

## INDEPENDENT AUDITOR'S REPORT

To the Members of ABC International Bank PLC

We have audited the financial statements of ABC International Bank plc for the year ended 31 December 2009, 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Peter Wallace (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
London  
15 February 2010

## PROFIT AND LOSS ACCOUNT

For the Year ended 31 December 2009

	Notes	2009 £000	2008 £000
Interest receivable and similar income arising from debt securities and certificates of deposit purchased		11,300	34,744
Other interest receivable and similar income		51,112	115,811
		62,412	150,555
Interest payable	3	35,630	115,501
<b>NET INTEREST INCOME</b>		<b>26,782</b>	<b>35,054</b>
Fees and commissions receivable		38,807	31,926
Fees and commissions payable		(9,096)	(7,394)
Dealing profits/(losses)	40	1,058	(21)
Loss on sale of investment securities		(5,243)	-
Other operating income	5	1,844	3,444
		27,370	27,955
Total operating income		54,152	63,009
Administrative expenses	6	(36,641)	(32,808)
Depreciation and amortisation		(693)	(845)
Provisions	7	(4,514)	(19,470)
		(41,848)	(53,123)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	8	<b>12,304</b>	<b>9,886</b>
Tax (charge)/credit on ordinary activities	9	(280)	254
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>12,024</b>	<b>10,140</b>

The results for the years ended 31st December 2009 and 31st December 2008 are derived from continuing operations.

## STATEMENT OF TOTAL RECOGNISED GAIN AND LOSSES

For the Year ended 31 December 2009

		2009	2008
	Notes	£000	£000
Profit for the financial year		12,024	10,140
Actuarial (losses)/gains recognised on defined pension scheme	44	(5,014)	3,673
Deferred tax credit/(charge) relating to pension schemes		616	(424)
Change in fair value of available for sale investments	17	28,307	(43,909)
Deferred tax relating to fair value of available for sale investments		(6,584)	6,584
<b>TOTAL RECOGNISED PROFITS/(LOSSES) SINCE LAST ANNUAL REPORT</b>		<b>29,349</b>	<b>(23,936)</b>

## BALANCE SHEET

As at 31 December 2009

	Notes	2009 £000	2008 £000
<b>ASSETS</b>			
Cash and balances at central banks		86,474	128,751
Certificates of deposit purchased	10	306,000	241,000
Due from banks	12	556,517	712,359
Loans and advances to customers	13	1,088,767	1,140,532
Financial investments - available-for-sale	17	384,057	411,428
Financial investments - held to maturity	18	7,981	8,611
Interest in subsidiaries and associated undertakings	19	-	4,166
Tangible fixed assets	21	1,433	1,294
Deferred tax asset	22	5,605	10,584
Other assets	23	28,405	28,047
Prepayments and accrued income	24	26,665	41,541
<b>Total Assets</b>		<b>2,491,904</b>	<b>2,728,313</b>
<b>LIABILITIES</b>			
Deposits from banks and other financial institutions	25	1,542,907	1,794,060
Deposits from customers	26	229,621	203,395
Other liabilities	27	35,804	55,681
Accruals and deferred income	28	10,825	13,860
Term borrowing	29	282,647	309,048
Pension scheme liability	44	7,077	2,411
		<b>2,108,881</b>	<b>2,378,455</b>
Subordinated liabilities	30	95,722	90,162
Called up share capital	31	182,296	182,296
Profit and loss account		123,446	127,319
Fair value reserve		(18,441)	(49,919)
Equity shareholders' funds	32	287,301	259,696
Capital resources		383,023	349,858
<b>Total Liabilities and Shareholders' Funds</b>		<b>2,491,904</b>	<b>2,728,313</b>
<b>MEMORANDUM ITEMS</b>			
<b>Contingent liabilities</b>			
Acceptances and endorsements		19,363	10,997
Guarantees and letters of credit		1,919,806	2,075,793
		<b>1,939,169</b>	<b>2,086,790</b>
<b>Commitments</b>			
Other commitments	34	201,158	323,377



**Farhat O. Bengdara**  
Chairman  
12 February 2010

## 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 and derivative financial assets and liabilities, 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 2006 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 402 of the Companies Act 2006. 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**

The fair values of financial assets and financial liabilities recorded on the balance sheet are mainly derived from observable market data from active markets.

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

Credit facilities subject to collective impairment provisions represent on-balance sheet exposures not subject to specific provision, with an internal credit risk rating of 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 where practical.

##### **Deferred tax assets**

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

## 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 44 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 profits/(losses)'.

##### iv) 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.

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES (continued)

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.

#### v) 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 assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the profit and loss account. The losses arising from impairment are recognised in the profit and loss account in 'Provisions'.

#### vi) 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 profits/(losses).

#### vii) Debt issued and other borrowed funds

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

### 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.

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES (continued)

#### 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.

##### 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.

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES (continued)

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%.

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

#### Fair value hedges

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

### 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.

#### 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 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

### 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

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

#### 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 or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the scheme assets reflects the gain or loss which is recognised in the 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

### 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 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. Trade and Commodity Finance, Project and Structured Finance, Treasury and Others including Islamic Financial Services and Head Office. Analysis of the business segments is included in note 45. 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 £5,559,741 in respect of interest on the subordinated liability (2008 : £4,401,007).

## NOTES TO THE ACCOUNTS

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

	2009						
	Financial assets designated at FV through P&L	Trading	Loans and receivables	Available -for-sale and held to maturity	Financial liabilities at amortised cost	Non financial instruments	Total
	£000	£000	£000	£000	£000	£000	£000
Interest receivable and similar income from debt securities and certificates of deposit purchased	-	-	3,457	7,843	-	-	11,300
Other interest receivable and similar income	-	-	51,112	-	-	-	51,112
Interest payable	-	-	-	-	(35,630)	-	(35,630)
<b>Net Interest income</b>	-	-	<b>54,569</b>	<b>7,843</b>	<b>(35,630)</b>	-	<b>26,782</b>
Fees and commissions receivable	-	-	38,807	-	-	-	38,807
Fees and commissions payable	-	-	-	-	(9,096)	-	(9,096)
Dealing profits (including exchange differences)	-	1,058	-	-	-	-	1,058
Loss on sale of investment securities	-	-	-	(5,243)	-	-	(5,243)
Other operating income	-	-	-	-	-	1,844	1,844
<b>Total operating income</b>	-	<b>1,058</b>	<b>93,376</b>	<b>2,600</b>	<b>(44,726)</b>	<b>1,844</b>	<b>54,152</b>

  

	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)
<b>Net Interest income</b>	<b>38</b>	<b>671</b>	<b>131,393</b>	<b>18,453</b>	<b>(115,501)</b>	-	<b>35,054</b>
Fees and commissions receivable	-	-	31,926	-	-	-	31,926
Fees and commissions payable	-	-	-	-	(7,394)	-	(7,394)
Dealing losses (including exchange differences)	-	(21)	-	-	-	-	(21)
Other operating income	-	-	-	-	-	3,444	3,444
<b>Total operating income</b>	<b>38</b>	<b>650</b>	<b>163,319</b>	<b>18,453</b>	<b>(122,895)</b>	<b>3,444</b>	<b>63,009</b>

## NOTES TO THE ACCOUNTS

### 5. OTHER OPERATING INCOME

	2009	2008
	£000	£000
Rental income	844	834
Trade finance fees	1,006	-
Islamic banking income	39	905
Release of funds held as security	53	1,106
Dividends received	-	37
Profit on disposal of fixed assets	26	14
Other	(124)	548
	<b>1,844</b>	<b>3,444</b>

### 6. ADMINISTRATIVE EXPENSES

	2009	2008
	£000	£000
<b>a) Staff costs:</b>		
Salaries	18,012	16,618
Social security costs	2,679	2,673
Pension costs		
- Defined benefit scheme	1,184	762
- Defined contribution schemes	515	460
- Restructuring costs	2,975	246
	<b>25,365</b>	<b>20,759</b>
Other administrative expenses	11,276	12,049
	<b>36,641</b>	<b>32,808</b>

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

	2009	2008
	Number	Number
The average number of employees (excluding Directors) during the year	195	206

#### b) Directors' emoluments:

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

	2009	2008
	£000	£000
Aggregate emoluments in respect of qualifying services	660	566
Bank's contribution towards pension scheme in respect of qualifying services	36	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	238	216
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## NOTES TO THE ACCOUNTS

### 7. PROVISIONS

	2009	2008
	£000	£000
The net (charge) for the year in respect of provisions is made up as follows:		
Loans and advances to customers	(1,891)	(917)
Collective impairment provision	(1,027)	-
Financial investments - available-for-sale	(1,610)	(18,304)
Financial guarantees	-	(361)
Recoveries in respect of advances previously written off	14	112
	<b>(4,514)</b>	<b>(19,470)</b>

The provision against Interest in subsidiaries and associated undertakings relates to the Bronco Fund LLC (note 19).

### 8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2009	2008
	£000	£000
Profit is stated after (charging)/crediting:		
Foreign currency gains, net	945	530
Auditors' remuneration:		
audit of the financial statements	(221)	(236)
taxation services	(222)	(250)
other services	-	(35)
Operating lease rentals:		
hire of equipment	(67)	(51)
land and buildings	(3,089)	(3,011)
Income from listed securities	<b>7,843</b>	<b>19,162</b>

## NOTES TO THE ACCOUNTS

### 9. TAXATION

	2009 £000	2008 £000
<b>Analysis of tax charge for the year</b>		
<b>Current tax:</b>		
UK corporation tax	-	1,468
Foreign tax	(1,885)	(1,214)
<b>Total current tax</b>	<b>(1,885)</b>	<b>254</b>
<b>Deferred tax:</b>		
Recognition of brought forward losses	1,605	-
<b>Total deferred tax</b>	<b>1,605</b>	<b>-</b>
<b>Total tax (charge)/credit for the year</b>	<b>(280)</b>	<b>254</b>
<b>Factors affecting tax credit/(charge) for the year</b>		
The differences are explained below:		
Profit on ordinary activities before tax	12,304	9,886
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 : 28.5%)	(3,445)	(2,818)
Effect of:		
Prior year adjustment	-	1,468
Available-for-sale investments deficit movement	(7,926)	4,162
Disallowed expenses and non-taxable income	(2,146)	(1,305)
Depreciation in excess of capital allowance	(25)	(39)
Branch losses utilised	4,330	-
Utilisation of brought forward tax losses	8,540	-
Group relief	486	-
Double tax relief	186	-
Foreign tax	(1,885)	(1,214)
<b>Current tax (charge)/credit</b>	<b>(1,885)</b>	<b>254</b>

## NOTES TO THE ACCOUNTS

### 10. CERTIFICATES OF DEPOSIT PURCHASED

	2009	2008
	£000	£000
Analysed by maturity:		
within three months	54,000	241,000
between three months and one year	252,000	-
	<b>306,000</b>	<b>241,000</b>

### 11. ANALYSIS OF ASSETS AND LIABILITIES BY CLASSIFICATION:

	2009					
	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	-	86,474	-	-	-	86,474
Certificates of deposit purchased	-	306,000	-	-	-	306,000
Due from banks	-	552,502	4,015	-	-	556,517
Loans and advances to customers	-	1,055,449	33,318	-	-	1,088,767
Financial investments - available- for-sale	-	-	384,057	-	-	384,057
Financial investments - held to maturity	7,981	-	-	-	-	7,981
Tangible fixed assets	-	-	-	-	1,433	1,433
Deferred tax asset	-	-	-	-	5,605	5,605
Other assets	-	-	-	-	28,405	28,405
Prepayments and accrued income	-	-	-	-	26,665	26,665
<b>Total Assets</b>	<b>7,981</b>	<b>2,000,425</b>	<b>421,390</b>	<b>-</b>	<b>62,108</b>	<b>2,491,904</b>
Deposits from banks and other financial institutions	-	-	-	1,542,907	-	1,542,907
Deposits from customers	-	-	-	229,621	-	229,621
Other liabilities	-	-	-	-	35,804	35,804
Accruals and deferred income	-	-	-	-	10,825	10,825
Term borrowing	-	-	-	282,647	-	282,647
Pension scheme liability	-	-	-	-	7,077	7,077
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,055,175</b>	<b>53,706</b>	<b>2,108,881</b>

## NOTES TO THE ACCOUNTS

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

	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
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
<b>Total Assets</b>	<b>8,611</b>	<b>2,176,066</b>	<b>458,004</b>	<b>-</b>	<b>85,632</b>	<b>2,728,313</b>
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
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,306,503</b>	<b>71,952</b>	<b>2,378,455</b>

## NOTES TO THE ACCOUNTS

### 12. DUE FROM BANKS

	2009	2008
	£000	£000
Repayable:		
on demand	2,277	129
within three months	506,878	664,487
between three months and one year	37,523	20,601
between one and five years	9,696	26,179
after five years	1,986	2,874
	<u>558,360</u>	<u>714,270</u>
Allowance for impairment losses (note 15)	(1,843)	(1,911)
	<u>556,517</u>	<u>712,359</u>
Included in the above are balances due from ABC Group undertakings of	116,703	68,710
Included in the above are available-for-sale loans amounting to £4,015,000 (2008 - £3,067,000).		

### 13. LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	£000	£000
Repayable:		
on demand	3,081	4,044
within three months	630,984	500,885
between three months and one year	243,022	360,788
between one and five years	118,441	135,742
after five years	99,970	143,248
	<u>1,095,498</u>	<u>1,144,707</u>
Allowance for impairment losses (note 15)	(6,731)	(4,175)
	<u>1,088,767</u>	<u>1,140,532</u>
Included in the above are balances due from ABC Group undertakings of	42,916	108,771
Included in the above are available-for-sale loans amounting to £33,318,000 (2008 - £43,509,000)		

## NOTES TO THE ACCOUNTS

### 14. LOANS AND ADVANCES WHICH WERE PAST DUE

	2009		2008	
	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers
	£000	£000	£000	£000
Past due over 3 years	1,810	22,445	3,870	2,492
	<b>1,810</b>	<b>22,445</b>	<b>3,870</b>	<b>2,492</b>

#### Loans and advances by credit quality

Loans and advances:

- neither past due nor impaired	556,550	1,073,053	710,400	1,142,215
- past due but not impaired	508	16,185	1,399	799
- impaired	1,302	6,260	2,471	1,693
	<b>558,360</b>	<b>1,095,498</b>	<b>714,270</b>	<b>1,144,707</b>

#### Impaired loans and advances

2009	2008
£000	£000

Total impaired loans and advances to:

- banks	1,302	2,471
- customers	6,260	1,693
	<b>7,562</b>	<b>4,164</b>

### 15. MOVEMENTS IN ALLOWANCE FOR IMPAIRMENT LOSSES

	<i>Individually assessed</i>		<i>Collectively assessed</i>		<b>Total</b>
	Banks	Customers	Banks	Customers	
	£000	£000	£000	£000	
Brought forward 1st January 2009	1,411	2,662	500	1,513	6,086
Provision for the year	-	1,891	-	1,027	2,918
Foreign currency translation adjustment	(68)	(362)	-	-	(430)
<b>Carried forward 31st December 2009</b>	<b>1,343</b>	<b>4,191</b>	<b>500</b>	<b>2,540</b>	<b>8,574</b>

## NOTES TO THE ACCOUNTS

### 16. MOVEMENTS IN PROVISION FOR SUSPENDED INTEREST

	2009	2008
	£000	£000
Brought forward 1st January	1,795	1,232
Interest suspended during the year	104	87
Foreign currency translation adjustment	(176)	476
<b>Carried forward 31st December</b>	<b>1,723</b>	<b>1,795</b>

#### Loans and advances where interest is suspended at year end

Before allowance for impairment losses	2,831	3,057
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### 17. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	2009	2008
	£000	£000
Listed (Debt investments)	381,902	411,428
Unlisted (Equity investment)	2,155	-
	<b>384,057</b>	<b>411,428</b>
Due within one year	94,672	19,647
Due between one and two years	76,491	103,168
Due between two and five years	144,427	183,314
Due over five years	68,467	105,299
	<b>384,057</b>	<b>411,428</b>

All available-for-sale financial investments are debt instruments which are issued by non-public corporate bodies except for £2,155,000 which is equity instrument.

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

	2009	2008
	£000	£000
At 1st January	411,428	322,974
Additions	-	42,871
Transfer from interest in subsidiaries and associated undertakings	4,166	-
Repayments and disposals	(24,795)	(5,506)
Fair value movement	28,307	(43,909)
Provision	(1,610)	(18,304)
Exchange movements	(33,439)	113,302
<b>At 31st December</b>	<b>384,057</b>	<b>411,428</b>

The 2008 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 2009 was £909,655 (2008 : £1,383,303). Fair value has been determined by reference to quoted market prices.

## NOTES TO THE ACCOUNTS

### 18. FINANCIAL INVESTMENTS - HELD TO MATURITY

	2009 £000	2008 £000
At 1st January	8,611	-
Transfer from financial assets designated at fair value through profit and loss account	-	7,732
Amortisation of the discount	215	-
Foreign exchange adjustments	(845)	879
<b>At 31st December</b>	<b>7,981</b>	<b>8,611</b>

### 19. INTEREST IN SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

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

	2009 £000	2008 £000
At 1st January	4,166	3,427
Redemption	-	(522)
Transfer to Financial investments - available-for-sale	(4,166)	-
Exchange movements	-	1,261
<b>At 31st December</b>	<b>-</b>	<b>4,166</b>

ABCIB owns the following investment in subsidiaries and associated companies in addition to those disclosed in note 20:

	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.

ABCIB does not have significant influence over Bronco Fund LLC. As a result Bronco Fund LLC is transferred to financial investments - available-for-sale.

## NOTES TO THE ACCOUNTS

### 20. SHARES IN GROUP UNDERTAKINGS

ABCIB owns the following investments in subsidiaries:

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

During 2009 and following the corporate restructure of the group, ABCIB acquired the entire share capital of its holding company ABC Investment Holdings Limited.

### 21. TANGIBLE FIXED ASSETS

	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1st January 2009	856	987	8,091	344	10,278
Additions	(15)	29	792	26	832
Disposals	-	-	(73)	(124)	(197)
<b>At 31st December 2009</b>	<b>841</b>	<b>1,016</b>	<b>8,810</b>	<b>246</b>	<b>10,913</b>
Depreciation					
At 1st January 2009	549	669	7,501	265	8,984
Charge for the year	66	68	520	39	693
Disposals	-	-	(73)	(124)	(197)
<b>At 31st December 2009</b>	<b>615</b>	<b>737</b>	<b>7,948</b>	<b>180</b>	<b>9,480</b>
Net book value					
<b>At 31st December 2009</b>	<b>226</b>	<b>279</b>	<b>862</b>	<b>66</b>	<b>1,433</b>
At 31st December 2008	307	318	590	79	1,294

## NOTES TO THE ACCOUNTS

### 22. DEFERRED TAX ASSET

	2009	2008
	£000	£000
At 1st January	10,584	4,000
Recognised during the year	1,605	6,584
Utilised during the year	(6,584)	-
<b>At 31st December</b>	<b>5,605</b>	<b>10,584</b>

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

Unutilised tax losses arising on P&L results	5,605	3,810
Unutilised tax losses arising on STRGL movement of financial investments - available-for-sale	-	6,774
	<b>5,605</b>	<b>10,584</b>

There is an unrecognised deferred tax asset of £14 million based on a tax rate of 28% (2008: £18million) arising mainly due to brought forward tax losses. Management has performed a review of recoverability of deferred tax assets considering forecast profits for the next three years. The assumptions used in preparing these forecasts have been subject to a series of stress tests to ensure the forecasts fall within a reasonable range of outcomes.

### 23. OTHER ASSETS

	2009	2008
	£000	£000
Positive mark to market of derivatives	23,332	20,891
Fair value adjustment on hedged items	685	1,673
Other	4,388	5,483
	<b>28,405</b>	<b>28,047</b>

### 24. PREPAYMENTS AND ACCRUED INCOME

	2009	2008
	£000	£000
Prepayments and accrued income	1,908	2,265
Interest receivable	24,757	39,276
	<b>26,665</b>	<b>41,541</b>

### 25. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2009	2008
	£000	£000
Repayable:		
on demand	158,189	318,061
within three months	1,355,013	1,425,728
between three months and one year	29,705	50,271
	<b>1,542,907</b>	<b>1,794,060</b>
Included in the above are balances due to ABC Group undertakings of	<b>113,538</b>	<b>487,049</b>

## NOTES TO THE ACCOUNTS

### 26. DEPOSITS FROM CUSTOMERS

	2009	2008
	£000	£000
Repayable:		
on demand	156,404	128,493
within three months	69,426	72,036
between three months and one year	3,791	2,866
	<b>229,621</b>	<b>203,395</b>

Included in the above are balances due to ABC Group undertakings of 2,262 1,937

### 27. OTHER LIABILITIES

	2009	2008
	£000	£000
Negative mark to market of derivatives	690	1,723
Fair value adjustment on hedged items	23,293	20,840
Tax and social security costs	1,727	1,102
Other	10,094	32,016
	<b>35,804</b>	<b>55,681</b>

The amounts above described as 'other' represent standard operational liabilities incurred during the normal course of business.

### 28. ACCRUALS AND DEFERRED INCOME

	2009	2008
	£000	£000
Interest payable	2,600	7,214
Accruals and deferred income	8,225	6,646
	<b>10,825</b>	<b>13,860</b>

### 29. TERM BORROWING

	2009	2008
	£000	£000
Repayable:		
within one year	35,000	35,000
between two and five years	247,647	274,048
	<b>282,647</b>	<b>309,048</b>

Included in the above are balances due to ABC Group undertakings of 158,824 172,024

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

## NOTES TO THE ACCOUNTS

### 30. SUBORDINATED LIABILITIES

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

	2009	2008
	£000	£000
GBP85.0 million Zero Coupon Bond	61,785	58,744
GBP16.3 million Zero Coupon Bond	11,445	10,716
GBP16.4 million Zero Coupon Bond	11,330	10,430
GBP15.6 million Zero Coupon Bond	11,162	10,272
	95,722	90,162

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.

### 31. CALLED UP SHARE CAPITAL

	2009 & 2008	2009 & 2008
	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 sheet transactions. ABCIB complied in full with the FSA's capital adequacy requirements during 2009 and 2008.

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

### 31. CALLED UP SHARE CAPITAL (continued)

#### Capital structure

	2009	2008
	£000	£000
Tier 1 Capital	305,742	309,615

#### Composition of regulatory capital

	2009	2008
	£000	£000
Tier 1 Capital	305,742	309,615
Tier 1 Capital Ratio	14.6%	16.5%
Tier 2 capital	74,238	79,774
Deductions:		
Material holding in equity investment	(2,155)	(4,166)
Connected lending of capital nature	-	(102,741)
<b>Total regulatory capital</b>	<b>377,825</b>	<b>282,482</b>

#### Risk-weighted assets

Banking book	2,087,525	1,878,404
Trading book	12,275	-
<b>Total</b>	<b>2,099,800</b>	<b>1,878,404</b>

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

-contingent liabilities	604,098	626,991
-commitments	80,949	108,307
<b>Risk Asset Ratio</b>	<b>%</b>	<b>%</b>
Total capital	18.0	15.0

Tier 1 Capital incorporates the profit for the respective years.

## NOTES TO THE ACCOUNTS

### 32. EQUITY SHAREHOLDERS' FUNDS

	Ordinary share capital	Profit & loss account	Fair value reserve	Total
	£000	£000	£000	£000
Brought forward at 1st January 2009	182,296	127,319	(49,919)	259,696
Profit for the year	-	12,024	-	12,024
Interim dividend paid	-	(11,500)	-	(11,500)
Actuarial loss recognised in pension scheme (net) (note 44)	-	(4,397)	-	(4,397)
Realised gain on available-for-sale investments and loans and advances reclassified to the profit and loss account on disposal	-	-	9,755	9,755
Net unrecognised loss on available-for-sale investments and loans and advances	-	-	28,307	28,307
Deferred tax asset reversal	-	-	(6,584)	(6,584)
<b>Carried forward at 31st December 2009</b>	<b>182,296</b>	<b>123,446</b>	<b>(18,441)</b>	<b>287,301</b>

Shareholders' funds are all attributable to equity interests for 2009 and 2008.

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.

### 33. TRANSACTIONS WITH DIRECTORS AND OFFICES

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 2006, of ABCIB were nil (2008 - nil).

### 34. CONTINGENT LIABILITIES AND COMMITMENTS

Contract or underlying principal amount:

	2009	2008
	£000	£000
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	74,434	30,052
Over one year	126,724	293,325
	<b>201,158</b>	<b>323,377</b>

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

	2009		2008	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Leases which expire:				
within two years	-	23	286	86
within two to five years	584	35	909	34
between five and ten years	1,900	-	1,900	-

## NOTES TO THE ACCOUNTS

### 35. 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 1.3(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.

In addition to derivative financial instruments, ABCIB uses foreign currency borrowings as hedges of certain foreign currency denominated equity investments (note 19).

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.

## NOTES TO THE ACCOUNTS

### 35. FINANCIAL INSTRUMENT CONTRACTS (continued)

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

	2009			2008		
	FV - Assets £000	FV- Liabilities £000	Notional amount £000	FV - Assets £000	FV- Liabilities £000	Notional amount £000
<b>i) Derivatives held for trading</b>						
Forward foreign exchange contracts						
Total at 31st December	39	5	80,712	51	50	143,495

#### ii) Derivatives held as fair value hedges

Interest rate swaps						
Total at 31st December	23,293	685	90,309	20,840	1,673	142,395

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	14	685	10,309	53	1,673	36,681
Deposits from customers and subordinated liabilities	23,279	-	80,000	20,787	-	105,714
	23,293	685	90,309	20,840	1,673	142,395

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 23) and Other liabilities (note 27) 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

### 35. FINANCIAL INSTRUMENT CONTRACTS (continued)

#### v) Interest rate repricing

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

	2009						Total £m
	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	
<b>Assets</b>							
Cash and balances at central banks	86.5	-	-	-	-	-	86.5
Certificates of deposit purchased	54.0	252.0	-	-	-	-	306.0
Due from banks	533.8	15.7	3.9	3.6	-	(0.5)	556.5
Loans and advances to customers	823.7	229.7	15.8	6.7	16.5	(3.6)	1,088.8
Financial investments - available-for-sale	-	381.9	-	-	-	2.2	384.1
Financial investments -held to maturity	-	-	-	8.0	-	-	8.0
Other assets, prepayments and deferred tax asset	-	-	-	-	-	60.6	60.6
Fixed assets	-	-	-	-	-	1.4	1.4
<b>Total Assets</b>	<b>1,498.0</b>	<b>879.3</b>	<b>19.7</b>	<b>18.3</b>	<b>16.5</b>	<b>60.1</b>	<b>2,491.9</b>
<b>Liabilities and shareholders' funds</b>							
Deposits from banks and other financial institutions	1,513.1	23.5	6.3	-	-	-	1,542.9
Deposits from customers	225.9	3.4	0.3	-	-	-	229.6
Other liabilities, accruals and pension liability	-	-	-	-	-	53.7	53.7
Term borrowing and subordinated liabilities	-	282.6	-	-	34.0	61.8	378.4
Shareholders' funds	-	-	-	-	-	287.3	287.3
<b>Total liabilities and shareholders' funds</b>	<b>1,739.0</b>	<b>309.5</b>	<b>6.6</b>	<b>-</b>	<b>34.0</b>	<b>402.8</b>	<b>2,491.9</b>
Net position	(241.0)	569.8	13.1	18.3	(17.5)	(342.7)	
Off balance sheet	(78.2)	8.3	(0.4)	20.3	50.0	-	
<b>Interest rate sensitivity gap</b>	<b>(319.2)</b>	<b>578.1</b>	<b>12.7</b>	<b>38.6</b>	<b>32.5</b>	<b>(342.7)</b>	
<b>Cumulative gap</b>	<b>(319.2)</b>	<b>258.9</b>	<b>271.6</b>	<b>310.2</b>	<b>342.7</b>	<b>-</b>	

## NOTES TO THE ACCOUNTS

### 35. FINANCIAL INSTRUMENT CONTRACTS (continued)

	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	
<b>Assets</b>							
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
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 and deferred tax asset	-	-	-	-	-	80.2	80.2
Fixed assets	-	-	-	-	-	1.3	1.3
<b>Total Assets</b>	<b>2,245.1</b>	<b>246.1</b>	<b>98.2</b>	<b>24.5</b>	<b>33.8</b>	<b>80.6</b>	<b>2,728.3</b>
<b>Liabilities and shareholders' funds</b>							
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
<b>Total liabilities and shareholders' funds</b>	<b>2,253.6</b>	<b>50.5</b>	<b>2.4</b>	<b>-</b>	<b>90.2</b>	<b>331.6</b>	<b>2,728.3</b>
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	-	
<b>Interest rate sensitivity gap</b>	<b>(61.0)</b>	<b>204.8</b>	<b>71.1</b>	<b>13.3</b>	<b>22.8</b>	<b>(251.0)</b>	
<b>Cumulative gap</b>	<b>(61.0)</b>	<b>143.8</b>	<b>214.9</b>	<b>228.2</b>	<b>251.0</b>	<b>-</b>	

## NOTES TO THE ACCOUNTS

### 36. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

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

	Measurement level	Carrying amount £000	Fair value £000	Unrecognised gain/(loss) £000
<b>Financial assets</b>				
Certificates of deposit purchased	1	306,000	291,139	(14,861)
Due from banks	3	556,517	554,089	(2,428)
Loans and advances to customers	3	1,088,767	1,051,196	(37,571)
Financial investments - available-for-sale	1	384,057	381,902	(2,155)
Financial investments - held to maturity	1	7,981	8,036	55
<b>Financial liabilities</b>				
Deposits from banks and other financial institutions	3	1,542,907	1,541,204	1,703
Deposits from customers	3	229,621	229,402	219
Term borrowing	3	282,647	246,952	35,695
Subordinated liabilities	3	95,722	81,501	14,221
				<b>(5,122)</b>

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

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

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

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

### 37. 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 are interfaced directly to the VaR model where risk sensitivities and valuations are computed. VaR is calculated by the "historical simulation" methodology using a one-day risk horizon and a 99th percentile, single-tailed confidence interval. Daily losses are anticipated to exceed the VaR once every hundred business days, on average. For information purposes, there is also a daily calculation of the consolidated VaR for the entire asset/liability book of ABCIB, including the banking and trading books. The VaR model is used for internal risk management purposes only and it is not used for calculating market risk exposure reported to the 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.

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.

## NOTES TO THE ACCOUNTS

### 37. MARKET AND LIQUIDITY RISK (continued)

ABCIB's VaR calculation engine was changed in 2009 and some of the assumptions underlying the VaR calculations were amended to make them more conservative. In particular, a factor was added to capture spread risk in bond holdings and a more conservative approach was taken to calculate VaR on overnight money market loan position. These changes resulted in higher figures being reported for VaR in 2009 even though the underlying trading book and banking book positions were generally much lower than those seen during 2008.

ABCIB's VaR exposures:	2009		2008	
	Maximum	Minimum	Maximum	Minimum
	£000	£000	£000	£000
Trading	104	1	487	3
Banking	29,833	1,985	4,755	1,449

#### Liquidity risk

Liquidity risk is defined as the risk to ABCIB's earnings, capital and solvency, arising from inability to meet contractual payment and other financial obligations on their due date, or inability to fund (at a reasonable cost) the asset book and business needs of the bank (and, by extension, the needs of its customers). This risk may or may not arise due to issues specifically related to the bank itself.

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

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

Liquidity, or availability of sufficient financial resources, is a core component of ABCIB's management framework. In order to avoid unnecessary exposure to short-term funding as a means to meet its cashflow obligations, ABCIB uses a funding gap management process, maintains a system of highly liquid supplementary liquidity and operates a contingency funding plan.

Funding projections are made daily using data compiled by Internal 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 analyses such as stress tests and asset and liability concentration reports in order to ensure clear and timely communication of the structure and requirements of ABCIB's funding operation. ALCO has primary responsibility for monitoring the performance of the Treasurer in liquidity management.

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

## NOTES TO THE ACCOUNTS

### 37. 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 2009 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.

	2009				
	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
<b>Financial Liabilities</b>					
Deposits from Banks, Customers, Term borrowing and Subordinated liabilities	1,774,033	33,796	302,316	84,988	2,195,133
	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
Deposits from Banks, Customers, Term borrowing and Subordinated liabilities	1,829,978	188,910	307,547	133,471	2,459,906

## NOTES TO THE ACCOUNTS

### 38. 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

### 38. CREDIT RISK (continued)

#### Industry exposure

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

	2009 £000	2009 %	2008 £000	2008 %
Financial institutions	1,348,880	57.6%	1,592,929	63.4%
Manufacturing	295,841	12.6%	316,957	12.6%
Construction	40,183	1.7%	36,606	1.5%
Trade	23,313	1.0%	8,419	0.3%
Governments	9,294	0.4%	14,268	0.6%
Other services	625,811	26.7%	544,751	21.6%
	<b>2,343,322</b>	<b>100.0%</b>	<b>2,513,930</b>	<b>100.0%</b>

#### Country exposure

The table below analyses the geographical spread of certificates of deposit purchased, due from banks, loans and advances to customers, financial investments - available-for-sale and financial investments - held to maturity.

	2009 £000	2009 %	2008 £000	2008 %
United Kingdom	297,738	12.7%	410,097	16.3%
Germany	291,255	12.4%	508,769	20.2%
Saudi Arabia	173,126	7.4%	231,216	9.2%
USA	164,112	7.0%	164,951	6.6%
Bahrain	129,613	5.5%	74,393	3.0%
Turkey	110,680	4.7%	144,227	5.7%
China	122,949	5.2%	48,831	1.9%
France	106,958	4.6%	52,359	2.1%
UAE	98,228	4.2%	57,173	2.3%
Netherlands	73,584	3.1%	47,890	1.9%
Switzerland	16,265	0.7%	94,822	3.8%
Others	758,814	32.5%	679,202	27.0%
	<b>2,343,322</b>	<b>100.0%</b>	<b>2,513,930</b>	<b>100.0%</b>

## NOTES TO THE ACCOUNTS

### 38. 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.

	2009	2008
	£000	£000
Certificates of deposit purchased	306,000	241,000
Due from banks	556,517	712,359
Loans and advances to customers	1,088,767	1,140,532
Financial investments - available-for-sale	384,057	411,428
Financial investments - held to maturity	7,981	8,611
Other assets	23,332	20,891
	<b>2,366,654</b>	<b>2,534,821</b>
Contingent liabilities	1,939,169	2,086,790
Commitments	201,158	323,377
	<b>2,140,327</b>	<b>2,410,167</b>

#### Collateral held as security

	2009	2008
	£000	£000
<b>Cash collateral</b>		
Financial investments	-	7,649
Loans and advances to customers	53,273	252,067
Contingent liabilities	203,620	323,301
Commitments	-	30,956
<b>Banks and Credit Agencies</b>		
Due from banks	14,826	-
Loans and advances to customers	100,245	122,420
Contingent liabilities	20,551	141,418
Commitments	12,775	26,716
	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
<b>Risk concentration against individual counterparties</b>		
Largest exposure to individual Bank before collateral *	221,158	173,508
Largest exposure to individual Bank after collateral	221,158	77,893
Largest exposure to individual customer before collateral	52,760	138,083
Largest exposure to individual customer after collateral	52,760	69,041

\* Represents balance with a Central Bank for 2009 (2008 - other bank)

## NOTES TO THE ACCOUNTS

### 38. CREDIT RISK (continued)

#### Credit quality per class of financial assets

	2009		
	Loans and receivables	Financial Investments- available-for-sale	Total
	£000	£000	£000
Due from banks			
Investment grade	386,570	-	386,570
Sub investment grade	163,009	-	163,009
Borrowers requiring caution	6,938	-	6,938
<b>Total</b>	<b>556,517</b>	<b>-</b>	<b>556,517</b>
<b>Loans and advances to customers</b>			
Investment grade	114,106	-	114,106
Sub investment grade	958,774	-	958,774
Borrowers requiring caution	15,887	-	15,887
<b>Total</b>	<b>1,088,767</b>	<b>-</b>	<b>1,088,767</b>
<b>Financial investments - available-for-sale</b>			
Investment grade	-	384,057	384,057
<b>Total</b>	<b>-</b>	<b>384,057</b>	<b>384,057</b>
<b>Certificates of deposit</b>			
Investment grade	306,000	-	306,000
<b>Total</b>	<b>306,000</b>	<b>-</b>	<b>306,000</b>
<b>Financial investments - held to maturity</b>			
Investment grade	7,981	-	7,981
<b>Total</b>	<b>7,981</b>	<b>-</b>	<b>7,981</b>

## NOTES TO THE ACCOUNTS

### 38. CREDIT RISK (continued)

#### Credit quality per class of financial assets (continued)

	2008		
	Loans and receivables	Financial Investments- available-for-sale	Total
	£000	£000	£000
<b>Due from banks</b>			
Investment grade	662,432	-	662,432
Sub investment grade	42,893	-	42,893
Borrowers requiring caution	7,034	-	7,034
<b>Total</b>	<b>712,359</b>	<b>-</b>	<b>712,359</b>
<b>Loans and advances to customers</b>			
Investment grade	244,884	-	244,884
Sub investment grade	889,124	-	889,124
Borrowers requiring caution	6,524	-	6,524
<b>Total</b>	<b>1,140,532</b>	<b>-</b>	<b>1,140,532</b>
<b>Financial investments - available-for-sale</b>			
Investment grade	-	411,428	411,428
<b>Total</b>	<b>-</b>	<b>411,428</b>	<b>411,428</b>
<b>Certificates of deposit</b>			
Investment grade	241,000	-	241,000
<b>Total</b>	<b>241,000</b>	<b>-</b>	<b>241,000</b>
<b>Financial assets designated at fair value through profit and loss</b>			
Investment grade	8,611	-	8,611
<b>Total</b>	<b>8,611</b>	<b>-</b>	<b>8,611</b>

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

### 39. 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 and US Dollar (major dealing currencies) are as follows:

	2009			2008		
	GBP	USD	EUR	GBP	USD	EUR
Due from banks and loans and advances to customers	1.07%	2.01%	1.96%	5.37%	4.13%	3.95%
Financial investments - available-for-sale	-	0.54%	0.86%	-	2.85%	3.95%
Deposits from banks and other financial institutions	0.59%	0.65%	0.67%	4.58%	2.06%	3.17%
Deposits from customers	0.47%	0.60%	0.51%	4.86%	1.87%	3.07%
Term borrowing	0.13%	0.60%	-	0.87%	1.03%	-

### 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.

### 40. DEALING PROFITS/(LOSSES)

	2009	2008
	£000	£000
Dealing Profit/(Losses) are analysed as follows:		
Foreign exchange	945	537
Interest rate products	113	(558)
	<b>1,058</b>	<b>(21)</b>

## NOTES TO THE ACCOUNTS

### 41. ASSETS, LIABILITIES AND SHAREHOLDERS' FUNDS IN FOREIGN CURRENCIES

	2009	2008
	£000	£000
Denominated in sterling	618,043	526,234
Denominated in US dollars	1,162,875	1,232,550
Denominated in other currencies	710,986	969,529
<b>Total Assets</b>	<b>2,491,904</b>	<b>2,728,313</b>
Denominated in sterling	617,636	641,234
Denominated in US dollars	1,150,506	1,118,021
Denominated in other currencies	723,762	969,058
<b>Total Liabilities and Shareholders' Funds</b>	<b>2,491,904</b>	<b>2,728,313</b>

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £1.4 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 35.

### 42. ULTIMATE PARENT UNDERTAKING AND PARENT UNDERTAKINGS

The ultimate parent undertaking is the Arab Banking Corporation (B.S.C.) incorporated in the Kingdom of Bahrain. Copies of the group accounts of Arab Banking Corporation (B.S.C.) may be obtained from Arab Banking Corporation House, 1-5 Moorgate, EC2R 6AB.

### 43. RELATED PARTY TRANSACTIONS

As ABCIB is a subsidiary of Arab Banking Corporation (B.S.C) and its accounts are publicly available, Group transactions have not been disclosed pursuant to the exemptions permitted in Financial Reporting Standard 8.

### 44. PENSIONS

ABCIB participates in a contributory defined benefit pension scheme known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme (the Scheme), providing benefits based on final pensionable salary. The assets of the Scheme are held separately from those of ABCIB and are administered by the Trustees of the Scheme who include employees of ABCIB. The Scheme is now closed to new entrants and the current active members are 48. ABCIB is expected to make a contribution to the pension scheme of £960,000 during 2010. 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 2009 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 2009 and 31st December 2008. The actuaries assessed the value of the Scheme's liabilities as at 1st October 2009. Scheme assets are stated at their market values at the respective balance sheet dates.

## NOTES TO THE ACCOUNTS

### 44. PENSIONS (continued)

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

	2009	2008
	% per annum	% per annum
Inflation	3.60	2.90
Rate of increase in salaries	5.10	4.40
Rate of increase of inflation linked pensions in payment	3.50	2.90
Rate of increase for deferred pensions	2.50	2.50
Discount rates	5.80	6.50

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:

	2009	2009	2008	2008
	Fair value	Long term rate of	Fair value	Long term rate of
	£m	return expected	£m	return expected
		%		%
Total value of assets	18.0	3.5	18.1	3.5

### Movement in scheme deficit

	2009	2008	2007	2006
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	(2,411)	(5,798)	(4,673)	(6,789)
Contribution paid	910	900	909	1,074
Current service cost	(445)	(419)	(749)	(869)
Other finance charge	(733)	(343)	138	(42)
Actuarial (losses)/gains	(5,014)	3,673	(1,687)	2,449
Deficit in the plan at 31st December	(7,693)	(1,987)	(6,062)	(4,177)
Movement in deferred tax asset	616	(424)	264	(496)
Net pension liability at 31st December	(7,077)	(2,411)	(5,798)	(4,673)

## NOTES TO THE ACCOUNTS

### 44. PENSIONS (continued)

#### Amount charged to the profit and loss account

	2009 £000	2008 £000
Current service cost	445	419

#### Amount debited to other financial charges

	2009 £000	2008 £000
Expected return on pension scheme assets	604	1,109
Interest on pension scheme liabilities	(1,337)	(1,452)
	(733)	(343)

#### Amount recognised in the Statement of Recognised Gains and Losses

	2009 £000	2008 £000	2007 £000	2006 £000
Actual less expected return on assets	701	(2,159)	(80)	700
Experience (loss)/gain on liabilities	(39)	1,943	(2,477)	(128)
Changes in assumptions underlying present value of liabilities	(5,676)	3,889	870	1,877
<b>Actuarial (loss)/gain recognised in the Statement of Recognised Gains and Losses</b>	<b>(5,014)</b>	<b>3,673</b>	<b>(1,687)</b>	<b>2,449</b>

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

	2009 %	2008 %	2007 %	2006 %
Actual less expected return on assets	3.9	(11.9)	(0.4)	4.2

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

	2009 %	2008 %	2007 %	2006 %
Experience (loss)/gain on liabilities	(0.1)	9.0	(9.7)	(0.6)
Changes in assumptions underlying present value of liabilities	(21.3)	18.1	3.4	8.4
<b>Actuarial (loss)/gain recognised in the Statement of Recognised Gains and Losses</b>	<b>(18.8)</b>	<b>17.1</b>	<b>(6.6)</b>	<b>11.0</b>

## NOTES TO THE ACCOUNTS

### 45. OPERATING SEGMENT INFORMATION

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

Trade and Commodity Finance  
 Project Finance  
 Treasury  
 Others including Head Office

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

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

	Trade Finance £000	Project Finance £000	Treasury £000	Others £000	Total £000
<b>Year ended 31st December 2009</b>					
<b>Profit and Loss account:</b>					
Net interest income	9,039	4,831	11,503	1,409	26,782
Net fees and commission	27,440	1,907	(22)	386	29,711
Other income	871	169	(4,125)	744	(2,341)
<b>Total operating income</b>	<b>37,350</b>	<b>6,907</b>	<b>7,356</b>	<b>2,539</b>	<b>54,152</b>
Administrative expenses	(16,766)	(2,653)	(1,832)	(16,083)	(37,334)
Provisions	3	(1,036)	-	(3,481)	(4,514)
<b>Profit on ordinary activities before tax</b>	<b>20,587</b>	<b>3,218</b>	<b>5,524</b>	<b>(17,025)</b>	<b>12,304</b>
Tax charge on ordinary activities	-	-	-	(280)	(280)
<b>Segment profit/(loss)</b>	<b>20,587</b>	<b>3,218</b>	<b>5,524</b>	<b>(17,305)</b>	<b>12,024</b>
<b>Operating assets</b>	<b>705,795</b>	<b>315,349</b>	<b>952,204</b>	<b>518,556</b>	<b>2,491,904</b>
<b>Operating liabilities</b>	<b>196,880</b>	<b>104,230</b>	<b>1,529,842</b>	<b>660,954</b>	<b>2,491,904</b>

Net Interest Income was lower than in 2008 due to the general decline in market interest rates. Part of this interest reduction was due to a drop in interest earned from the bank's capital investments. Certificates of deposit purchased at higher interest rates during the previous year matured in the first quarter of 2009. As interest rates in the major currencies fell to historically low levels, the Bank's capital was re-invested in certificates of deposit and short-term money market placements at significantly lower rates. While interest earned from these investments was reduced the bank gained the benefits of holding a large liquidity buffer and being able to access liquidity on short term notice.

## NOTES TO THE ACCOUNTS

### 45. OPERATING SEGMENT INFORMATION (continued)

Year ended 31st December 2008	Trade Finance £000	Project Finance £000	Treasury £000	Others £000	Total £000
Profit and loss account:					
Net Interest Income	7,714	4,227	6,670	16,443	35,054
Net Fees and Commission	19,865	2,050	304	2,313	24,532
Other income	-	-	(80)	3,503	3,423
Total operating income	27,579	6,277	6,894	22,259	63,009
Administrative expenses	(16,303)	(2,430)	(1,950)	(12,969)	(33,653)
Provisions	(296)	(710)	(18,304)	(160)	(19,470)
Profit on ordinary activities before tax	10,980	3,137	(13,360)	9,130	9,886
Tax credit on ordinary activities	-	-	-	254	254
Segment profit/(loss)	10,980	3,137	(13,360)	9,384	10,140
Operating assets	647,438	360,373	1,112,634	607,869	2,728,313
Operating liabilities	358,317	97,287	1,325,021	947,688	2,728,313