125%.

Fair value hedges

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

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

f. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

g. Recognition of Income and Expense

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

NOTES TO THE ACCOUNTS

Year ended 31 December 2008

1. ACCOUNTING POLICIES (CONTINUED)

i) Interest and similar income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income is then recognised using the effective interest rate applied to the new carrying amount. Interest charged to the customer but not paid is written back and not taken to the profit and loss account.

ii) Fee and commission income

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

iii) Dividend income

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

iv) Dealing income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets held for trading. This includes any ineffectiveness recorded in respect of hedging transactions.

h. Financial Guarantees

In the ordinary course of business, ABCIB gives financial guarantees, consisting of letters of credits, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value (equivalent to the premium received) in 'Other liabilities'. Subsequent to initial recognition, ABCIB's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit and loss account in 'Provisions'. The premium received is recognised in the profit and loss account in 'Fees and commission receivable' on a straight line basis over the life of the guarantee.

i. Subsidiaries and Associates

Investments in subsidiaries and associates are stated at cost less impairment losses. Reversals 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.

j. Fixed assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

NOTES TO THE ACCOUNTS

Year ended 31 December 2008

1. ACCOUNTING POLICIES (CONTINUED)

Depreciation is provided on all fixed assets at rates calculated to write off the cost less estimated residual value on prices prevailing at the date of acquisition of each asset evenly over its expected useful life as follows:

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

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

k. Deferred Tax

Deferred tax 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 or to receive more tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the Directors consider it 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.

l. Leases

Rentals payable under operating leases are charged 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.

m. Pension Benefits

i) Defined benefit pension plan

ABCIB participates in a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit scheme is determined separately using the projected unit credit actuarial valuation method.

The scheme was closed to new members in June 2004 from which time membership of a defined contribution pension scheme is available to all new employees.

The cost of providing benefits under the defined benefit scheme is determined separately using the projected unit credit actuarial valuation method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in profit and loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the scheme assets reflects the gain or loss which is recognised in the profit and loss account. Losses are measured at the date the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

NOTES TO THE ACCOUNTS

Year ended 31 December 2008

1. ACCOUNTING POLICIES (CONTINUED)

The interest element of the defined benefit cost represents the change in present value of scheme obligations relating to the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligations during the year. The expected return on scheme assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid during the year. The difference between the expected return on scheme assets and the interest costs is recognised in the profit and loss account.

Actuarial gains and losses are recognised in full in the statement of Total Recognised Gains and Losses in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA- or equivalent status), less any past service cost not yet recognised and less the fair-value of scheme assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published mid-market price. The value of a net benefit pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

ii) Defined contribution pension scheme

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

n. Provisions

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

2. SEGMENTAL REPORTING

ABCIB has more than one business segment. Both Trade & Commodity Finance and Project & Structured Finance supported by Treasury represent one segment, "Commercial Banking" and "Islamic Financial Services" the other. Islamic Financial Services is not considered significant as its net profit and net assets for this segment represent less than 10% of the respective amounts at the ABCIB level. The ultimate origin of all income is determined to be the UK. Accordingly no geographical segmental information is disclosed.

3. INTEREST PAYABLE

Interest payable includes £4,401,007 in respect of interest on the subordinated liability (2007 : £2,887,018).

NOTES TO THE ACCOUNTS

4. ANALYSIS OF THE PROFIT AND LOSS ACCOUNT BY CLASSIFICATION:

	2008						
	Financial assets designated at FV through P&L	Trading	Loans and receivables	Available -for-sale	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000	£000
Interest receivable and similar income from debt securities and certificates of deposit purchased	38	671	15,582	18,453	-	-	34,744
Other interest receivable and similar income	-	-	115,811	-	-	-	115,811
Interest payable	-	-	-	-	(115,501)	-	(115,501)
Net Interest income	38	671	131,393	18,453	(115,501)	-	35,054
Fees and commissions receivable	-	-	31,926	-	-	-	31,926
Fees and commissions payable	-	-	-	-	(7,394)	-	(7,394)
Dealing losses	-	(21)	-	-	-	-	(21)
Other operating income	-	-	-	-	-	3,444	3,444
Total operating income	38	650	163,319	18,453	(122,895)	3,444	63,009
	2007						
	Financial assets designated at FV through P&L	Trading	Loans and receivables	Available -for-sale	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000	£000
Interest receivable and similar income from debt securities and certificates of deposit purchased	551	151	15,662	13,260	-	-	29,624
Other interest receivable and similar income	-	-	107,060	-	-	-	107,060
Interest payable	-	-	-	-	(106,575)	-	(106,575)
Net Interest income	551	151	122,722	13,260	(106,575)	-	30,109
Fees and commissions receivable	-	-	23,280	-	-	-	23,280
Fees and commissions payable	-	-	-	-	(4,397)	-	(4,397)
Dealing losses	-	(258)	-	-	-	-	(258)
Other operating income	-	-	-	-	-	4,023	4,023
Total operating income	551	(107)	146,002	13,260	(110,972)	4,023	52,757

NOTES TO THE ACCOUNTS

5. OTHER OPERATING INCOME

	2008	2007
	£000	£000
Rental income	834	879
Islamic banking income	905	2,749
Release of funds held as security	1,106	-
Dividends received	37	29
(Loss) on sale of investment securities	-	(22)
Profit on disposal of fixed assets	14	-
Other	548	388
	3,444	4,023

6. ADMINISTRATIVE EXPENSES

	2008	2007
	£000	£000
a) Staff costs:		
Salaries	16,618	16,561
Social security costs	2,673	2,499
Pension costs		
- Defined benefit scheme	762	610
- Defined contribution scheme	460	421
- Restructuring costs	246	361
	20,759	20,452
Other administrative expenses	12,049	11,665
	32,808	32,117

	2008	2007
	Number	Number
The average number of employees (excluding Directors) during the year	206	206

b) Directors' emoluments:

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

	2008	2007
	£000	£000
Aggregate emoluments in respect of qualifying services	566	570
Bank's contribution towards pension scheme in respect of qualifying services	32	32
Number of Directors accruing benefits under defined contribution scheme	1	1
In respect of the highest paid Director:		
Aggregate emoluments in respect of qualifying services	216	210

NOTES TO THE ACCOUNTS

7. PROVISIONS

	2008	2007
	£000	£000
The net (charge)/credit for the year in respect of provisions is made up as follows:		
Loans and advances to customers	(917)	(429)
Collective impairment provision release	-	2,487
Financial investments - available-for-sale	(18,304)	-
Financial guarantees	(361)	-
Recoveries in respect of advances previously written off	112	86
	(19,470)	2,144

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2008	2007
	£000	£000
Profit is stated after (charging)/crediting:		
Foreign currency gains, net	530	216
Auditors' remuneration:		
audit of the financial statements	(236)	(209)
taxation services	(250)	(163)
other services	(35)	(25)
Operating lease rentals:		
hire of equipment	(51)	(81)
land and buildings	(3,011)	(2,769)
Income from listed securities	19,162	13,261

NOTES TO THE ACCOUNTS

9. TAXATION

	2008	2007
	£000	£000
Analysis of tax charge for the year		
Current tax:		
UK corporation tax	1,468	(1,401)
Foreign Tax	(1,214)	(881)
Total current tax	254	(2,282)
Deferred tax:		
Recognition of brought forward losses	-	1,000
Total deferred tax	-	1,000
Total tax credit/(charge) for the year	254	(1,282)
Factors affecting tax credit/(charge) for the year		
The differences are explained below:		
Profit on ordinary activities before tax	9,886	21,261
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 : 30%)	(2,818)	(6,378)
Effect of:		
Prior year adjustment	1,468	-
Available-for-sale investments losses utilised	4,162	-
Disallowed expenses and non-taxable income	(1,305)	34
Depreciation in excess of capital allowances	(39)	(217)
Movements in other unrecognised deferred tax assets	-	(135)
Utilisation of brought forward tax losses	-	2,042
Group relief	-	2,607
Double tax relief	-	646
Foreign tax	(1,214)	(881)
Current tax credit/(charge)	254	(2,282)

NOTES TO THE ACCOUNTS

10. CERTIFICATES OF DEPOSIT PURCHASED

	2008	2007
	£000	£000
Analysed by maturity:		
within three months	241,000	226,000
between three months and one year	-	52,000
	241,000	278,000

11. ANALYSIS OF ASSETS AND LIABILITIES BY CLASSIFICATION:

	2008					
	Financial investments - held to maturity	Loans and receivables	Available- for-sale	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Cash and balances at central banks	-	128,751	-	-	-	128,751
Certificates of deposit purchased	-	241,000	-	-	-	241,000
Due from banks	-	709,292	3,067	-	-	712,359
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
Loans and advances to customers	-	1,097,023	43,509	-	-	1,140,532
Financial investments - available- for-sale	-	-	411,428	-	-	411,428
Financial investments - held to maturity	8,611	-	-	-	-	8,611
Interest in subsidiaries and associated undertakings	-	-	-	-	4,166	4,166
Tangible fixed assets	-	-	-	-	1,294	1,294
Deferred tax asset	-	-	-	-	10,584	10,584
Other assets	-	-	-	-	28,047	28,047
Prepayments and accrued income	-	-	-	-	41,541	41,541
Total assets	8,611	2,176,066	458,004	-	85,632	2,728,313
Deposits from banks and other financial institutions	-	-	-	1,794,060	-	1,794,060
Deposits from customers	-	-	-	203,395	-	203,395
Other liabilities	-	-	-	-	55,681	55,681
Accruals and deferred income	-	-	-	-	13,860	13,860
Term borrowing	-	-	-	309,048	-	309,048
Pension scheme liability	-	-	-	-	2,411	2,411
Total liabilities	-	-	-	2,306,503	71,952	2,378,455

NOTES TO THE ACCOUNTS

11. ANALYSIS OF ASSETS AND LIABILITIES BY CLASSIFICATION (CONTINUED):

	2007					
	Financial assets designated at fair value through P&L	Loans and receivables	Available -for-sale	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000
Cash and balances at central banks	-	21,986	-	-	-	21,986
Certificates of deposit purchased	-	278,000	-	-	-	278,000
Due from banks	-	424,232	-	-	-	424,232
Financial assets designated at fair value through profit and loss	6,184	-	-	-	-	6,184
Loans and advances to customers	-	981,449	-	-	-	981,449
Financial investments - available- for-sale	-	-	322,974	-	-	322,974
Interest in subsidiaries and associated undertakings	-	-	-	-	3,427	3,427
Tangible fixed assets	-	-	-	-	1,383	1,383
Deferred tax asset	-	-	-	-	4,000	4,000
Other assets	-	-	-	-	9,041	9,041
Prepayments and accrued income	-	-	-	-	38,034	38,034
Total assets	6,184	1,705,667	322,974	-	55,885	2,090,710
Deposits from banks and other financial institutions	-	-	-	1,326,081	-	1,326,081
Deposits from customers	-	-	-	137,554	-	137,554
Other liabilities	-	-	-	-	16,217	16,217
Accruals and deferred income	-	-	-	-	19,243	19,243
Term borrowing	-	-	-	234,591	-	234,591
Pension scheme liability	-	-	-	-	5,798	5,798
Total liabilities	-	-	-	1,698,226	41,258	1,739,484

NOTES TO THE ACCOUNTS

12. DUE FROM BANKS

	2008	2007
	£000	£000
Repayable:		
on demand	129	46
within three months	664,487	286,504
between three months and one year	20,601	76,470
between one and five years	26,179	55,459
after five years	2,874	8,580
	714,270	427,059
Allowance for impairment losses (note 16)	(1,911)	(2,827)
	712,359	424,232

Included in the above are balances due from ABC Group undertakings of: 68,710 58,425

Included in the above are available-for-sale loans amounting to
£3,067,000 (2007: £2,215,000).

13. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT

	2008	2007
	£000	£000
At 1st January	6,184	6,745
Transfer to financial investments - held to maturity	(7,732)	-
Fair value movement	-	(418)
Foreign exchange adjustments	1,548	(143)
At 31st December	-	6,184

Financial assets designated at fair value through profit and loss account represents a volatility linked structured equity product which was valued based on the S&P 500 Index and guaranteed by Dresdner Bank. In October 2008, due to movement in the S&P 500 Index, the embedded derivative component of the product was cancelled, the investment now takes the form of a zero coupon note due to mature in 2011. ABCIB has the intention and the ability to hold the investment to maturity. Had the investment not been transferred, a gain of £291,000 would have been recorded in the profit and loss account.

NOTES TO THE ACCOUNTS

14. LOANS AND ADVANCES TO CUSTOMERS

	2008	2007
	£000	£000
Repayable:		
on demand	4,044	4,645
within three months	500,885	495,432
between three months and one year	360,788	181,336
between one and five years	135,742	132,826
after five years	143,248	170,374
	1,144,707	984,613
Allowance for impairment losses (note 16)	(4,175)	(3,164)
	1,140,532	981,449
Included in the above are balances due from ABC Group undertakings of:	108,771	99,238
Included in the above are available-for-sale loans amounting to £43,509,000 (2007: £33,861,000)		

15. LOANS AND ADVANCES WHICH WERE PAST DUE

	2008		2007	
	Loans and advances to banks £000	Loans and advances to customers £000	Loans and advances to banks £000	Loans and advances to customers £000
Past due over 3 years	3,870	2,492	3,191	1,846
	3,870	2,492	3,191	1,846

Loans and advances by credit quality

Loans and advances:				
- neither past due nor impaired	710,400	1,142,215	423,868	982,767
- past due but not impaired	1,399	799	898	613
- impaired	2,471	1,693	2,293	1,233
	714,270	1,144,707	427,059	984,613

	2008	2007
	£000	£000
Impaired loans and advances		
Total impaired loans and advances to:		
- banks	2,471	2,293
- customers	1,693	1,233
	4,164	3,526

NOTES TO THE ACCOUNTS

16. MOVEMENTS IN ALLOWANCE FOR IMPAIRMENT LOSSES

	<i>Individually assessed</i>		<i>Collectively assessed</i>		Total
	Banks	Customers	Banks	Customers	
	£000	£000	£000	£000	
Brought forward 1st January 2008	2,327	1,651	500	1,513	5,991
Provision for the year	-	999	-	-	999
Amounts written back	-	(81)	-	-	(81)
Amounts written off in the year	(1,106)	(680)	-	-	(1,786)
Foreign currency translation adjustment	190	773	-	-	963
Carried forward 31st December 2008	1,411	2,662	500	1,513	6,086

17. MOVEMENTS IN PROVISION FOR SUSPENDED INTEREST

	2008	2007
	£000	£000
Brought forward 1st January	1,232	1,196
Interest suspended during the year	87	117
Foreign currency translation adjustment	476	(81)
Carried forward 31st December	1,795	1,232

Loans and advances where interest is suspended at year end

Before allowance for impairment losses	3,057	3,527
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NOTES TO THE ACCOUNTS

18. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	2008	2007
	£000	£000
Listed	411,428	322,974
	411,428	322,974
Due within one year	19,647	5,136
Due between one and two years	103,168	15,405
Due between two and five years	183,314	160,218
Due over five years	105,299	142,215
	411,428	322,974

All available-for-sale financial investments are issued by non-public corporate bodies.

The movement on available-for-sale financial investments is as follows:

	2008	2007
	£000	£000
At 1st January	322,974	187,715
Additions	42,871	153,540
Repayments and disposals	(5,506)	(24,186)
Fair value movement	(43,909)	(10,771)
Provision	(18,304)	-
Exchange movements	113,302	16,676
At 31st December	411,428	322,974

The provision relates to a debt security for which the issuer has gone into administration and represents the maximum potential loss on the security.

The net unamortised discount at 31st December 2008 was £1,383,303 (2007 : £856,046).

Fair value has been determined by reference to quoted market prices.

NOTES TO THE ACCOUNTS

19. FINANCIAL INVESTMENTS - HELD TO MATURITY

	2008 £000
At 1st January	-
Transfer from financial assets designated at fair value through profit and loss account	7,732
Foreign exchange adjustments	879
At 31st December	8,611

20. INTEREST IN SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

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

	2008 £000	2007 £000
At 1st January	3,427	3,677
Additions	-	2,982
Redemption	(522)	(3,192)
Exchange movements	1,261	(40)
At 31st December	4,166	3,427

ABCIB owns the following investment in subsidiaries and associated companies in addition to those disclosed in note 21:

	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%
Bronco Fund LLC	Property	USA	45%

The investment in subsidiaries and associated undertakings noted above form part of effective fair value hedging relationship in relation to foreign currency risk, with certain foreign currency denominated borrowings.

21. SHARES IN GROUP UNDERTAKINGS

ABCIB owns the following investments in subsidiaries:

	Nature of business	Country of registration	Ownership %
Alphabet Nominees Limited	Nominee company	England	100%
Abcint Nominees Limited	Nominee company	England	100%
ABCIB Islamic Asset Management Limited	Advisory services	England	100%
ABCIB Leasing Limited	Asset trading company	England	100%

NOTES TO THE ACCOUNTS

22. TANGIBLE FIXED ASSETS

	Leasehold improvements	Furniture and fittings	Office equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At 1st January 2008	744	839	6,993	260	8,836
Additions	3	62	347	55	467
Disposals	-	-	(109)	(36)	(145)
Exchange differences	109	86	860	65	1,120
At 31st December 2008	856	987	8,091	344	10,278
Depreciation					
At 1st January 2008	422	552	6,281	198	7,453
Charge for the year	79	69	646	51	845
Disposals	-	-	(108)	(29)	(137)
Exchange differences	48	48	682	45	823
At 31st December 2008	549	669	7,501	265	8,984
Net book value					
At 31st December 2008	307	318	590	79	1,294
At 31st December 2007	322	287	712	62	1,383

23. DEFERRED TAX ASSET

	2008	2007
	£000	£000
At 1st January	4,000	3,000
Recognised during the year	6,584	1,000
At 31st December	10,584	4,000

The major components of the deferred tax asset are as follows:

Unutilised tax losses arising on P&L results	3,810	4,000
Unutilised tax losses arising on STRGL movement of financial investments - available-for-sale	6,774	-
	10,584	4,000

There is an unrecognised deferred tax asset of £18 million based on a tax rate of 28% (2007: £17.1million) arising mainly due to brought forward tax losses and financial investments available-for-sale valuation reserve. Management has performed a review of recoverability of deferred tax assets considering forecast profits for the next two years. The assumptions used in preparing these forecasts have been subject to a series of stress tests to ensure the forecasts fall within a reasonable range of outcomes.

NOTES TO THE ACCOUNTS

24. OTHER ASSETS

	2008	2007
	£000	£000
Positive mark to market of derivatives	20,891	5,217
Fair value adjustment on hedged items	1,673	261
Other assets	5,483	3,563
	28,047	9,041

25. PREPAYMENTS AND ACCRUED INCOME

	2008	2007
	£000	£000
Prepayments and accrued income	2,265	2,287
Interest receivable	39,276	35,747
	41,541	38,034

26. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
	£000	£000
Repayable:		
on demand	318,061	123,983
within three months	1,425,728	1,032,237
between three months and one year	50,271	169,861
	1,794,060	1,326,081
Included in the above are balances due to ABC Group undertakings of:	487,049	127,599

27. DEPOSITS FROM CUSTOMERS

	2008	2007
	£000	£000
Repayable:		
on demand	128,493	79,566
within three months	72,036	50,644
between three months and one year	2,866	844
between one and five years	-	6,500
	203,395	137,554
Included in the above are balances due to ABC Group undertakings of:	1,937	1,852

NOTES TO THE ACCOUNTS

28. OTHER LIABILITIES

	2008	2007
	£000	£000
Negative mark to market of derivatives	1,723	389
Fair value adjustment on hedged items	20,840	5,089
Tax and social security costs	1,102	908
Other liabilities	32,016	9,831
	55,681	16,217

29. ACCRUALS AND DEFERRED INCOME

	2008	2007
	£000	£000
Interest payable	7,214	10,759
Accruals and deferred income	6,646	8,484
	13,860	19,243

30. TERM BORROWING

	2008	2007
	£000	£000
Repayable:		
within one year	35,000	35,000
between two and five years	274,048	199,591
	309,048	234,591

Included in the above are balances due to ABC Group undertakings of: **172,024** 134,795

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

NOTES TO THE ACCOUNTS

31. SUBORDINATED LIABILITIES

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

	2008	2007
	£000	£000
GBP85.0 million Zero Coupon Bond	58,744	55,742
GBP16.3 million Zero Coupon Bond	10,716	10,019
GBP16.4 million Zero Coupon Bond	10,430	-
GBP15.6 million Zero Coupon Bond	10,272	-
	90,162	65,761

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

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

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

The subordinated liabilities are due to the Ultimate Parent Undertaking.

32. CALLED UP SHARE CAPITAL

	2008 & 2007	2008 & 2007
	Authorised	Issued
Ordinary shares of £1 each	300,000,000	182,296,000

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 Financial Services Authority (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 as such receives information on the capital adequacy of ABCIB. 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 transactions. ABCIB complied in full with the FSA's capital adequacy requirements during 2008 and 2007.

ABCIB's capital is divided into two tiers:

Tier 1 capital comprises equity shareholders' funds.

Tier 2 capital comprises subordinated liabilities and allowance for collective impairment losses.

Subordinated Liabilities may not exceed 50% of Tier 1 capital.

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined accordingly. Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees.

Banking book off-balance sheet items giving rise to credit, 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.

NOTES TO THE ACCOUNTS

32. CALLED UP SHARE CAPITAL (continued)

Capital structure

	2008	2007
	£000	£000
Tier 1 Capital	309,615	296,226

Composition of regulatory capital

	2008	2007
	£000	£000
Tier 1 capital	309,615	296,226
Tier 1 Capital Ratio	16.5%	17.6%
Tier 2 capital	79,774	67,774
Deductions:		
Investment in unconsolidated subsidiaries	(4,166)	(3,427)
Connected lending of capital nature	(102,741)	(96,681)
Total regulatory capital	282,482	263,892

Risk-weighted assets

Banking book	1,878,404	1,666,174
Trading book	-	13,008
Total	1,878,404	1,679,182

Risk-weighted assets included in the totals above in respect of:

-contingent liabilities	626,991	453,733
-commitments	108,307	132,685
Risk Asset Ratio	%	%
Total capital	15.0	15.8

Tier 1 Capital incorporates the profit for the respective years

NOTES TO THE ACCOUNTS

33. EQUITY SHAREHOLDERS' FUNDS

	Ordinary share capital	Profit & loss account	Fair value reserve	Total
	£000	£000	£000	£000
Brought forward at 1st January 2008	182,296	114,336	(11,167)	285,465
Profit for the year	-	10,140	-	10,140
Actuarial profits recognised in pension scheme (net) (note 45)	-	3,249	-	3,249
Realised gain on available-for-sale investments and loans and advances reclassified to the profit and loss account on disposal	-	(406)	(1,427)	(1,833)
Net unrecognised loss on available-for-sale investments and loans and advances	-	-	(43,909)	(43,909)
Deferred tax asset	-	-	6,584	6,584
Carried forward at 31st December 2008	182,296	127,319	(49,919)	259,696

Shareholders' funds are all attributable to equity interests for 2008 and 2007.

The fair value reserve comprises changes in fair value of available-for-sale investments and available-for-sale loans and advances, adjusted by the related deferred tax asset.

34. TRANSACTIONS WITH DIRECTORS AND OFFICERS

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

	2008		2007	
	Number of persons	£000	Number of persons	£000
Loans to Directors:	-	-	1	558

NOTES TO THE ACCOUNTS

35. CONTINGENT LIABILITIES AND COMMITMENTS

The increase in Guarantees and Letters of Credit during 2008 was partly due to the deterioration of Sterling against the two major currencies, US Dollar and EUR, in which these are denominated.

Contract or underlying principal amount:	2008	2007
	£000	£000
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	30,052	29,046
Within one to two years	293,325	360,498
	323,377	389,544

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

	2008		2007	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Leases which expire:				
within two years	286	86	-	10
within two to five years	909	34	542	27
between five and ten years	1,900	-	2,227	-

36. FINANCIAL INSTRUMENT CONTRACTS

a) Derivative financial instruments

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

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

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

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

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

NOTES TO THE ACCOUNTS

36. FINANCIAL INSTRUMENT CONTRACTS (continued)

In addition to derivative financial instruments, ABCIB uses foreign currency borrowings as hedges of certain foreign currency denominated equity investments (note 20).

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions at the year end and are indicative of neither the market risk nor the credit risk.

Fair value has been determined using discounted cash flow models applying risk adjusted interest rates as appropriate.

	2008			2007		
	FV - Assets	FV - Liabilities	Notional amount	FV - Assets	FV - Liabilities	Notional amount
	£000	£000	£000	£000	£000	£000
i) Derivatives held for trading						
Forward foreign exchange contracts						
Total at 31st December	51	50	143,495	128	128	229,970
ii) Derivatives held as fair value hedges						
Interest rate swaps						
Total at 31st December	20,840	1,673	142,395	5,089	261	106,157

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

iii) Hedged items

Loans and advances to customers	53	1,673	36,681	173	261	18,394
Deposits from customers and subordinated liabilities	20,787	-	105,714	4,916	-	87,763
	20,840	1,673	142,395	5,089	261	106,157

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

Fair value adjustments in relation to hedged items are recorded under Other assets (note 24) and Other liabilities (note 28) respectively.

iv) Fair Values

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

NOTES TO THE ACCOUNTS

36. FINANCIAL INSTRUMENT CONTRACTS (continued)

v) 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.

	2008						Total £m
	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	
Assets							
Cash and balances at central banks	128.8	-	-	-	-	-	128.8
Certificates of deposit purchased	241.0	-	-	-	-	-	241.0
Due from banks	682.0	25.0	4.8	2.8	-	(2.3)	712.3
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
Loans and advances to customers	781.9	221.1	93.4	13.1	33.8	(2.8)	1,140.5
Financial investments - Available-for- sale	411.4	-	-	-	-	-	411.4
Financial investments - Held to maturity	-	-	-	8.6	-	-	8.6
Interest in subsidiaries and associated undertakings	-	-	-	-	-	4.2	4.2
Other assets, prepayments & deferred tax asset	-	-	-	-	-	80.2	80.2
Fixed assets	-	-	-	-	-	1.3	1.3
Total assets	2,245.1	246.1	98.2	24.5	33.8	80.6	2,728.3
Liabilities and shareholders' funds							
Deposits from banks and other financial institutions	1,744.1	47.6	2.4	-	-	-	1,794.1
Deposits from customers	200.5	2.9	-	-	-	-	203.4
Other liabilities, accruals and pension liability	-	-	-	-	-	72.0	72.0
Term borrowing and subordinated liabilities	309.0	-	-	-	90.2	-	399.2
Shareholders' funds	-	-	-	-	-	259.6	259.6
Total liabilities and shareholders' funds	2,253.6	50.5	2.4	-	90.2	331.6	2,728.3
Net position	(8.5)	195.6	95.8	24.5	(56.4)	(251.0)	
Off balance sheet	(52.5)	9.2	(24.7)	(11.2)	79.2	-	
Interest rate sensitivity gap	(61.0)	204.8	71.1	13.3	22.8	(251.0)	
Cumulative gap	(61.0)	143.8	214.9	228.2	251.0	-	

NOTES TO THE ACCOUNTS

36. FINANCIAL INSTRUMENT CONTRACTS (continued)

	2007						Total £m
	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	
Assets							
Cash and balances at central banks	22.0	-	-	-	-	-	22.0
Certificates of deposit purchased	226.0	-	52.0	-	-	-	278.0
Due from banks	315.8	92.6	7.4	11.2	-	(2.8)	424.2
Financial assets designated at fair value through profit and loss	-	-	-	6.2	-	-	6.2
Loans and advances to customers	764.3	186.1	13.8	9.8	11.8	(4.4)	981.4
Financial investments - Available-for- sale	323.0	-	-	-	-	-	323.0
Interest in subsidiaries and associated undertakings	-	-	-	-	-	3.4	3.4
Other assets, prepayments & deferred tax asset	-	-	-	-	-	51.1	51.1
Fixed assets	-	-	-	-	-	1.4	1.4
Total assets	1,651.1	278.7	73.2	27.2	11.8	48.7	2,090.7
Liabilities and shareholders' funds							
Deposits from banks and other financial institutions	1,157.1	165.4	3.5	-	-	-	1,326.0
Deposits from customers	130.4	0.7	-	6.5	-	-	137.6
Other liabilities, accruals and pension liability	-	-	-	-	-	41.2	41.2
Term borrowing and subordinated liabilities	234.6	-	-	-	65.8	-	300.4
Shareholders' funds	-	-	-	-	-	285.5	285.5
Total liabilities and shareholders' funds	1,522.1	166.1	3.5	6.5	65.8	326.7	2,090.7
Net position	129.0	112.6	69.7	20.7	(54.0)	(278.0)	
Off balance sheet	(48.3)	6.7	(3.9)	(14.5)	60.0	-	
Interest rate sensitivity gap	80.7	119.3	65.8	6.2	6.0	(278.0)	
Cumulative gap	80.7	200.0	265.8	272.0	278.0	-	

NOTES TO THE ACCOUNTS

37. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

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

	Carrying amount	Fair value	Unrecognised gain/(loss)
	£000	£000	£000
Financial assets			
Certificates of deposit purchased	241,000	241,000	-
Due from banks	712,359	705,220	(7,139)
Loans and advances to customers	1,140,532	1,011,458	(129,074)
Financial investments - available-for-sale	411,428	411,428	-
Financial investments - held to maturity	8,611	8,814	203
Financial liabilities			
Deposits from banks and other financial institutions	1,794,060	1,791,267	2,793
Deposits from customers	203,395	203,231	164
Term borrowing	309,048	272,825	36,223
Subordinated liabilities	90,162	79,620	10,542
			(86,288)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

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

The fair value of variable rate financial assets and liabilities is estimated using present value approaches where future cash flows from the asset or liability are estimated and then discounted using risk-adjusted interest rate.

The fair value of fixed rate financial assets and liabilities carried at amortised cost not hedged through fair value hedges is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices.

NOTES TO THE ACCOUNTS

38. 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.

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 Control 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 at every meeting.

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.

NOTES TO THE ACCOUNTS

38. MARKET AND LIQUIDITY RISK (continued)

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

ABCIB's VaR exposures:	2008		2007	
	Maximum	Minimum	Maximum	Minimum
	£000	£000	£000	£000
Trading	487	3	202	1
Banking	4,755	1,449	5,931	1,230

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 Control 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 analysis 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.

There is an extensive daily reporting process for liquidity risk management, including stress tests, detailed deposit maturity information and asset drawdown analysis. 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.

NOTES TO THE ACCOUNTS

38. MARKET AND LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 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
	2007				
	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
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	1,337,619	178,636	223,319	101,328	1,840,902

NOTES TO THE ACCOUNTS

39. 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 are 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.

NOTES TO THE ACCOUNTS

39. CREDIT RISK (continued)

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	2008	2007	2007
	£000	%	£000	%
Financial institutions	1,592,929	63.4	1,235,092	61.4
Manufacturing	316,957	12.6	313,736	15.6
Construction	36,606	1.5	18,030	0.9
Trade	8,419	0.3	23,028	1.1
Governments	14,268	0.6	9,988	0.5
Other services	544,751	21.6	412,965	20.5
	2,513,930	100.0%	2,012,839	100.0%

Country exposure

The table below analyses the geographical 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	2008	2007	2007
	£000	%	£000	%
United Kingdom	876,262	34.8	409,175	20.3
Turkey	144,227	5.7	170,527	8.5
Saudi Arabia	231,216	9.2	112,533	5.6
Germany	100,460	4.0	114,153	5.7
UAE	57,173	2.3	44,977	2.2
Netherlands	47,890	1.9	125,146	6.2
Switzerland	94,822	3.8	40,851	2.0
USA	164,951	6.6	174,285	8.7
Others	796,929	31.7	821,192	40.8
	2,513,930	100.0%	2,012,839	100.0%

NOTES TO THE ACCOUNTS

39. CREDIT RISK (continued)

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

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

	2008	2007
	£000	£000
Certificates of deposit purchased	241,000	278,000
Due from banks	712,359	424,232
Financial assets designated at fair value through profit and loss	-	6,184
Loans and advances to customers	1,140,532	981,449
Financial investments - available-for-sale	411,428	322,974
Financial investments - held to maturity	8,611	-
Other assets	20,891	128
	2,534,821	2,012,967
Contingent liabilities	2,086,790	1,261,123
Commitments	323,377	389,544
	2,410,167	1,650,667

Collateral held as security

	2008	2007
	£000	£000
Cash collateral		
Financial investments	7,649	-
Loans and advances to customers	252,067	52,247
Contingent liabilities	323,301	118,254
Commitments	30,956	-
Banks & Credit Agencies		
Due from banks	-	8,070
Loans and advances to customers	122,420	159,348
Contingent liabilities	141,418	132,049
Commitments	26,716	31,129
	2008	2007
	£000	£000
Risk concentration against individual counterparties		
Largest exposure to individual Bank before collateral	173,508	120,442
Largest exposure to individual Bank after collateral	77,893	53,757
Largest exposure to individual customer before collateral	138,083	86,230
Largest exposure to individual customer after collateral	69,041	51,361

NOTES TO THE ACCOUNTS

39. CREDIT RISK (continued)

Credit quality per class of financial assets

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

NOTES TO THE ACCOUNTS

39. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

Credit quality per class of financial assets	Loans and	Financial	Total
	receivable	Investments-	
	2007	available-for-sale	
	2007	2007	2007
	£000	£000	£000
Due from banks			
Investment grade	285,735	-	285,735
Sub investment grade	127,545	-	127,545
Borrowers requiring caution	10,952	-	10,952
Total	424,232	-	424,232
Loans and advances to customers			
Investment grade	275,036	-	275,036
Sub investment grade	701,510	-	701,510
Borrowers requiring caution	4,903	-	4,903
Total	981,449	-	981,449
Financial investments - available-for-sale			
Investment grade	-	322,974	322,974
Total	-	322,974	322,974
Certificates of deposit			
Investment grade	278,000	-	278,000
Total	278,000	-	278,000
Financial assets designated at fair value through profit and loss			
Investment grade	6,184	-	6,184
Total	6,184	-	6,184

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

NOTES TO THE ACCOUNTS

40. EFFECTIVE AVERAGE INTEREST RATE

The effective average interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in carrying amount of the instrument. This rate is the historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or an instrument carried at fair value.

The effective average interest rates of ABCIB for various products denominated in Pound Sterling, US Dollar and EUR (major dealing currencies) are as follows:

	2008			2007		
	GBP	USD	EUR	GBP	USD	EUR
	%	%	%	%	%	%
Due from banks and loans and advances to customers	5.37	4.13	3.95	6.13	6.10	5.13
Financial investments - available-for-sale	-	2.85	3.95	-	5.36	4.93
Deposits from banks and other financial institutions	4.58	2.06	3.17	6.13	5.00	4.71
Deposits from customers	4.86	1.87	3.07	6.37	4.90	2.31
Term borrowing	0.87	1.03	0.00	1.61	5.31	0.00

Currency risk

Derivative instruments are used by ABCIB to hedge the risk of treasury losses arising out of mismatches in currencies of its asset and liability base. Any open positions are relatively small and are re-valued on a regular basis. Trading on the spot and forward foreign exchange markets is primarily client driven.

41. DEALING LOSSES

	2008	2007
	£000	£000
Dealing losses are analysed as follows:		
Foreign exchange	537	216
Interest rate products	(558)	(474)
	(21)	(258)

NOTES TO THE ACCOUNTS

42. ASSETS, LIABILITIES AND SHAREHOLDERS' FUNDS IN FOREIGN CURRENCIES

	2008	2007
	£000	£000
Denominated in sterling	526,234	499,270
Denominated in US dollar	1,232,550	956,235
Denominated in other currencies	969,529	635,205
Total assets	2,728,313	2,090,710
Denominated in sterling	641,234	577,270
Denominated in US dollar	1,118,021	1,030,218
Denominated in other currencies	969,058	483,222
Total liabilities and shareholders' funds	2,728,313	2,090,710

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £1.3 million, which have been included as part of assets denominated in Sterling.

The above summary should not be considered as an indication of ABCIB's exposure to foreign exchange risk due to the existence of compensating forward contracts held for hedging purposes as disclosed in note 36.

43. ULTIMATE PARENT UNDERTAKING AND PARENT UNDERTAKINGS

The ultimate parent undertaking is the Arab Banking Corporation (B.S.C.) incorporated in the Kingdom of Bahrain. ABCIB 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, EC2R 6AB.

44. RELATED PARTY TRANSACTIONS

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

45. PENSIONS

ABCIB participates in a contributory defined benefit pension scheme known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme ("The Scheme"), providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of ABCIB and are administered by the Trustees of the Scheme who include employees of ABCIB. The Scheme is now closed to new entrants. New employees are offered membership of a defined contribution scheme.

The valuation has been based on the most recent actuarial valuation carried out as at 1st October 2005, using the projected unit credit actuarial valuation method. The market value of the assets as at 1st October 2005 was sufficient to cover 74% of the then current value of the benefits accrued to that date, representing a gross Scheme deficit of £4,523,000. The total ABCIB and member contribution rate during 2008 was 29.8% of pensionable salaries, which included employee contributions of 3% of pensionable salary (limited to the Earning Cap where relevant). This contribution rate includes provision for restoring the funding level to 100% over a 10 year period.

The October 2005 valuation was updated by an independent actuary, to take account of the requirements of FRS 17 (using the projected unit method) in order to assess the liabilities of the scheme at 31st December 2008 and 31st December 2007. The actuaries assessed the value of the Scheme's liabilities as at 1st October 2008. Scheme assets are stated at their market values at the respective balance sheet dates.

NOTES TO THE ACCOUNTS

45. PENSIONS (continued)

The main assumptions used by the actuary to assess the value of the liabilities were:

	2008	2007
	% per annum	% per annum
Inflation	2.90	3.25
Rate of increase in salaries	4.40	4.75
Rate of increase of inflation linked pensions in payment	2.90	3.20
Rate of increase for deferred pensions	2.50	2.50
Discount rates	6.50	5.70

The mortality rate is in accordance with Tables of Mortality PNMA00 and PNFA00 with long cohort adjustment based on individual year of birth and a minimum improvement of 1.25% per annum. The discount rate is calculated using the yield on AA- rated corporate bonds of terms greater than 15 years duration, but making an allowance for the difference in duration of the corresponding iBoxx Sterling over 15 year index and the duration of the Scheme's liabilities.

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

	2008	2008	2007	2007
	Fair value	Long term rate of return expected	Fair value	Long term rate of return expected
	£m	%	£m	%
Equities	4.5	6.4	5.8	7.3
Bonds	3.8	3.7	3.7	4.6
Other	9.8	2.0	8.9	5.5
Total value of assets	18.1	3.5	18.4	5.9

Movement in scheme deficit

	2008	2007	2006	2005
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	(5,798)	(4,673)	(6,789)	(5,223)
Contribution paid	900	909	1,074	1,019
Current service cost	(419)	(749)	(869)	(749)
Other finance charge	(343)	138	(42)	(52)
Actuarial gain/(losses)	3,673	(1,687)	2,449	(2,151)
Deficit in the plan at 31st December	(1,987)	(6,062)	(4,177)	(7,156)
Movement in deferred tax asset	(424)	264	(496)	367
Net pension liability at 31st December	(2,411)	(5,798)	(4,673)	(6,789)

NOTES TO THE ACCOUNTS

45. PENSIONS (continued)

Amount charged to the profit and loss account

	2008 £000	2007 £000
Current service cost	419	749

AMOUNT DEBITED TO OTHER FINANCIAL CHARGES

	2008 £000	2007 £000
Expected return on pension scheme assets	1,109	1,267
Interest on pension scheme liabilities	(1,452)	(1,129)
	(343)	138

Amount recognised in the Statement of Total Recognised Gains and Losses

	2008 £000	2007 £000	2006 £000	2005 £000
Actual less expected return on assets	(2,159)	(80)	700	1,574
Experience gain/(loss) on liabilities	1,943	(2,477)	(128)	356
Changes in assumptions underlying present value of liabilities	3,889	870	1,877	(4,081)
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	3,673	(1,687)	2,449	(2,151)

% of Scheme asset value at balance sheet date represented by:

	2008 %	2007 %	2006 %	2005 %
Actual less expected return on assets	(11.9)	(0.4)	4.2	11.5

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

	2008 %	2007 %	2006 %	2005 %
Experience gain/(loss) on liabilities	9.0	(9.7)	(0.6)	1.6
Changes in assumptions underlying present value of liabilities	18.1	3.4	8.4	(18.5)
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	17.1	(6.6)	11.0	(9.7)