Registration No: 2564490

ABC International Bank plc
Annual Report
2019

Connecting **MENAT**
To Europe

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Contents

Our Mission

To be the MENAT Bank of choice for European clients.

ABC International Bank plc (ABCIB) was established in 1991 as a wholly-owned UK subsidiary of Bahrain-based Bank ABC.

Today, as then, the principal thrust of ABCIB's strategy is to enhance Bank ABC Group's international reach and allow it to serve its clients better, with a view to increasing the flows of trade and investments between Europe and the Middle East, North Africa and Turkey (MENAT).

ABCIB's core business comprises Global Transactional Banking, Real Estate & Islamic Financial Services, and Treasury.

ABCIB's aim is to provide its clients with distinctive products and services, creative solutions and operational excellence.

Directors' Report

It is with great pleasure that I present, on behalf of the Board of Directors, the 2019 Annual Report and Audited Financial Statements of Bank ABC Europe, formally incorporated in the United Kingdom as ABC International Bank Plc (ABCIB).

Operating Environment

The global and, in particular, regional context of ABCIB's operations remain highly relevant to a better understanding of 2019 performance and the challenges faced by the Bank in both its leading geographies of the UK/Europe and MENAT and in relation to some of its key product offerings. It would be fair to say that the regional business environments in 2019 proved more challenging than perhaps first anticipated, and it has been a highly creditable achievement for the Bank to have maintained business momentum in the way that we have.

At the global level, whilst overall economic and monetary conditions provided broad support to business activity in general, protectionist trade actions and heightened rhetoric were, at times, a challenging backdrop to international trade flows, a core area of the Bank's business. In terms of ABCIB's main operating regions, the year under review was characterised by an unprecedentedly prolonged period of uncertainty in the UK/Europe zone, largely reflecting the state of BREXIT negotiations and the subsequent political hiatus which this precipitated in the UK. Inevitably business and investor confidence were undermined, negatively impacting both new business flows and investor appetite, the latter particularly apparent with respect to the Bank's Real Estate activities. Although, towards the end of 2019 political stability was re-established in the UK and some, albeit far from complete, clarity was evident with respect to the BREXIT process, this occurred too late in the day to provide any material uplift to 2019 results, although the prognosis for 2020 may now be seen as a more cautiously optimistic one.

Political and economic conditions also remained challenging in some key jurisdictions of the MENAT region - which continues to be a primary source of business for the Bank - and it seems likely that regional operating conditions will remain demanding for the foreseeable future. However, with now almost 30 years' experience of undertaking business in this region, supported by Bank ABC Group's wide regional footprint and extensive resources, ABCIB has an acknowledged expertise and impressive track record and continues to gain the confidence of clients, both old and new, who wish to undertake business in the region.

In parallel with the normal business activities of the Bank outlined earlier and in consequence of the need to adapt to a post-BREXIT operating environment, intensive behind-the-scenes preparatory work has been ongoing throughout the year with respect to optimally securing the Bank's position post-BREXIT. At the end of March 2019, the French Regulator approved plans and issued the necessary licence which would allow ABCIB's existing Paris branch to be re-established as a new French incorporated and 99.99% owned subsidiary of ABCIB. The existing branches of ABCIB in Frankfurt and Milan would subsequently become direct branches of the new French entity. Consideration is currently being given to the most advantageous inaugural and 'go-live' date for the new Paris subsidiary in light of the recently approved BREXIT deal which includes an EU agreed transition period to 31st December 2020.

The Bank has continued to demonstrate its ability to rise to the challenges of its operating environment and with core financial strength, expert staff and high compliance standards the Board believes that it will continue to instil confidence in its clients, regulators and stakeholders alike. ABCIB has now successfully adapted to and fully aligned itself with Group strategy, whilst maintaining its core values and original sense of purpose, and the Board of Directors strongly believe that this positions us well to deliver positive results in future and to create added value for its shareholders.

Performance of the Bank

Another year of record total revenues saw each of the Bank's three core business streams of Global Transactional Banking (the re-designated former Global Trade Finance unit), Real Estate & Islamic Financial Services and Treasury perform positively, with total ABCIB operating income in 2019 rising to another all-time high of £86.7 million, just edging ahead of the previous record of £83.8 million set in 2018. Global Transactional Banking in particular performed outstandingly, newly invigorated by Group-led strategy, generating some 66% of total Bank revenues. Nonetheless, and despite being able to sustain strong momentum at the operating level, the Bank reported lower pre-tax profits in the twelve months to end-December 2019, of £20.6 million, compared with the - exceptional - peak of £29.3 million recorded in the previous year. A confidence-sapping prolongation of high levels of BREXIT-related and UK political uncertainty, a modestly rising cost base and higher provisioning levels based on rating changes for some of our customers, all combined to dampen profitability in the year under review.

As a wholly-owned, and now fully strategically aligned subsidiary of Bahrain-based Bank ABC BSC, the principal role and 'raison d'etre' of ABCIB continued to be that of acting as the primary interface between the European and Arab World clients of the wider Bank ABC Group. Providing innovative solutions to clients' MENAT trade finance and credit needs on the one hand and sourcing and structuring UK commercial real estate investments - utilising both Shari'a and traditional financing methods on the other hand, continued to provide the dual focus for business, with activity underpinned and supported by Treasury services. Alignment with Bank ABC Group's strategic direction and operational modalities, helped to extend client reach, in both quantitative and qualitative terms, and successfully opened up new business and income opportunities during the year. The Bank's overseas branches in Paris, Frankfurt and Milan and Representative Office in Istanbul all contributed materially to overall performance, embracing and benefitting from Group strategic synergies.

Capital and Tier 1 Ratios were maintained at robustly supportive levels of 19.3% and 17.5% respectively at end-December 2019 compared with 18.3% and 16.6% a year earlier. Total bank and customer deposits ended the year at £2.1 billion which, although some 25% below the previous year's £2.8 billion level, was comparable with that reached in 2017. The Bank's NSFR (Net Stable Funding Ratio) and LCR (Liquidity Coverage Ratio) were maintained at levels comfortably in excess of minimum requirements throughout the year.

The contribution of individual business streams - assessed in greater detail in the Chief Executive's Report which follows on pages 22 to 27 - was once again spearheaded by Global

Transactional Banking, with revenues growing by 11% to £56.9 million in the year. Trade finance continued to dominate operations with documentary letters of credit business from the North African market retaining its traditional importance, whilst supply chain finance - and, in particular, receivables financing - developed strongly, with an increasingly embedded Group-led Global Transactional Banking strategy. With growing business flows, Global Trade Debt & Distribution - valued Group-wide for its internal capital management benefits as well as being an important adjunct for leveraging both MENAT and non-MENAT client business flows - saw buoyant sales volumes approach the US$1.4 billion mark over the year.

Real Estate & Islamic Financial Services generated revenues of £22.2 million in the year to end-December 2019, 16% below 2018's record £26.6 million outturn, but still above the £20.7 million recorded in 2017. With 2019 displaying further BREXIT-related weakening of investor confidence in the UK commercial real estate sector, deal flow proved more limited whilst intense competition for this smaller pool of transactions put downward pressure on yields. Despite the conclusion of a number of high profile new London-based property deals and some early signs towards year end of improved investor confidence, earnings momentum was inevitably compromised. Revenue from non-real estate Shari'a financings, however, reached £1.75 million in the year, broadly comparable to previous years.

In its principal and vital day-to-day role of managing the Bank's overall funding and liquidity positions, from a Corporate Treasury perspective, Treasury continued to ensure that ABCIB remained comfortably within all relevant regulatory and prudential funding and liquidity guidelines throughout the year. As a standalone income generating unit Treasury reported revenues of £4.3 million in the year, compared to the record-breaking £6.4 million realised in the twelve months to end-December 2018. Higher than anticipated funding and liquidity costs, delays in the roll-out of the Financial Market Sales initiative and the diversion of manpower resources to BREXIT preparations were largely responsible for the revenue downturn. Nonetheless, underlying progress was evident, including the continued success of the new platform for attracting client deposits, whilst preparations continued with respect to new regulatory requirements and in relation to the eFX platform to be introduced in 2020.

Risk Management Approach

The Bank continues to actively invest into its Risk Management framework in order to further improve performance and to instil ever greater levels of confidence in our clients and regulators alike - an achievement for which the Bank should be - and the Board remains - justly proud.

The Bank has clear objectives with respect to risk management. In essence, the risk management function within the Bank is tasked with ensuring the maintenance of a portfolio of sound and well-balanced credit risk assets, to establish that returns on such assets are commensurate with the risks involved and to make sure that overall credit risk exposure is kept to a permissible level with respect to the Bank's capital base and risk appetite. The Bank has a comprehensive Risk Appetite Statement which fully articulates the level and type of risk which ABCIB is willing to assume within its risk capacity to achieve its strategic objectives and business plan and meet its regulatory thresholds. Furthermore, the Bank manages its capital and liquidity risk in a manner fully consistent with the framework set out in its Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

The Bank recognises Credit risk to be amongst the largest and most significant risks faced by the Bank in its day-to-day business activities. The Bank has in place appropriate credit risk management which uses limit structures and monitoring in order to control exposures across regulatory, risk appetite, country and industry thresholds. Credit risk is overseen by the ABCIB Credit Committee on the management level, with Board oversight via the Board Risk Committee. The Bank adopted the IFRS 9 accounting standards from 2018 on a group wide basis.

Market and liquidity risk are managed closely, ensuring that all of ABCIB's obligations are able to be met as and when they fall due and that market risk and position limits are respected at all times. Managing liquidity risk continues to be at the heart of the Bank's risk management framework and is managed on a daily basis, with the aim to ensure the availability at all times of sufficient financial resources to allow the Bank to operate within its regulatory guidelines. The Bank, in the course of its risk management oversight, uses various market risk techniques and measurements to manage its investment and trading book by setting limits that are monitored on a daily basis.

The objective of the Bank's Operational risk management is to manage and control operational risk within targeted levels of operational risk consistent with the Bank's risk appetite. Operational risks within ABCIB are owned and managed by the first line of defence, supported by Operational Risk Champions embedded within each core business unit and support function. Operational Risk Management team as part of 2nd line provides support and oversight.

The Bank has adopted on a Group level an Integrated Stress Testing (IST) framework. As part of enhancing its IFRS 9 capabilities, the Bank is implementing the IFRS 9 strategic solution on a group wide basis. The Bank has also completed an initial impact assessment arising from the Libor transition and has a project underway to manage the Libor transition.

Compliance with regulatory requirements, notably financial crime, is another significant risk faced by the Bank in its day-to-day business activities. All aspects of financial crime are managed within the parameters of an appropriate financial crime framework encompassing governance, monitoring and reporting.

Section 172 Statement

The Directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its shareholder, but with regard to all its stakeholders and matters set out in s172 (a-f). In particular:

- The Board annually reviews the strategic plan and approves the associated annual budget for the year. As part of the review process, the Directors consider the long-term consequences of the Plan.

- The Directors understand that the Bank's employees are fundamental to the long-term success of the Bank, and the Bank aims to be a responsible employer in its approach to pay and benefits. The health, safety and well-being of the Bank's employees are primary considerations for the way in which the Bank conducts its business.

- The Directors recognise the importance of the Bank maintaining positive relationships with all its stakeholders, including suppliers, customers, regulators and employees and the need to take into account their views. It recognises the need to consider the interests of, and the impact on, these stakeholder groups, when taking decisions.

- While the activities of the Bank do not have a direct impact on the environment, the Directors being aware that the Bank's operations will always have an impact on the community and the environment, will develop an appropriate strategic approach and risk management framework.

- The Bank is owned by a sole shareholder. The Board ensures that matters are referred to the sole shareholder in line with each company's Articles of Association and relevant statutory requirements.

Disclosure of Information to the Auditor

The Directors confirm that there is no relevant information of which the Bank's auditors are unaware. Furthermore, the Directors advise that they have taken steps that they ought to have taken to make themselves aware of any relevant information and to establish that the auditors are aware of such information.

Re-Appointment of Auditor

In accordance with Section 487(2) of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the re-appointment of Ernst & Young LLP as Auditor of ABCIB. The 2020 financial year, it will be the last period that Ernst & Young LLP can act as auditors of the Bank, given the overall restriction in the number of continuous years a firm can audit a public interest entity.

Other Declarations

The Bank's statutory financial statements for the financial year ended 31st December 2019 and comparatives for 2018 were prepared under UK GAAP, including the Financial Reporting Standard 101 'Reduced Disclosure Framework'.

It remains ABCIB's Policy to pay its suppliers within the agreed period from the date of their invoice(s).

ABCIB paid a dividend of £5.77 million in 2019 (2018: nil).

None of the Directors had an interest in ABCIB shares during 2019, and no option to purchase shares has been granted to any Director. Full details of the current Board of Directors are shown on pages 17 to 18.

The Bank continues to maintain an appropriate Directors' and Officers' Liability Insurance policy. In accordance with the Bank's Articles of Association', the Board may also indemnify Directors, from the assets of the Bank, against any costs or liability incurred as a result of their office, to the extent permitted by law. Neither the insurance policy nor any indemnities that may be granted by the Bank provide cover for fraudulent or dishonest actions by the Directors. However, costs may be advanced to Directors for their defence in investigations or legal actions.

During the year the composition of the Board of Directors underwent a number of changes. Mr. Abdallah Saud Al Humaidi (Deputy Chairman of the Board), Dr. Florence Eid-Oakden and Mr. Angus MacLennan all retired from their Board roles and I would like to take this opportunity to express my gratitude both for their enthusiastic advocacy of the Bank over the years and, of course, for the wealth of experience and depth of knowledge that they have brought to Board discussions. Looking forward, the Bank has been fortunate in being able to secure the services of two new and highly experienced Board members - Mr. Mohammad Saleem and Mrs. Vanessa Eastham Fisk - and I wish them well in their new roles. I can also advise that Dr. Khaled Kawan, Group CEO of Bank ABC, has been appointed as Deputy Chairman of the Board of ABCIB.

In conclusion, and on behalf of the Board of Directors, I would once again like to express my sincere and unreserved thanks to the management and staff for their continuing, wholehearted support and commitment to the Bank and its evolving strategic orientation within the wider Bank ABC Group. In no small part they have yet again been instrumental in ensuring that the Bank remains firmly on course in its ongoing journey towards becoming the 'Bank of Choice' for clients in Europe and throughout the Arab World who seek trade and investment opportunities between our two great regions.

Approved by the Board and authorised for issue on 28th February 2020.

Saddek Omar El Kaber
Chairman

Strategic Report

The Directors of the Board of ABC International Bank Plc (ABCIB) are pleased to present the 2019 Strategic Report, detailing the Bank's business strategy and reviewing the Bank's business operations during the year.

Business Strategy

ABC International Bank Plc, also referred to as Bank ABC Europe, is a UK-incorporated and wholly-owned subsidiary of Bahrain's Bank ABC BSC, one of the leading banks in the Arab World. Established in 1991, with the aim of extending the international reach of the parent Group, ABCIB is regarded as a niche financial intermediary specialising, in line with its original strategic remit, in facilitating international trade flows between Europe and the MENAT region, and providing Shari'a and traditionally structured investment opportunities - particularly with respect to UK commercial and residential real estate developments - to MENAT investors. Currently operating through its London Head Office, branches in Paris, Frankfurt and Milan and a Representative Office in Istanbul, the Bank is the highly visible European face of the Bank ABC Group, acting as the primary interface between the financial and corporate clients of the wider Group.

Whilst operating autonomously, with its own independently appointed Senior Management team and separate Board of Directors, ABCIB nonetheless benefits from ever closer collaboration with, and has the full support of, Bank ABC BSC and its key stakeholders. Recent years has seen evolving, and mutually beneficial, co-operation and greater sharing of business synergies with the Bank ABC Group, a process which has been more formally embedded in 2019 through the full adoption - in terms of reporting structures, organisation and operating modalities - of Bank ABC's Global Wholesale & Transactional Banking Strategy, a development which is itself an integral feature of ABCIB's Strategic Plan.

As a result of BREXIT the existing legal structure of the Bank will undergo change in 2020. For more than two years Senior Management, supported by the Board, has undertaken extensive and detailed analysis and planning with respect to best positioning the Bank in a post-BREXIT European operating environment. The decision was made to seek approval for the conversion of the Bank's current Paris branch into a 99.99% owned, independently capitalised, banking subsidiary of ABCIB, with the latter's branches in Frankfurt and Milan being re-structured as branches of the new Paris entity (the status of the Istanbul Representative Office would remain unchanged). I am pleased to be able to advise that in the first half of 2019, the French regulator gave the necessary approvals and issued the operating licence for the new Paris entity. The inauguration and 'go-live' of the new French subsidiary will take place during 2020, at a date yet to be decided by the Board. These organisational changes will not affect the Bank's overall strategic direction or continuity of operations. Our commitment to continue providing European clients with the highest standards of service in respect of our key products and core geographies remains undiminished. Indeed, with the alignment to wider Group-led strategies on wholesale and transactional banking, the Board believes that the new European structure will further enhance levels of client service and financial product choice, whilst boosting growth and revenue opportunities.

In its day-to-day business activities the Bank continues to be guided by its original aims with respect to facilitating trade flows and enhancing investment opportunities for and between clients in Europe and the Arab World, ultimately aspiring to become nothing less than the 'Bank of Choice' for European/MENAT trade and investment. The Bank is today focused on three core areas of activity: wholesale and transactional banking (incorporating trade finance and credit lending), real estate and Islamic financial services and Treasury services. In all of these areas the Bank has built up over the years an unrivalled expertise, in terms of both product and geographical knowledge and understanding, benefitting from the support of the wider Bank ABC Group and its extensive on-the-ground presence throughout the MENAT region. Establishing a competitive advantage in its niche activities has been a key strategic element in ABCIB's successful, almost 30-year, operating history.

Underpinning the Bank's daily activities is a strong and ongoing commitment to achieving operational and client service excellence whilst at the same time fulfilling all the prudential and statutory requirements of its regulators. Amongst other things this requires the Bank to maintain the highest standards of risk management, compliance and due diligence whilst still retaining the ability to provide timely, innovative and individually tailored solutions to clients' business needs. The Board is convinced that providing the necessary resources to achieve these goals is a valuable strategic investment in the Bank's operational capabilities and vital to the maintenance of confidence in the Bank by its regulators, clients and stakeholders.

Of the Bank's three core business streams, that of Global Transactional Banking remains pre-eminent, accounting for some 66% of total Bank operating income in 2019. The largest part of activity still currently relates to financing trade between Europe and MENAT, more specifically in respect of traditional Letters of Credit (LCs) and collections business with a core of North African markets, and largely comprises short-term, self-liquidating trade assets which have a typically low overall risk profile. Other specialist trade finance products offered to clients include guarantees, contract bonding and commodity financing as well as more structured products such as forfaiting and supply chain finance, with insurance-backed receivables financing having a growing role in overall business activity. The Bank makes great efforts to provide timely, innovative and tailor-made solutions to clients' evolving trade finance needs and is continually reviewing the scope and relevance of its product offering. Alignment with Bank ABC Group's Global Wholesale & Transactional Banking Strategy has recently seen credit and lending activity increase in importance, with a more focused approach to expanding the client base and developing transaction-based client business. This is expected to be a particularly important adjunct to the Bank's newly structured post-BREXIT European mainland operations, where the former dominance of FI-based relationship banking will evolve into a more corporate based, transactional banking approach. Underpinning the unit's approach to trade and lending is a highly effective 'originate, structure and distribute' philosophy, leveraging the Bank's wide client base for both origination and distribution opportunities and utilising in-house expertise for appropriately structuring transactions. The business stream incorporates a dedicated Global Trade Debt and Distribution operation which at both Bank and Group level has successfully leveraged clients' MENAT and non-MENAT trade business flows whilst proving a valuable internal capital management tool. To further strengthen the service offering cash management and financial markets capabilities are being developed and this will also serve the Bank well in the future.

Real Estate & Islamic Financial Services is the second largest contributor to overall Bank revenues, with by far the largest part of its income - over 90% - now generated by its niche real estate activities. The strategic focus of this business stream has been on sourcing and structuring Shari'a compliant investment opportunities - specifically in respect of high quality commercial and residential real estate developments in the prime central London area - to satisfy demand from Arab World investors. This focus has more recently widened to include traditional, non-Shari'a interest-based real estate financings as well as diversifying geographically beyond the central London area (although this still accounts for by far the largest share of overall business) and including IPRE (Income Producing Real Estate) projects as well as pure development projects. In addition to originating investments the Bank also participates in syndicated real estate transactions in partnership with other major UK and European bank lenders. The business stream also continues to provide non-real estate Shari'a compliant financings in respect of trade, corporate and treasury business, albeit at relatively modest levels.

ABCIB's Treasury function has a dual operational role, one relating to Corporate Treasury activities and the other relating to Financial Market activities. Corporate Treasury is responsible for the overall management of the Bank's liquidity and funding position, ensuring that the Bank remains at all times in full compliance with its regulatory requirements, including that of the NSFR (Net Stable Funding Ratio) and LCR (Liquidity Coverage Ratio). Integral to this is Treasury's sourcing and managing of bank and customer deposits, appropriately and responsibly balancing the stability, diversity and quality of such deposits to best support the Bank's operations with excess liquidity into the money markets as appropriate. Financial market activities comprise of selling treasury and related products, typically to the Bank's client base. An eFX platform, aligned with Group Treasury's forex operations, is to be introduced in 2020.

The Directors believe that the Bank's overall business aims and strategic direction, including closer alignment with the Bank ABC Group, represent both a wholly relevant and fully sustainable business approach in the context of today's operating environment and soundly position the Bank for future earnings growth.

Review of the Business

In the twelve months to end-December 2019, ABCIB reported another record year of earnings, with total operating income reaching £86.7 million, up by 3.4% in comparison to the previous year's record £83.8 million. All of the Bank's three main business streams contributed positively to this figure, with Global Transactional Banking performing most strongly, contributing some 66% of total revenues. Real Estate & Islamic Financial Services and Treasury generated 26% and 5% of earnings respectively in the year. The Chief Executive, in his Report and Business Review on pages 22 to 27, undertakes a more detailed assessment of the performance of the Bank's key business streams. ABCIB reported profit before tax of £20.6 million in 2019, some 30% below the previous year's record outturn of £29.3 million, whilst net profit of £16.0 million was some 30% below the £23.1 million reported in the previous year. Lower profitability in 2019 was the combination of a number of factors, including a more difficult and uncertain operating environment in certain core product areas, not least with respect to the UK real estate sector where reduced deal flow and lower yields impacted negatively on operations. The Bank also incurred a higher cost base, due to investment in support and infrastructure areas partly driven by Brexit.

Once again, the challenging operating environment constrained growth opportunities and was in part responsible for the Bank's shrinking total asset base, to £3,028 million at end 2019, some 18% lower than the £3,696 million reported a year earlier. Bank and Customer Deposits were also down over the same period, to £2.1 billion after £2.8 billion in 2019. However, shareholders' funds strengthened to £497 million, almost 2% up on the £488 million at end-December 2018, with the Bank's Capital and Tier 1 Ratios also improving modestly to 19.3% and 17.5% respectively at end-2019 compared with 18.3% and 16.6% a year earlier. Underpinned by this intrinsically supportive capital position, and solid liquidity and funding positions in terms of both the NSFR (Net Stable Funding Ratio) and LCR (Liquidity Coverage Ratio), the Bank was able to conduct all its day-to-day business operations, including near term expansion plans in certain business areas, in comfortable compliance with the prudential standards set by our regulators.

The table below summarises the Bank's key financial parameters and other key performance indicators for 2019 in comparison with those reported in 2018. Further and more detailed financial and other data are to be found in the Financial Highlights section which follows on page 21.

	2019	2018	Change
	£'000	£'000	
Net interest income*	39,489	43,869	(10)%
Fees and commission (net)*	38,300	37,743	1%
Total operating income	86,658	83,781	3%
Profit before tax	20,609	29,255	(30)%
Profit after tax	16,031	23,085	(31)%
Equity shareholders' funds	496,862	487,536	2%
Average number of employees	276	252	10%

*Prior year comparatives have been updated to reflect current year presentation

The fundamental positioning of the Bank in terms of the core products and geographies which characterise its niche operations remained broadly the same as in previous years. The natural evolution during the year in the scope of product offerings and delivery modalities - in respect of, for example, ongoing alignment with Bank ABC Group Wholesale and Transactional Banking Strategy - were effectively organic rather than radical adjustments to strategic direction. In consequence, the nature and extent of the risks faced by the Bank in its daily business activities also remained largely unchanged in 2019 and essentially continued to be those related to credit, liquidity, market and operational risk. The Bank has in place a highly effective organisational framework which covers all aspects of risk management, credit, control, compliance and due diligence and one which is increasingly well embedded into the culture of the Bank at all levels. The Board and Senior Management take such issues very seriously and investment is made in these areas on a continuous basis, in order that the Bank constantly improves the effectiveness of its internal systems and structures, allowing for best industry practice and full regulatory compliance to be maintained at all times and, where possible, minimum standards exceeded. Further details of the nature of, and response to, the risks faced by the Bank may be found in the Corporate Governance and Risk Management Section of this Annual Report on pages 28 to 32.

The Directors are fully aware that ABCIB's particular - and niche - operations with respect to its core geographies in the MENAT region may be perceived as elevating the levels of risk to which the Bank is ordinarily exposed. Certain jurisdictions within MENAT - and notably of some North African countries which remain a key source of, in particular, trade finance business for the Bank - are indeed challenging, characterised by concerns over political stability, difficult economic conditions - exacerbated in some instances by a virtual mono-reliance on price sensitive hydrocarbons exports - and problematic business and legal operating environments. The Board and Senior Management firmly believe that there are a number of important risk mitigating elements to the Bank's operations which can provide confidence to clients, regulators and stakeholders alike. Perhaps most important among these is the Bank's long-standing experience - and strong, almost 30-year track record - of successfully undertaking business in these areas, fully supported by the depth of local knowledge provided by the extensive resources and broad regional footprint of our parent, Bank ABC Group. Moreover, ABCIB appropriately aligns its product offerings to individual countries with, for example, relatively low risk trade finance instruments accounting for the bulk of business with perceived higher risk jurisdictions, and ensuring that levels of local competence and the regulatory and legal environment are fully commensurate with the modalities and structures of products offered. The Bank also has a long-established policy in respect of asset sales and distribution which assists in the more efficient management of the asset portfolio, not least with respect to its risk profile. Underpinning all of this is the Bank's commitment to investment in enhanced levels of due diligence with respect to its client base in perceived difficult jurisdictions and the provision of an internal risk management and compliance architecture of the highest standards and competence.

The Bank monitors the impact on its own operations and principal risks arising from climate change in the same way it monitors its other risks. The Bank has given particular emphasis to the way we monitor its impact in 2019, specifically we have included a stress scenario within our capital assessment. The Board Risk Committee oversees ABCIB's plan on climate change to ensure an appropriate strategic response to this initiative. The Bank is committed to further enhancing its approach to climate change in line with regulatory guidance and industry best practice.

The Directors believe that internal systems and compliance culture within the Bank are fully fit for purpose and appropriate for dealing with both the normal levels of day-to-day risks to which the Bank is exposed and in coping with any heightened levels of risk associated with some of its niche MENAT markets. Continual investment in and enhancement of risk and compliance functions provide strong, complementary support for frontline operations, ensuring regulatory compliance and underpinning confidence in the Bank's operations. ABCIB is in a robust state of financial health, in full readiness to successfully enter into the post-BREXIT European marketplace. With clear aims and aspirations and important ongoing alignment with Group strategy, the Directors confidently believe that the Bank is well positioned to deliver further earnings growth in 2020 and to continue to provide added value to all its shareholders.

Approved by the Board and authorised for issue on 28th February 2020.

Saddek Omar El Kaber
Chairman

Board of Directors of ABC International Bank Plc

H.E Mr. Saddek El Kaber # ∞

Chairman of the Board

Governor of the Central Bank of Libya, Member of the Libyan Investment Authority Board of Trustees, Chairman of AML/CFT, Libya and Chairman of Bank ABC Group. Previously, Mr. El Kaber was the Deputy Chief Executive Officer of ABC International Bank plc, U.K., and Chairman and General Manager of UMMA Bank, Libya. Mr. El Kaber has held past key positions in a number of banks and financial institutions including being the Deputy Chairman of the Board of Arab Banking Corporation- Algeria, Country Manager and CEO of Arab Banking Corporation-Tunisia and a Director of Arab Financial Services Company B.S.C.. He has more than 35 years of experience in international finance and banking.

Dr. Khaled Kawan AC BRC # ∞

Deputy Chairman

Dr. Kawan is the Group Chief Executive Officer of Bank ABC Group. Previously, Dr. Kawan was Group Legal Counsel until December 2009, when he was appointed Deputy Chief Executive of ABC (B.S.C). Dr. Kawan joined the Board of ABC International Bank plc on 28th May 2013. He also represents the ABC Group as Chairman on the Board of Bank ABC Islamic.

Mr. Mohammad Saleem AC BRC # ∞

Director

Mr Saleem was appointed Director of ABC International Bank plc in April 2019. Treasurer of Kuwait Investment Authority since 2006, Chairman of the Audit Committee of Warba Bank (Kuwait) since 2016 and a Director of Bank ABC Group since March 2019. Mr Saleem served previously in the State of Kuwait as Chairman and Board Member of various companies including Kuwait Investment Company, Gulf Custody, Kuwait Real Estate Holding and Kuwait Flour Mills. He also held membership at the boards of Al Ajial Holding in Casablanca, the Egyptian Kuwaiti Real Estate Development Co. in Cairo, the Tourism and Conference Co. in Tunis and the Yemeni Kuwaiti for Real Estate Development Company in Sana'a. Mr Saleem has more than 30 years' experience in the financial and investment field.

Dr. Yousef Al Awadi, KBE AC BRC* RC CGC* # ¡

Director

Chief Executive Officer of YAA Consultancy, Kuwait. Previously he was the Chief Executive Officer of Gulf Bank, Kuwait, and President and CEO of the Kuwait Investment Office, London. Dr. Al Awadi is also a Director of Bank ABC Group, Chairman of Bank ABC Egypt and a Director of Fidelity International Funds. Dr. Al Awadi has formerly served as a member of the International Advisory Board of Goldman Sachs and the Higher Planning Council in Kuwait, in addition to board directorships of many public and private sector entities regionally and internationally. In January 2005 Dr. Al Awadi was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire KBE. He has more than 40 years of experience in banking, international finance and investment management.

Andrew Neden AC * BRC RC* CGC # ¡

Director

Mr Neden was appointed as an Independent Director of ABC International Bank Plc in 2016 and also serves as Chairman of the Audit Committee and Remuneration Committee. Mr Neden is a Chartered Accountant with over 35 years' experience in financial services in the UK and overseas. Mr Neden spent a number of years running KPMG's UK financial sector transaction services team and was the global chief operating officer for KPMG's financial services business. Mr Neden is also an Independent Director of The Nottingham Building Society, The Wesleyan Assurance Society and AETNA Insurance Company Ltd and a number of other private and not-for-profit companies.

Vanessa Eastham Fisk AC BRC RC CGC # ἰ

Director

Mrs Eastham Fisk was appointed as an Independent Director of ABC International Bank Plc in April 2019. Mrs Eastham Fisk has 30 years' experience in international finance and banking in the UK and overseas, undertaking a wide variety of senior executive director positions including COO, CRO, Head of Strategy and Head of Leveraged Finance roles. Mrs Eastham Fisk is also an Independent Director of Anglo Gulf Trade Bank, an Independent Member of the Board Risk Committees of Banque Saudi Fransi and Almarai Company and serves as a Board Advisor to a number of Fintech and Regtech start-up companies.

Paul Jennings $

Managing Director & CEO

Mr. Jennings is CEO of ABC International Bank plc and was appointed as Managing Director in October 2015. Previously, Mr Jennings was Deputy CEO of ABC International Bank plc and Group Head, Global Trade Finance of Arab Banking Corporation (B.S.C.). Mr Jennings joined ABC International Bank plc in September 1999 and has over 35 years' experience in the International Wholesale Banking sector. He also represents Bank ABC as a Director of Banco ABC Brasil S.A and is a Director of the Libyan British Business Council and of the Arab Bankers Association.

Rajeev Adrian $

Deputy CEO & Chief Financial Officer

Mr. Adrian joined ABC International Bank plc in October 2014 as Chief Financial Officer and was appointed Deputy CEO in February 2016. Previously he worked at the Royal Bank of Scotland (RBS) where he held various positions over a 13 year period, including senior strategist, Chief Administration Officer of Global Banking and Markets, and, most recently, CFO of International Banking. Prior to RBS, Mr. Adrian served at Lehman Brothers London as a Strategist of the European Corporate Strategy Division, Product Controller of the Investment Banking Division and prior to Lehman he was in Australia working in audit and forensic investigations.

David Holden**

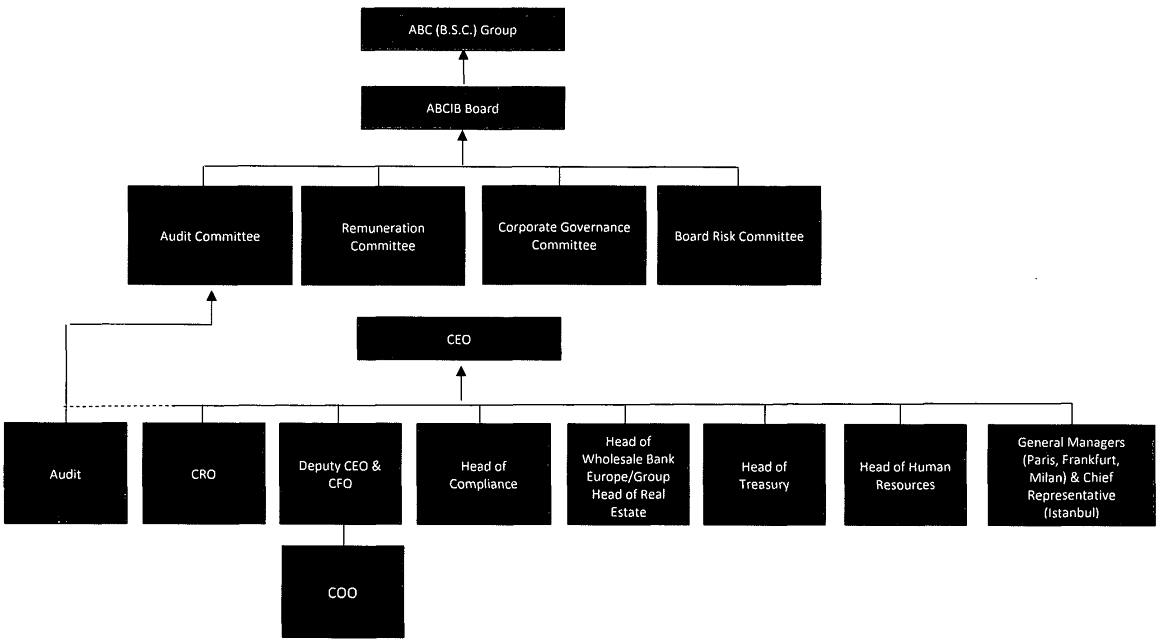
Company Secretary, Barrister-at-Law (Lincoln's Inn)

Mr. Holden joined the Legal department of ABC International Bank plc as a lawyer in 1994. Prior to this he had been assistant lecturer (*Maitre Assistant*) in English law at the University of Paris X, Nanterre, France for four years, following which he qualified at the Bar of England and Wales and practiced as a barrister in chambers at 3 Paper Buildings, Inner Temple, specialising in commercial and banking law. He became Head of Legal Services at ABCIB in 2002 and was appointed Company Secretary in 2007. He has had 20 years' experience in the law relating to financial institutions and banking.

AC	Member of the Audit Committee
BRC	Member of the Board Risk Committee
RC	Member of the Remuneration Committee
CGC	Member of the Corporate Governance Committee
*	Chairman of Board Committee
#	Non-Executive
$	Executive
ἰ	Independent Director
∞	Non-independent Director

** David Holden has stepped down as Company Secretary in January 2020.

Organisational structure



Senior Management

Sedjwick Joseph
Chief Risk Officer
Mr. Joseph joined ABC International Bank plc in Dec 2015 as Chief Risk Officer. Mr Joseph has over 20 years of banking experience across Credit, Enterprise Risk Management, Portfolio Management and Analytics. Previously he was the Chief Risk Officer for Habib Bank AG Zurich (HBZ). Prior to HBZ, Mr Joseph was with Barclays and Standard Chartered Bank holding both country and regional roles. He has wide experience across multiple geographies of Asia, Middle East, Europe, US and Africa.

Adrian Powell
Chief Operating Officer
Mr. Powell joined ABC International Bank in December 2016, having spent the previous six years working in the Bank ABC Group Audit function in Bahrain. Upon his transfer to London Mr Powell worked closely with the previous Chief Operating Officer (COO), before being appointed as Interim COO in May 2017. Prior to joining the Bank ABC Group Mr Powell had spent most of his career at Lloyds TSB in a variety of positions in the UK, USA and Japan.

Faisal Alshowaikh
Head of Wholesale Banking Europe & Group Head of Real Estate
Mr. Alshowaikh joined the Bank in April 2009. He has over 32 years' experience in Banking & Finance in the Middle East, South East Asia and the UK with regional and international institutions. Key positions previously held included CEO of Asian Finance Bank (a subsidiary of QIB), which he had set up in Malaysia in 2006 and Board member of Bank ABC Islamic until 2012.

Martin Westacott
Head of Treasury
Mr Westacott joined the Bank in 2017 and recently took over the role as Head of Treasury in September 2019. He has extensive Treasury & Financial Markets experience and, prior to joining the bank, was Treasurer at Gatehouse Bank in London. Other senior Treasury roles held include 8 years at Ahli United Bank in Bahrain which included a brief secondment to Ahli Bank in Qatar as interim Treasurer. He started his Treasury career at the United Bank of Kuwait in London.

Cristina Wiseman
Head of Compliance
Miss Wiseman joined ABC International Bank plc as Head of Compliance, Europe in January 2018. Prior to this she held the role of Head of Compliance and MLRO at Zenith Bank (UK) and had been instrumental in the setup of Banif Banco de Investimento S.A. as Branch Manager before moving to Banif Banco Internacional do Funchal S.A. as MLRO and senior manager responsible for Compliance and Operations. Previous to this she had served over 20 years at Banco Espirito Santo S.A. in various operational and control functions.

Matt Rigby
Head of Internal Audit
Mr Rigby joined ABC International Bank plc as Head of Internal Audit in January 2018. Mr Rigby has 17 years of experience in internal audit having spent 9 years at Deloitte before moving into industry. Mr Rigby joined us from GE Capital where he held the position of Head of Internal Audit (SMF5) for GE Capital Bank ltd and Audit Director for Compliance/Financial Crime in GE Capital International. Mr Rigby has experience of our product set and region through coverage of Mubadala GE Capital (MGEC) and a prior internal audit role at Europe Arab Bank.

Financial Highlights

	2019	2018	2017	2016	2015
Earnings - £'000					
Net interest income*	39,489	44,493	30,891	32,368	27,758
Net fees and commissions*	38,300	37,098	32,241	35,217	32,051
Total operating income	86,658	83,781	70,113	69,836	62,343
Profit before provision and tax	25,189	29,893	23,127	22,223	19,056
Impairment provision - net	(4,580)	(638)	379	(2,396)	(1,116)
Profit before tax	20,609	29,255	23,506	19,827	17,940
Net profit for the year	16,031	23,085	18,521	16,227	14,025
Financial Position £'million					
Total assets	3028	3,696	2,947	3,690	2,835
Loans and advances to customers	1435	1,415	1,122	910	983
Loans and advances to banks	1186	1,855	1,441	2,350	1,520
Debt investments - FVOCI	278	265	278	321	219
Shareholders' funds	497	487	470	450	442
Ratios (%)					
Profitability					
Cost : Income ratio	71%	64%	67%	68%	69%
Net profit as % of average shareholders' funds	3.3%	4.8%	4.0%	3.6%	3.2%
Net profit as % of average assets	0.5%	0.7%	0.6%	0.5%	0.5%
Capital					
Risk weighted assets (£'million)	2825	2,941	2,574	2,347	2,152
Capital base (£'million)	545	537	525	506	493
Risk asset ratio - Tier 1	17.5	16.6%	18.2%	19.2%	20.4%
Risk asset ratio - Total	19.3	18.3%	20.4%	21.5%	22.9%
Average shareholders' funds as % of average total assets	14.6%	14.4%	13.9%	13.7%	15.7%
Loans and advances to customers as a multiple of shareholders' funds (times)	2.9	2.9	2.4	2.0	2.2
Total debt as a multiple of shareholders' funds (times)	4.3	5.8	4.5	6.4	4.7
Term borrowing (including Subordinated debt) as a multiple of shareholders' funds (times)	0.7	0.7	0.6	0.7	0.7
Assets					
Loans and advances to customers as % of total assets	47.4%	38.3%	38.1%	24.7%	34.7%
Debt investments - FVOCI as % of total assets	9.2%	7.2%	9.4%	8.7%	7.7%
Impaired loans as % of gross loans	0.12%	0.46%	0.7%	0.7%	0.8%
Provision for impaired loans as % of impaired loans	80.9%	95.3%	97.0%	95.5%	90.2%
Loan loss provision as % of gross loans	0.5%	0.7%	0.9%	0.8%	0.8%
Liquidity					
Deposits to loan cover (times)	1.5	2.0	1.9	3.2	2.1
Capitalisation £'million					
Authorised	300.0	300.0	300.0	300.0	300.0
Issued, Subscribed and fully paid-up	212.3	212.3	212.3	212.3	212.3

*Prior year comparatives have been updated to reflect current year presentation

Chief Executive Officer's report and business review

Overview

This time last year in my Chief Executive Officer's Statement I suggested that, after a year of quite exceptional results in 2018 the financial bar had been set high and that it would be a tough act to follow. Nonetheless I expressed confidence that the Bank would be up to the task: in the event, and certainly at the operating level, such confidence has not been misplaced.

The Bank was able to maintain strong overall business momentum in 2019, with record total operating income of £86.7 million slightly ahead, by some 3.4%, of the previous £83.8 million record set just a year ago. Not only should these headline figures be placed and appreciated in the context of the quite exceptional nature of the Bank's 2018 performance referred to above, but also in view of the uniquely challenging operating environment in 2019 in our core UK/Europe and MENAT markets, to which the Chairman drew attention in his Directors' Report earlier. When considered from these perspectives, the revenue generated in the twelve months to end-December 2019 was both a highly creditable and, indeed, reassuring overall result. The Bank's three main business streams - Global Transactional Banking, Real Estate & Islamic Financial Services and Treasury - all contributed positively to results, as did our overseas branches in Paris, Frankfurt and Milan and our Istanbul Representative Office, all of which fully embraced new strategic directions and successfully stepped up their marketing efforts.

The 2019 results were underpinned by a standout performance from Global Transactional Banking, which achieved double digit revenue growth. A key feature of 2019 operations, and one which particularly benefited the Global Transactional Banking business stream, was the adoption of a fully integrated Bank ABC Group strategy for wholesale and transactional banking. With a view to maximising Group business synergies, not only did this streamline and clarify Bank and Group reporting structures but it also put into place a common set of operational modalities, particularly with respect to client onboarding and sourcing, developing and delivering improved client services. However, and despite robust overall levels of business activity and the further evolution of strategic Group integration, the Bank reported lower pre-tax profits of £20.6 million in the year, after the record £29.3 million realised in the twelve months to end-December 2018. The result reflected a combination of the negative impact on business and investor confidence stemming from unprecedented levels of uncertainty surrounding BREXIT and the subsequent political fallout in the UK, a modestly higher cost base and increased provisioning based on rating changes for some of our customers.

ABCIB continued to be guided by its aspiration to become the 'Bank of Choice' for European / MENAT business, successfully acting as the primary interface between the European and Arab World clients of the wider Bank ABC Group. As always, ABCIB's day-to-day operations were ably supported by its risk management, credit, control and compliance functions which were indispensable to the smooth running of the Bank and ensuring full compliance with our regulatory obligations. Further investment was made in these areas in 2019 with particular attention to compliance and due diligence activities. As a consequence of strengthened support functions as well as new frontline business hires, by year end the number of permanent members of staff had risen to 289, a 13% increase on the 255 employees in the Bank at end-2018.

As the Chairman has already outlined, and in parallel to normal day-to-day business activities, Senior Management continued to be fully engaged with preparations for appropriately positioning the Bank in a post-BREXIT European marketplace and the necessary licence - allowing for the establishment of a new Paris-based banking subsidiary - was approved and issued by the French regulator in March. The decision on precisely when, in 2020, to optimally inaugurate and go-live with the new French subsidiary, will be reviewed in the light of the transition period and details of the finalised BREXIT deal. Uppermost in the Bank's mind with respect to these - necessary - changes to its European organisational structure will be the ability to seamlessly deliver to its European and Arab World business partners enhanced levels of client service in the fields of expertise for which the Bank has become so widely recognised and highly regarded.

Global Transactional Banking

Formerly referred to as the 'Global Trade Finance' business stream, this new designation, which still fully encompasses the traditional trade finance offering, is now deemed more appropriate, in view of the closer alignment to Bank ABC Group's wholesale and transactional banking strategy, which encapsulates the wider product offering, notably cash management and payments. Nonetheless, in the year under review trade finance still remained the cornerstone of the Bank's activities and one for which both its niche MENAT geographic, and specialist trade product, knowledge has become increasingly recognised and we are privileged that the Bank can continue to count iconic names such as Jaguar Land Rover, JCB and McLaren amongst its high profile trade finance partners. An outstanding performance in both absolute and relative terms in 2019 saw double digit growth in the unit's operating income to £56.9 million, some 12% ahead of the previous year's £51 million outturn, and equivalent to 66% of total Bank revenues, up from 61% a year ago. Increased yields in certain traditional core markets helped boost revenues as did the growth in client-focused cash management and lending facilities, including supply chain finance, consequent upon full adoption of Bank ABC Group's Global Transactional Banking strategy.

As in previous years, by far the largest part of activity related to trade finance, with strong underpinning from traditional Letters of Credit (LCs) and collections business sourced from our core North African markets. Additionally, a wide range of complementary trade-related financial products were made available to clients, including guarantees, trade lending, forfaiting and receivables financing, with offerings individually and innovatively tailored to best service clients' particular requirements. Supply Chain Finance also showed strong momentum in 2019, particularly in respect of insurance-backed receivables financing, with 25 major facilities under management by year end, up by 25% from the number of facilities in existence at end-2018.

Global Trade Debt & Distribution continued to be an integral and highly valued part of the business unit, providing opportunities for leveraging clients' MENAT and non-MENAT trade flows as well as acting as a tool for more efficient internal capital management, roles which have proven their worth at both ABCIB and wider Bank ABC Group levels. In 2019 debt distribution volumes exceeded US$1.4 billion, marking the fifth successive year in which the US$1 billion 'watershed' was exceeded.

Perhaps one of the most significant and exciting developments for the business stream during the year under review has been its full integration with Bank ABC Group's Global Wholesale and Transactional Banking strategy. As well as changes to intra-Group reporting structures and organisation, it has brought a new consistency to Group approaches both to selectively expanding the client base and to the introduction of a broader and more targeted range of cash management products. For ABCIB, and particularly the overseas branches, this has meant an evolution from traditional FI-based relationship banking to a more corporate client-focused, transaction-based banking approach. The operational benefits have been immediately apparent, both quantitatively and qualitatively, in terms of corporate client focus and capturing clients' cash management - including deposit - operations.

Global Transactional Banking is firmly positioned at the start of 2020 with respect to securing international trade business from its core MENAT markets and its growing European client network, although a degree of downward pressure on yields and margins may become apparent as competition increases and perceptions of some market risk (e.g. Turkey) normalises. As alignment with Group strategies evolve and the new business approaches become even more embedded, enhanced transactional banking opportunities with respect to the Bank's corporate client base are expected to provide a material boost to activity and earnings, whilst the scope for digitalisation of services and introduction of an ePlatform for clients - including electronic portals for forex, LCs, deposits etc. - will be explored further.

Real Estate and Islamic Financial Services

Sourcing and structuring investments in commercial real estate developments - largely using Shari'a, but also including traditional interest-based financing methods - remained the focus of activity, although modest levels of non-real estate Shari'a financings, accounting for around 8% of the unit's total operations, were also undertaken during the year. Income from all activities of Real Estate & Islamic Financial Services in the year to end-December 2019 totalled £22.2 million, down by some 16% from the record £26.6 million reported in 2018.

Market conditions proved challenging throughout the year with the impact on business and investor confidence of ongoing BREXIT uncertainties - later compounded by unsettling domestic UK political developments - proving detrimental to new business flow. The availability of high quality (typically London-based) real estate development projects favoured by our Arab World investors proved in increasingly short supply whilst delays occurred to the implementation of some previously approved projects. This compromised the ability not just to replace the run-offs of existing assets, but also to expand the overall asset base, inevitably affecting income. Moreover, investors' 'flight to quality' further concentrated the pool of suitable new projects and raised competition - a situation exacerbated by the entry of new non-Bank real estate lenders into the market. As a result, asset yields were subject to downward pressures, further constraining overall income growth possibilities.

Whilst this unhelpful market background undoubtedly proved a real challenge during the year, the unit was able to maintain its position as the second largest contributor to overall Bank income, accounting for almost 26% of the total. In fact, and against the odds, substantial new facilities, including a major prime central London residential development, were approved during the year and reassuring volumes of existing facilities were renewed.

The Bank intends to remain a key player in the UK market for Shari'a compliant commercial and residential real estate financings in 2020. I believe we have the necessary expertise and access to Arab World investors to further grow and develop these core offerings against what is anticipated to be a more benign business backdrop. Diversification will also continue, broadening the offering of traditional interest-based financings, expanding the geographical catchment outside of the prime central London market and further exploring other opportunities to improve the spread of our portfolio. Following the UK election result in December 2019, and a welcome degree of clarity over a BREXIT deal, some early signs of improving investor confidence became apparent towards year end but, with much of the details of the BREXIT deal yet to be clarified, a degree of investor caution seems likely to persist in the coming year and it may take some time before the real estate market gains its former buoyancy and deal flow approaches the levels of the recent past.

Treasury

The Treasury function within ABCIB continues to balance two distinct roles: Corporate Treasury and Financial Markets. Corporate Treasury encapsulates prudent management of the Bank's liquidity and funding positions (including sourcing and management of bank and customer deposits) and its operations as a stand-alone business stream, generating income for the Bank through open market activities and providing value-added services to clients. In respect of Financial Markets preparations are also ongoing with regard to a Q2 2020 launch of a digitalised eFX platform, in line with Bank ABC Group Strategy.

Throughout the year Treasury, as expected has appropriately fulfilled its liquidity and funding remit, ensuring that the NSFR (Net Stable Funding Ratio) and LCR (Liquidity Coverage Ratio) remained at all times in line with regulatory requirements, notwithstanding an overall reduction in total Bank and Customer Deposits to £2.1 billion, compared with £2.8 billion at end-2018.

Treasury continued to be a net positive income generator for the Bank, albeit the £4.3 million contribution in the twelve months to end-2019, equivalent to 5% of total operating income, was some 33% below - the record - £6.4 million achieved in the year earlier period. The downturn in income was impacted both by external operating conditions and by internal circumstances particular to the Bank. Specifically, and in the former case, the abrupt and generally unanticipated about-turn in the US interest rate outlook at the end of 2018, resulting in US yield curve inversion, saw an increase in (then unhedged) 2019 term funding costs whilst slower than planned overall Bank asset growth meant a more costly holding of (what in the event proved surplus) short-term liquidity requirements. During the year, Treasury successfully inaugurated its connection to the new deposit platform - potentially widening access to both corporate and private deposits - whilst continuing with regulatory compliance processes in respect of SFTR (Securities Financing Transactions Regulation) and CSDR (Central Securities Depositories Regulation).

Looking forward, Treasury will continue to face challenges with respect to the complex demands of a changing regulatory environment, with added operational pressures arising from the need to prepare for the removal of the LIBOR benchmark by 2021. I expect to see improvements in the Treasury's income generating capacity in 2020 as the delayed Financial Market Sales initiative gains more traction and the eFX platform is brought on stream, supported where necessary by additional manpower resources. Renewed focus by relationship managers on wholesale and global transactional banking, in line with Group strategy, should also enhance business synergies for Treasury, enabling them to access new deposit and cash management opportunities.

The Year Ahead

After more than two years in which BREXIT uncertainty has cast a shadow over business attitudes and activity, and diverted senior management resources, the recent UK/EU BREXIT deal seems likely to mark the beginnings of a long-awaited recovery in business and investor confidence. This will be to the broad overall benefit of ABCIB, offering the prospect of a return to a more normalised and dynamic business backdrop to the Bank's European sphere of operations. Indeed, in the final days of 2019 as UK politics stabilised and a BREXIT deal neared, some very early, if understandably fragile, signs of returning confidence were already becoming apparent, not least in our Real Estate operations. Of course, and in reality, BREXIT will remain a concern throughout 2020 - details of trade deals with both the EU and further afield remain to be negotiated for example with, as yet, unclear consequences - and so the likelihood is that the pace and depth of returning investor and business momentum, although tangible, could be gradual.

I believe that the Bank is currently in full readiness - financially, organisationally and strategically - to take best advantage of the anticipated upturn in confidence and business momentum in 2020. Not only are we poised to inaugurate our new Paris subsidiary to spearhead appropriately restructured European operations but, and on a broader level, the benefits and synergies of alignment with Bank ABC Group's Global Wholesale and Transactional Banking Strategy will continue to gain traction in the year ahead, positively impacting each of core business streams. Whilst our core MENAT markets will remain challenging in 2020, I remain committed to ensuring that our front-line staff have the necessary resources and the highest standards of support in terms of risk management and compliance to ensure a successful springboard for business growth in the coming 12 months and, indeed, beyond.

With the implementation of Group inspired and strategically aligned new ways of thinking being brought to client development and service provision, eagerly awaited roll-outs of Financial Market Sales and eFX initiatives, and further exploration of digitalisation and ePlatform opportunities, there is tangible optimism and, indeed excitement, about the year ahead. It is my job to ensure, on behalf of all our major stakeholders, that such optimism and excitement is channelled into real progress in the Bank's financial results and I remain confident that, with such enthusiastically supportive and professional staff, such progress is achievable.

As Chief Executive Officer I am fortunate in being able to access advice and guidance of the highest order from the Chairman and Board of Directors as well as being able to rely on the support of highly dedicated and professional staff. For all of that I am truly appreciative. I would also like to echo our Chairman's thanks to those Board members who retired during 2019 for their unwavering support and enthusiastic advocacy of the Bank over the years and also take this opportunity to warmly welcome our newly appointed Board members. As ABCIB becomes ever more aligned to the wider Bank ABC Group, sharing aspirations, goals and strategic direction, I commend the increasingly close spirit of cooperation and mutual respect which characterises our growing collaborations.

Finally, and on behalf of all the management and staff of ABCIB, I would like to thank our wider stakeholders for the confidence they continue to show in the Bank, and in its evolving and aspirational journey towards becoming the 'Bank of Choice' for European/MENAT trade and investment.

Paul Jennings
Chief Executive Officer & Managing Director

Corporate Governance and Risk Management

THE BOARD OF DIRECTORS

The Board is responsible for setting the Bank's objectives, including a sustainable business model and a clear, consistent and prudent strategy for the Bank, taking into account the Bank's long term financial interests and solvency, ensuring a proper balance between short-term objectives and the achievement of long-term value. The Board also sets the values and standards of the Bank. Its Directors are tasked with taking decisions objectively and acting in a way which they consider, in good faith, will promote the success of ABCIB for the benefit of its stakeholders as a whole. As well as carrying out its statutory duties and regulatory accountabilities, the Board ensures that ABCIB's management is capably and prudently executing its responsibilities, regularly monitoring and challenging the effectiveness of management policies and decisions including the execution of its strategies. The Board adheres to its statement of Corporate Governance Principles and Guidance, which is regularly reviewed and is informed by the prevailing Corporate Governance Code in the UK and the Corporate Governance Charter of the Central Bank of Bahrain. The Board conducts an annual performance assessment of itself, which is reviewed by the Corporate Governance Committee. The Board met on four occasions during 2019.

GOVERNANCE COMMITTEES

The Board has four committees, the Board Risk Committee, the Audit Committee, the Remuneration Committee and the Corporate Governance Committee, which are described in more detail below.

The Management Committee ("MANCOM") is the highest-level management committee of ABCIB, reporting through the Chief Executive Officer to the Board of Directors. The Assets and Liabilities Committee ("ALCO"), Risk Management Committee ("RMC"), Compliance & Financial Crime Committee ("CFCC"), Operational Resilience Committee ("OReC"), IT Steering Committee ("ITSC"), and International Bank Business Committee ("IBBC"), are the committees reporting to MANCOM.

BOARD RISK COMMITTEE

The Board Risk Committee ("BRC") is a committee of the Board of ABCIB, which derives its authority and to which it regularly reports. The BRC is chaired by Dr. Yousef Al Awadi and meets at least four times per year. The BRC is tasked with oversight of all key risk matters in ABCIB. The BRC sets the tone for the risk culture within ABCIB. It is responsible for review, challenge and recommendation to the Board for approval of the overall risk management, risk strategy, key regulatory documents and key risk policies. The BRC's responsibilities also include review and recommendation of ABCIB's Risk Appetite Statement, oversight of Risk Controls in ABCIB, review and monitoring of Enterprise Risk Register, review of Stress Tests and key external risk factors, etc.

AUDIT COMMITTEE

The Audit Committee meets at least four times a year to give the Board of Directors an independent assessment of the adequacy of ABCIB's policies on internal and external financial reporting, controls and compliance. The Committee is chaired by Mr. Andrew Neden. ABCIB has an established internal audit function, with the Head of Internal Audit reporting jointly to the Chairman of the Audit Committee and to the ABC Group Chief Internal Auditor. A risk-based audit approach is adopted which ensures that key risk areas are reviewed and assessed regularly. They include lending activity and the credit process, IT systems and support functions. Where necessary, this work is carried out in coordination with Bank ABC Group Audit and external specialists.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Mr. Andrew Neden. The Committee meets to review the Bank's remuneration policy and the overall remuneration of ABCIB's senior managers. The Committee exercises competent and independent judgement on the remuneration practices of the Bank, taking into account the implications for the risk management of the Bank, its capital and liquidity. The Committee is responsible for ensuring that ABCIB complies with all relevant regulatory remuneration codes and requirements.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is chaired by Dr. Yousef Al Awadi. The primary purpose of the Committee is to assist the Board with monitoring and evaluating ABCIB's compliance with its corporate governance policies and requirements. Its responsibilities also include assessing the adequacy of its policies regarding corporate governance; reviewing the appropriateness of the size of the Board and determining criteria for the designation of its independent Directors as well as overseeing the implementation of regulatory projects; reviewing the process of Board performance self-assessment; and reviewing questions of Directors' conflict of interest. The Committee also assists the Board with nomination matters carrying into effect the requirements of the Bank's Board Succession Policy and reviewing all proposals for nominations to the Board and to the office of CEO and Company Secretary.

RISK MANAGEMENT

The Bank has sound risk governance in place, with clearly identified roles and responsibilities for risk management & control and follows the 3 lines of defence model.

The Board is responsible for the overall risk appetite for the Bank. The risk assessment and management oversight performed by the Board considers evolving best practices and is intended to conform to statutory requirements. The Board is supported by the Board Risk Committee, which monitors and oversees the risks of the Bank.

All areas of risk are overseen by the ABCIB Chief Risk Officer ("CRO"), who reports into the ABCIB CEO and also has a reporting line into the Chair of the ABCIB Board Risk Committee. There is also a functional reporting line to the Bank ABC Group Chief Credit & Risk Officer.

CREDIT RISK

Credit risk is managed by the ABCIB Credit Committee ("IBCC"), which is the main credit risk decision-making forum of ABCIB. IBCC has the following roles and responsibilities:

- Review and decision Credit Proposals in line with its delegated authorities.
- Review and approve Internal Risk ratings (IRR) and any overrides as applicable.
- Review and recommend ABCIB Credit Policy
- Review and approve Country Risk Policy, Credit Risk Mitigation Policy, Large Exposure Policy & Provisions Policy
- Review and approve other policies, Risk Acceptance Criteria & Guidance notes.
- Review and approve relevant Credit Models & IFRS9 models.
- Review and approve Credit Impairment Provisions.
- Credit Portfolio Reviews.
- Review of Credit Resources and Infrastructure.
- Delegate its authorities to a sub-committee.
- Review its Terms of reference annually

Credit risk is managed through risk assessment of counterparty, country, industry and other relevant risks. Credit limits are set in line with the aforementioned risk assessment and also considers standard mitigation and credit control practices.

- Relationship managers in the first line of defence are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks.
- The centralised credit unit in the second line of defence is responsible for:
  - Independent credit review of the clients.
  - Monitoring and maintaining oversight of the credit portfolio through client reviews, portfolio MI and KRIs.

The quality of the credit portfolio is good with the non-performing book (Stage 3) constituting 0.31% of the total exposure. The specific provisions against the Exposure at Default (EAD) for Stage 3 is 124%.

LIQUIDITY RISK

Liquidity risks are reviewed and monitored in the Assets and Liabilities Committee (ALCO). The Bank has robust strategies, policies, processes and systems that are comprehensive and proportionate to the nature, scale and complexity of the Bank's activities and enable the Bank to identify, measure, manage and monitor liquidity risk ensuring continuous liquidity. The Bank also assesses, monitors and maintains on a daily basis the amounts, types and distribution of liquidity resources that it considers adequate to cover:

- The nature and level of the liquidity risk to which it is or might be exposed;
- The risk that the Bank cannot meet its liabilities as they fall due;
- The risk that its liquidity resources might in the future fall below the level, or differ from the quality and funding profile, of those resources considered appropriate and agreed with the Prudential Regulation Authority (PRA) and covered by Individual Liquidity Adequacy Assessment Process (ILAAP)); and
- The risk that the Bank's liquidity resources fall below the level detailed in the Capital Requirements Regulation (CRR) requirements for the Liquidity Cover Ratio.

The Bank has set risk appetite levels for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank also manages liquidity risk through various Early Warning Indicators (EWIs).

MARKET RISK

The Bank uses various market risk techniques and measurements to manage its investment and trading book by setting limits that are monitored on a daily basis by the Head of Market Risk & Head of Treasury. The Bank uses the Historical Value at Risk "VaR" as one of the measurements with 99% confidence level and one day holding period where positions are re-valued on a daily basis using historical market data. The Bank uses the Basis Point Value "BPV" technique to measure and monitor the banking book sensitivity to interest rates, which are monitored daily at the bank level as well as by currencies against a set of limits.

The Bank has a small Trading book for spot and forward foreign exchange instruments, the trading for which is within a modest VaR limit and other market risk parameters. Any open positions are relatively small and are re-valued on a daily basis.

The Bank uses derivatives in order to reduce its exposure to market risks as part of its asset and liability management. This is achieved by entering into derivatives that hedge against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base. Interest rate and currency swap agreements are most commonly used to this effect.

Market Risk and other risks are reviewed in the Assets and Liabilities Committee (ALCO).

OPERATIONAL RISK

Operational risks within ABCIB are owned and managed by the first line of defence, supported by Operational Risk Champions embedded within each core business unit and support function. Operational Risk Management team as part of 2nd line provides support and oversight.

There are a number of tools which support the Operational Risk policy and framework, and these are used to manage and monitor the risks, with the key tools being:

- Operational Risk Incidents/Events (ORE's)
- Key Risk Indicators ("KRIs")
- Risk and Control Self Assessments ("RCSAs")
- Group-wide control standards ("GWCS")
- Issues and Action plans
- Application to support the management of operational risk (GRC Tool)
- Scenario Analysis and Stress Testing
- Management Information and Reporting
- Training

All of these tools/processes undergo a rigorous review and challenge process led by the Operational Risk team and are used to assist in managing both conduct and non-conduct risks.

Governance is achieved via a formal committee structure with the ABCIB Operational Risk Committee (ORCO) attended by the senior managers of each core business and support functions.

ENTERPRISE RISK MANAGEMENT

ABCIB has a dedicated Enterprise Risk Management (ERM) unit in place. The primary focus of ERM is to enhance and integrate the Enterprise Risk Management Framework for the Bank. ERM facilitates management review and oversight over all key Risks within ABCIB through the Risk Management Committee (RMC) and other engagements & activities through committee MI packs, KRIs, etc. The unit also provides appropriate support to the CRO for effective Risk oversight and management. The ERM unit maintains oversight over Risk Appetite compliance, and facilitates review & recommendation of the Risk Appetite in line with the Bank's business plan, strategic intent and regulatory thresholds. ERM also maintains and updates the Enterprise Risk Register to capture all key Risks applicable to ABCIB to allow management to prioritise and mitigate Risks as appropriate.

ERM also facilitates the risk oversight requirements of the Risk Management Committee (RMC) and the Board Risk Committee (BRC).

Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have responsibility for the maintenance and integrity of the Annual Report as they appear on the Bank's website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABC INTERNATIONAL BANK PLC

Opinion

We have audited the financial statements of ABC International Bank Plc (the "Company") for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 38 (except for note 25 which is marked as unaudited), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Inadequate allowance for expected credit losses • Improper recognition of fee and commission income
Materiality	• Overall materiality of £1.030m which represents 5% of profit before tax

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inadequate allowance for expected credit losses The Company reported total gross loans and advances to banks held at amortised cost of £1.2 billion (2018: £1.8 billion) and £4.4 million (2018: £3.0 million) of expected credit loss provisions. The Company also reported total gross loans and advances to customers of £1.4 billion (2018: £1.4 billion) and £8.8 million (2018: £19.1 million) of expected credit loss provisions. Off-balance sheet (OBS) credit exposure amounted to £1.3 billion (2018: £2.1 billion) and allowances for expected credit losses of £7.8 million (2018: £6.5 million). Refer to the Accounting Policy 1.5.11 (page 50); and Note 10, 11, 26 and 31 of the Financial Statements. The process for estimating impairment in accordance with IFRS 9 is significant and complex. Given the subjective nature of the calculation of ECL, the level of estimation involved and the size of the loan portfolio there is a greater risk of material misstatement in these balances. The risk has neither increased nor decreased in the current year when compared to the prior year.	Our approach focussed on: ➢ Confirming our understanding of the credit provisioning process; ➢ Testing the design and operating effectiveness of key controls across the credit provisioning process; ➢ Reviewing management's credit impaired accounts, accounts requiring close monitoring and related documentation in order to assess the appropriateness and adequacy of impairment provisions and management overlays, focusing on areas where significant estimation is involved; ➢ Performing credit file reviews on a sample of loans and off-balance sheet credit exposures to determine the reasonableness of the staging allocation and to seek to identify any significant increase in credit risk or indicators of impairment not identified by the Company; ➢ For material assets in stage 3, testing the individual impairment and the evidence supporting the assumptions made by the Company; ➢ Testing the Company's inputs into the expected credit loss model for completeness and accuracy; ➢ Engaging our internal risk specialists to assist us in assessing the ECL model used. This included assessing the appropriateness of model design, assessing the model methodology against the requirements of IFRS 9, analysing how the model is implemented and the governance over the model; and ➢ Performing procedures to confirm that events occurring after the balance sheet date have been considered for potential impact on the year-end position.	As a result of the procedures performed, we are satisfied that the level of impairment is adequate. We highlighted the following to the Audit committee: - we are satisfied that the inputs used in the computation to calculate ECL for stage 1 and 2 were appropriate and the results of the ECL model and related overlays are reasonable. - For stage 3 financial assets, the judgments made by management to calculate the ECL were appropriate.
Improper recognition of fee and commission income Fee and commission income (2019: £48.6m, 2018: £47.2m) Refer to the Accounting Policy 1.5.14.2 (page 53); and Note 3 of the Financial Statements. Compensation tied to the performance of the entity may create an incentive for management to manipulate results.	Our approach focussed on: ➢ Confirming our understanding of the fee and commission income revenue process; ➢ Testing the design and operating effectiveness of certain key controls relating to the fee and commission income revenue recognition process; ➢ Verifying for a sample of fees and commissions that they have been computed in accordance with the underlying contracts, ascertained what service was provided for the fee or commission and determined whether the fee or commission has been recognised or deferred appropriately;	As a result of the procedures performed, the level of fee and commission income recognised for the year is reasonable. The income was recorded in line with underlying contracts and accordance with accounting standards.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The timing of when to recognise revenue relating to fees and commissions can require more judgement by management compared with other revenue streams. These revenue streams are also less predictable in nature than other revenue streams such as interest income, and the processes more manual, and consequently there is a greater risk of material misstatement in these balances. The risk has neither increased nor decreased in the current year when compared to the prior year.	➢ Performing testing to ensure revenue is recognised in the correct period by testing a sample of fee and commission income received post year end; ➢ Agreeing to supporting evidence any journal entries which exhibited characteristics that, in our view, could indicate unusual or inappropriate adjustments to ensure the risk of management override was appropriately addressed.	Finally, the income was recognised in the appropriate period.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed by the audit engagement team with the exception of specific audit work on IT systems and expected credit loss modelling which is centrally managed by Arab Banking Corporation B.S.C, which was performed by EY Bahrain under our instruction and supervision.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.030m (2018: £1.463m), which is 5% (2018: 5%) of profit before tax. We consider profit before tax to be an appropriate basis for materiality as it is a key consideration for users of the financial statements of the Company in assessing the financial performance of the Company. It is also linked to the key earnings measures used by the Company's shareholder and used to determine bonuses for management. Our materiality amount provided a basis for determining the nature, timing and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of our audit procedures. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £515k (2018: £731k). We have set performance materiality at this percentage due to our expectations about the likelihood of misstatements based on prior year experience.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the Audit Committee all uncorrected audit differences in excess of £52k (2018: £73k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion. We have also reported to the Audit Committee all corrected audit differences in excess of our performance materiality.

Other information
The other information comprises the information included in the annual report set out on pages 1 to 33, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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 to be audited 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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, Financial Services and Markets Act 2000 (FSMA), Financial Services Act 2012 and other relevant Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') regulations.
- We understood how the Company complies with these legal and regulatory frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies, reviewed minutes of the Board and the Audit Committee, made enquiries of management for their awareness of any non-compliance with laws and regulations and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the risk management framework and the internal controls processes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by understanding the Company's assessment of the business' susceptibility to fraud and by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered targets and performance incentives and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved enquiries of executive management, internal audit, and those responsible for legal and compliance matters as well as focused testing as referred to in the Key Audit Matters section above.
- The Company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure

that the team had the appropriate competence and capabilities, which included the use of experts where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were first appointed as auditors by the Company to audit the financial statements for the year ending 31 December 1991 and have audited all subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 29 years, covering the years ending 31 December 1991 to 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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 Company'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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Manprit Dosanjh (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
06 March 2020

Notes:

1. The maintenance and integrity of ABC International Bank plc's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ABC International Bank plc

INCOME STATEMENT

For the year ended 31st December 2019

	Notes	2019 £000	2018 £000
*Interest income calculated using the effective interest method***	2	**94,895**	90,438
Other interest and similar income**	2	**87**	389
Interest and similar expense**	2	**(55,493)**	(46,958)
Net interest and similar income		**39,489**	43,809
Fees and commissions income**	3	**48,569**	47,198
Fees and commissions expense	3	**(10,269)**	(9,455)
Net trading income	33	**67**	11
Net income from other financial instruments at FVTPL*/**	3	**7,627**	2,549
Other operating income / (expense)	4	**1,175**	(392)
		47,169	39,911
Total operating income		**86,658**	83,780
General and administrative expenses	5	**(61,469)**	(53,888)
Impairment gain / (loss)	6	**(4,580)**	(638)
		(66,049)	(54,526)
Profit before tax		**20,609**	29,255
Taxation	8	**(4,578)**	(6,170)
Profit for the year attributable to owners		**16,031**	23,085

The notes on pages 44 to 78 are an integral part of the financial statements.

* FVTPL = Fair value through profit & loss
** Prior year comparatives have been updated to reflect current year presentation (see note 1.2)

ABC International Bank plc
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2019

	Notes	2019 £000	2018 £000
Profit for the year attributable to owners		**16,031**	23,085
Items that cannot be reclassified to income statement			
Foreign exchange movement		**(119)**	(14)
Actuarial gain / (loss) recognised on defined benefit pension scheme	37	**(2,075)**	2,527
Deferred tax (charge) /credit relating to defined benefit pension scheme actuarial (gain) / loss		**391**	(605)
Deferred tax (charge) / credit in relating to change in fair value of debt investments at FVOCI		**(43)**	-
Items that can be reclassified to income statement			
Change in fair value of debt investments at FVOCI*		**831**	(600)
Change in ECL allowance for Debt investments at FVOCI*		**80**	-
Total comprehensive income for the year attributable to owners		**15,096**	**24,393**

* FVOCI = Fair value through other comprehensive income

ABC International Bank plc **Registration No: 2564490**
STATEMENT OF FINANCIAL POSITION
As at 31st December 2019

	Notes	2019 £000	2018 £000
Assets			
Cash and cash equivalents		**32,683**	70,763
Investment in subsidiary	13	**4,253**	33
Debt investments - FVOCI*	12	**277,909**	265,129
Loans and advances to banks	10	**1,186,006**	1,855,187
Loans and advances to customers	11	**1,435,262**	1,414,678
Derivative financial assets	14	**336**	1,905
Tangible fixed assets	15	**39,303**	39,561
Current Tax asset		**730**	322
Deferred tax asset	16	**2,041**	2,314
Prepayments, accrued income and other debtors	17	**49,163**	46,246
Total assets		**3,027,686**	3,696,138
Liabilities			
Deposits from banks	18	**1,875,147**	2,382,938
Customer deposits	19	**243,923**	432,416
Derivative financial liabilities	20	**3,975**	2,533
Other liabilities, accruals and deferred income	21	**56,166**	51,162
Current tax liability		**1,746**	2,369
Pension scheme liability	37	**11,718**	11,550
Term borrowing	22	**288,149**	275,634
Subordinated liabilities	23	**50,000**	50,000
		2,530,824	3,208,602
Share capital	24	**212,296**	212,296
Retained earnings		**284,231**	275,816
Fair value reserve		**335**	(576)
Total equity		**496,862**	487,536
Total equity and liabilities		3,027,686	3,696,138

The directors approved and authorised the financial statements for issue on 28 February 2020.

Saddek El Kaber
Chairman

* FVOCI = Fair value through other comprehensive income

ABC International Bank plc
STATEMENT OF CHANGES IN EQUITY
As at 31st December 2019

	Share Capital	Retained Earnings	Fair Value Reserve	Total equity
	£000	£000	£000	£000
Balance at 1st January 2018	212,296	257,372	24	469,692
Impact of adopting IFRS 9 net of tax	-	(6,549)	-	(6,549)
Restated balance at 1st January 2018	212,296	250,823	24	463,143
Comprehensive income				
Profit for the year	-	23,085	-	23,085
Other comprehensive income	-	1,908	(600)	1,308
Balance at 31st December 2018	212,296	275,816	(576)	487,536

	Share Capital	Retained Earnings	Fair value reserve	Total equity
	£000	£000	£000	£000
Balance at 1st January 2019	212,296	275,816	(576)	**487,536**
Dividend paid	-	(5,770)	-	**(5,770)**
Comprehensive income				
Profit for the year	-	16,031	-	**16,031**
Other comprehensive income	-	(1,846)	911	**(935)**
Balance at 31st December 2019	**212,296**	**284,231**	**335**	**496,862**

1. Accounting policies

1.1 Reporting entity

ABC International Bank plc ("ABCIB") is a public company limited by shares which is incorporated and registered in England and Wales. The address of ABCIB's registered office is 1 - 5 Moorgate, London EC2R 6AB.

1.2 Basis of preparation

The financial statements of ABCIB are prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS101).

The financial statements of ABCIB are prepared under the historical cost convention, except for debt investments and derivative financial assets and liabilities, that have been *measured at fair value.*

ABCIB is not required to prepare group accounts since it qualifies for the exemptions available under Section 401 of the Companies Act 2006. In addition, there is no requirement to prepare a statement of cash flows in accordance with Financial Reporting Standard 101.

Where appropriate prior year figures have been restated to conform with current year presentation. On the Income Statement we have reclassified certain income from 'Interest income' (decreased by £1,125k) and 'Interest expense' (decreased by £112k) to 'Net income from other financial instruments at FVTPL' (increased by £389k) and 'Fee and Commission income' (increased by £645k) to better reflect the nature of the underlying income streams.

ABCIB undertakes business in several countries in the MENAT region in which social and political unrest has occurred over the course of the year ended 31st December 2019. ABCIB continues to monitor closely developments and has taken steps to mitigate any adverse impact on its operations.

At the time of approval of these financial statements, the Board was satisfied that the capital and liquidity position of ABCIB remained satisfactory, and that ABCIB, with the support of Bank ABC, has liquid resources to enable it to meet its obligations for the foreseeable future, including its prospective flow of new business.

Given all of the above, these financial statements are prepared on the going concern basis.

ABCIB has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirement in paragraphs 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

i) paragraph 79 (a)(iv) of IAS 1;

ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

b) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 of IAS 1 Presentation of Financial Statements.

c) The requirements of IAS 7 Statement of Cash Flows.

d) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

e) The requirements of Paragraph 17 of IAS 24 Related Party Disclosures.

f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

g) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

h) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose standards that have been issued but are not yet effective.

1. Accounting policies (continued)

1.3 New and amended Standards and interpretations

1.3.1 Standards effective for the year

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year, except for the adoption of new IFRS, applicable to the Bank, and which are effective from 1 January 2019:

IFRS16 Leases

IFRS 16 supersedes IAS17 Leases (IAS17), IFRIC4 Determining whether an Arrangement contains a Lease (IFRIC 4), SIC - 15 Operating Leases - Incentives and SIC - 7 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Bank has recorded right-of-use assets representing the right to use the underlying assets under other assets and the corresponding lease liabilities to make lease payments under other liabilities. When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The adoption of IFRS 16 did not have a material impact on the Bank.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Bank recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Bank adopted IFRS 16 using a modified retrospective method of adoption with the date of initial application of 1 January 2019, and accordingly, the comparative information is not restated. Under this method, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Based on the above, as at 1st January 2019:

- *Right-of-use assets of £5.05 million were recognised and presented in the statement of financial position within 'Other assets'.*
- Additional lease liabilities of £5.05 million (included within 'Other liabilities') were recognised.
- The adoption of IFRS 16 had no impact on the Bank's retained earnings and no material impact on its CET1 ratio.

The lease liabilities as at 1st January 2019 can be reconciled to the operating lease commitments as of 31st December 2018 as follows:

	£000
Operating lease commitments as at 31 December 2018	**5,538**
Weighted average incremental borrowing rate as at 1 January 2019	2.15%
Discounted operating lease commitments as at 1 January 2019	**5,114**
Less:	
Commitments relating to short-term leases	(62)
Commitments relating to leases of low-value assets	(1)
Lease liabilities as at 1 January 2019	**5,051**

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Interpretation)

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses instances where an entity separately considers uncertain tax treatments, or makes assumptions related to how a tax authorities would treat certain tax positions. In addition the Interpretation also addresses how an entity determines the taxable profit (tax loss), tax base, amongst other key tax positions including changes in facts and circumstances.

Given its international footprint, the Bank, through applying significant judgement in identifying uncertainties over tax treatments assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and its branches' tax filings in different jurisdictions include deductions related to intra-group transactions. ABCIB determined, based on the transfer pricing documentation prepared and analysis performed, that it is probable that its transfer pricing positions (including those for the branches) will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of ABCIB.

1. Accounting policies (continued)

1.4 Significant accounting judgements, estimates and assumptions.

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

1.4.1 Fair value of financial instruments

The fair values of financial assets and financial liabilities recorded on the balance sheet are derived from observable market data from active markets and present value approaches where future cash flows are estimated and then discounted using risk-adjusted interest rates based on instruments with similar risk characteristics and currency.

1.4.2 Measurement of the expected credit loss allowance (ECL)

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculation are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns probability of defaults (PDs) to the individual ratings;
- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios, economic inputs such as unemployment levels, collateral values and the effect on PD, exposure at default (EAD) and loss given default (LGD);
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models; and
- Determining relevant period of exposure with respect to the revolving credit facilities and facilities undergoing restructuring at the time of the reporting date.

1.4.3 Classification of financial assets

Classification of financial assets in the appropriate category depends upon the business model and 'solely payments of principal and interest' ("SPPI ") test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test requires significant judgements by management.

The Bank applies judgement while carrying out the SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

1.4.4 Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

To the greatest extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on valuation reports received from professional valuation firms.

1.4.5 Deferred tax assets

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 which assumes annual growth to be flat.

1.4.6 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, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 37 for the assumptions used.

1. **Accounting policies (continued)**

1.5 Summary of significant accounting policies

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

1.5.1. Foreign currency translation

ABCIB's financial statements are presented in GB Pounds which is its functional currency. 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 'net trading income' in the income statement. 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. 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.

1.5.2 Financial instruments - initial recognition and subsequent measurement

1.5.2.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and deposits to customers and banks, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises deposits from customers and banks when funds are transferred to the Bank. Derivatives are recognised on a trade date basis.

1.5.2.2 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 income statement, any directly attributable incremental costs of acquisition or issue.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes **1.3.1** and **1.5.3**.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

1.5.2.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

1.5.2.4 Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note **1.5.3.1**
- FVOCI, as explained in Note **1.5.7**
- FVTPL

The Bank classifies and measures its derivative and trading portfolio at FVTPL as explained in Notes **1.5.5** and **1.5.6**. The Bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

1.5.3 Financial assets and Liabilities

1.5.3.1 Loans and advances to banks, Loans and advances to customers, Financial investments at amortised cost

The Bank only measures Loans and advances to banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

1. Accounting policies (continued)

1.5.3.2 Business model

The Bank determines its business model at the level that best reflects how it manages the Bank's financial assets to achieve its business objective. The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes or originated with expectation that they will be sold in the near term), then the financial assets are classified as part of the 'held for trading' business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- How the asset's and business model performance is evaluated and reported to key management personnel and Asset and Liability Committee (ALCO);

- How risks are assessed and managed; and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

1.5.3.3 SPPI test

The Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

1.5.4 Derecognition of financial assets and liabilities

1.5.4.1 Derecognition due to substantial modification of terms and conditions

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties typically evidenced by restructuring or rescheduling of the counterparty's credit facilities, directly or indirectly with other lenders or with the Bank.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off or is transferred back to Stage 2.

1. Accounting policies (continued)

1.5.4.2 Derecognition other than for substantial modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

1.5.5 Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps and forward foreign exchange contracts. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

1.5.6 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

1.5.7 Debt instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. The Fair Value Reserve in equity reflects the gains and losses recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

1.5.8 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 includes 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.

1. **Accounting policies (continued)**

1.5.9 Financial guarantees and loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

The premium received is recognised in the statement of profit or loss in other operating income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

1.5.10 Fair value Measurement

The Bank measures financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.5.11 Impairment of financial assets

The Bank assesses on a forward-looking basis, the ECL associated with its debt instruments assets carried at amortised cost and FVOCI and against the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises an ECL for such losses on origination and reassess the expected losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

To calculate ECL, the Bank estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

1.5.11.1 Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: estimates the expected portion of the loan commitment that is drawn down over the expected life of the loan commitment; and calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and
- financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

1. Accounting policies (continued)

For the purposes of calculation of ECL, the Bank categorises its FVOCI debt securities, loans and advances and loan commitments and financial guarantee contracts into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing: when loans are first recognised, the Bank recognises an allowance based upto 12- month ECL.
- Stage 2 – Underperforming: when a loan shows a significant increase in credit risk, the Bank records an allowance for the lifetime ECL.
- Stage 3 – Impaired: the Bank recognises the lifetime ECL for these loans.

For the purposes of categorisation into above stages, the Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Bank records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the ECL does not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Stage 1

The Bank measures loss allowances at an amount equal to 12-month ECL for Stage 1 customers. All financial assets are classified as Stage 1 on initial recognition date. Subsequently on each reporting date the Bank classifies the following as Stage 1:

- debt type assets that are determined to have low credit risk at the reporting date; and
- on which credit risk has not increased significantly since their initial recognition.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs.

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk on various factors including number of notches change in internal risk rating, ARCM (accounts requiring close monitoring) customers, restructured /forbearance, historical delinquency, etc. Exceptions to Staging rules and movements can be rebutted on a case by case basis by IBCC or the CRO.

It is the Bank's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence that the loan is credit impaired. At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit- impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired. Exceptions to Staging rules and movements can be rebutted on a case by case basis by IBCC or the CRO.

1. Accounting policies (continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- *The rating agencies' assessments of creditworthiness.*
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. *This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there* is the capacity to fulfil the required criteria.

Other than originated credit-impaired loans, loans are transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of 12 months.

Forward looking information

The Bank incorporates forward-looking information in the measurement of ECLs.

The Bank considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices and country's equity indices) and economic forecasts. To evaluate a range of possible outcomes, the Bank uses three scenarios: a base case, an upward and a downward scenario. The base case scenario represents the more likely outcome resulting from the Bank's normal financial planning and budgeting process, while the upward and downward scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Bank derives an ECL and apply a probability weighted approach to determine the impairment allowance.

The Bank uses internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. These forward looking assumptions undergo an internal governance process before they are applied for different scenarios.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;*
- loan commitments and financial guarantee contracts: as a provision under other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the cumulative changes in the fair value reserve.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be made until the base models are updated. Although the Bank uses data that is as current as possible, models used to calculate ECLs are based on data that is up to date except for certain factors for which the data is updated once it is available and adjustments are made for significant events occurring prior to the reporting date.

Experienced credit adjustment

The Bank's ECL allowance methodology requires the Bank to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cashflows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment gain / (loss)' in the income statement.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

1.5.12 Provisions

Provisions are recognised when the bank 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

1.5.13 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.

1. Accounting policies (continued)

1.5.14 Recognition of income and expense

The Bank recognises revenue when it satisfies a performance obligation by transferring a promised good or service.

1.5.14.1 Interest and similar income and expense

Under IFRS 9, interest income is recorded using the EIR (effective interest rate) method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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 EIR, 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 EIR 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 with Stage 3 impairment has been reduced due to an impairment loss, interest income is then recognised using the EIR applied to the new carrying amount (after provision).

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 EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

1.5.14.2 Fee and commission income

ABCIB earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when ABCIB satisfies a performance obligation. These fees include commission income and other management and advisory fees. *Fees earned for the provision of services over a period of time are* accrued over that period. Fees received from Letters of credits and acceptances are recognised at a point in time on completion of the service provided.

A contract with a customer that results in a recognised financial instrument in the ABCIB's financial statements may be partially in the scope of IFRS9 and partially in the scope of IFRS15. If this is the case, then ABCIB first applies IFRS9 to separate and measure the part of the contract that is in scope of IFRS9 and then applies IFRS15 to the residual.

1.5.14.3 Dividend income

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

1.5.14.3 Net trading income

Results include all gains and losses from foreign exchange gains and losses on financial assets and liabilities not at fair value through profit or loss and related interest rate products.

1.6 Subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement if there has been a change in the estimates used to determine the recoverable amount of the investment.

1.7 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.

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:*

Freehold Building	- 35 years
Land	- Land is not depreciated
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

At each balance sheet date, the carrying values of fixed assets are reviewed for indications of impairment. If indications are present, these assets are subject to impairment review. The impairment review comprises comparison of the carrying amount of the asset with its recoverable amount; the higher of its net realisable value and its value in use. Net realisable value is the amount at which the asset can be sold at arm's length in an open market. The value in use is calculated by discounting the expected future cash flows from the asset's continued use at a market-based discount rate on a pre-tax basis.

The carrying amount of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement immediately. A previously recognised impairment loss may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

The carrying amount can only be increased to the amount the asset would have been pre original impairment. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

1. Accounting policies (continued)

1.8 Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1.9 Taxation

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where ABCIB operates and generates taxable income.

1.10 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances with central banks of short-term nature.

1.11 Leases (Policy applicable from 1 January 2019)

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS16.

This policy is applied to contracts entered into, on or after 1 January 2019.

1.11.1 Bank acting as a lessee:

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are amortised on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The carrying value of right-of-use assets are recognised under other assets in the statement of financial position.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under 'Other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

1.11.2 Bank acting as a lessor:

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each of these, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'Other operating income'.

1. **Accounting policies (continued)**

1.12 Pension benefits

1.12.1 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 has been available to all employees. The Scheme was closed to the future accrual of benefits on 30th September 2010.

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 income statement.

Actuarial gains and losses are recognised in full in the statement of comprehensive income 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 that reflects the full term structure of the Merrill Lynch nominal AA corporate spot yield curve), 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. The fair value of assets is based on bid value with the exception of the assets invested in the targeted return fund, which have a single 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.

1.12.2 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 costs' in the profit and loss account. Unpaid contributions are recorded as a liability.

1.13 Short-term employee benefits

Short-term employee benefits such as salaries, paid absences and other benefits, are accounted for on an accrual basis over the period the employees have provided the services in the year. All expenses related to employee benefits are recognised in the income statement in staff costs which is part of 'general and administrative expenses'.

2. Net interest and similar income / expense

	2019	2018
Interest income calculated using effective interest method	£000	£000
Loans and advances to banks	40,565	38,352
Loans and advances to customers	47,565	46,828
Debt instruments at FVOCI	5,627	4,196
Others	1,138	1,062
	94,895	90,438
Other interest and similar income		
Loans and advances to banks measured at FVTPL	87	389
	87	389
Total interest and similar income	94,982	90,827
Interest and similar expense		
Deposits from banks	42,619	35,498
Customer deposits	1,772	1,906
Subordinated liabilities	2,036	1,965
Term borrowing	8,142	6,682
Others	924	907
	55,493	46,958

3. Analysis of the profit and loss account by classification:

2019	FVTPL	Amortised Cost	FVOCI	Non financial instruments	Total
	£000	£000	£000	£000	£000
Interest and similar income	87	89,268	5,627	-	94,982
Interest and similar expense	-	(55,493)	-	-	(55,493)
Net Interest and similar income	87	33,775	5,627	-	39,489
Fees and commissions income	-	48,569	-	-	48,569
Fees and commissions expense	-	(10,269)	-	-	(10,269)
Net trading income	67	-	-	-	67
Net income from other financial instruments at FVTPL	7,627	-	-	-	7,627
Other operating income	-	548	-	627	1,175
Total operating income	7,781	72,623	5,627	627	86,658

2018	FVTPL	Amortised Cost	FVOCI	Non financial instruments	Total
	£000	£000	£000	£000	£000
Interest and similar income	389	86,242	4,196	-	90,827
Interest and similar expense	-	(46,958)	-	-	(46,958)
Net Interest and similar income	-	39,284	4,196	-	43,869
Fees and commissions income	-	47,198	-	-	47,198
Fees and commissions expense	-	(9,455)	-	-	(9,455)
Net trading income	11	-	-	-	11
Net income from other financial instruments at FVTPL	2,549	-	-	-	2,549
Other operating income	-	(407)	-	15	(392)
Total operating income	2,560	76,620	4,196	15	83,391

	2019			2018		
	Trade Finance	IFS	Treasury	Trade Finance	IFS	Treasury
	£000	£000	£000	£000	£000	£000
Fees and commissions income	42,710	5,843	16	38,149	9,049	-
Fees and commissions expense	(9,688)	-	(581)	(8,910)	-	(545)
	33,022	5,843	(565)	29,239	9,049	(545)

4. Other operating income/ (expense)

	2019 £000	2018 £000
Rental income	345	256
Profit on sale of commercial assets	548	220
Other	282	(868)
	1,175	(392)

5. General and administrative expenses

	2019 £000	2018 £000
a) Staff costs:		
Salaries	32,563	29,282
Social security costs	4,648	5,289
Pension costs (note 37)		
- Defined contribution schemes	2,104	1,696
Redundancy cost	404	646
	39,719	36,913
Depreciation	2,775	1,386
Other administrative expenses (including auditors' remuneration - see Note 7)	18,975	15,589
	61,469	53,888

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

	2019 Number	2018 Number
The average monthly number of employees (excluding Directors) during the year:		
Trade Finance	59	51
Islamic	9	9
Treasury	4	5
Head office and Support	202	185
	274	250

b) Directors' remuneration:

The aggregate remuneration of the Directors of ABCIB for the year was:

	2019 £000	2018 £000
Aggregate remuneration in respect of qualifying services	2,168	2,028
In respect of the highest paid Director:		
Aggregate remuneration in respect of qualifying services	1,110	985

The amount at the end of the year in relation to the highest paid director's accrued lump sum with respect to the defined benefit pension was valued at £892,901 (2018: £755,672)

6. Impairment gain / (loss)

	2019 £000	2018 £000
The net (loss) / gain for the year in respect of provisions is made up as follows:		
Cash & Cash equivalents	-	(88)
Loans and advances to banks (Note 10)	(1,539)	(459)
Loans and advances to customers (Note 11)	(1,633)	20
Debt investments - FVOCI (Note 12)	(44)	67
Credit commitments (Off-balance sheet) (Note 26)	(1,350)	(233)
Foreign exchange	(14)	55
	(4,580)	(638)

7. Auditors' remuneration

		2019 £000	2018 £000
Auditors' remuneration:	audit of the company's financial statements	(449)	(464)
	audit of subsidiaries of the company	(9)	(4)
	audit related assurance services	(22)	(22)
	Other assurance services	(16)	(15)
	Other non-audit services	(42)	-
		(538)	(505)

8. Taxation

	2019 £000	2018 £000
Analysis of tax charge for the year		
Current tax:		
UK corporation tax - Current year	(3,888)	(5,187)
Adjustment in respect of prior years	(14)	87
Foreign tax relief/other relief	1,045	109
Foreign tax - Current year	(1,464)	(620)
Total current tax	(4,321)	(5,611)
Deferred tax:		
Current year	(243)	(411)
Adjustment in respect of previous periods	(40)	(1)
Effect of changes in tax rates	26	(147)
Total deferred tax	(257)	(559)
Total tax charge in the Income Statement	(4,578)	(6,170)
Amounts not charged to the income statement		
Deferred tax (charge) / credit on defined benefit pension scheme actuarial (gain) / loss	348	(605)
Factors affecting tax charge for the year		
The differences are explained below:		
Profit on ordinary activities before tax	20,609	29,255
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	(3,916)	(5,559)
Effect of:		
Disallowed expenses and non-taxable income	(268)	(136)
Impact of higher overseas tax rates	(284)	(510)
Prior year adjustment	(53)	85
Deferred tax unrecognised, tax rate changes and exempt amounts	26	(153)
Amounts not recognised	(83)	135
Pension actuarial loss	-	(32)
Total tax charge in Income Statement	(4,578)	(6,170)

9. Analysis of assets and liabilities by classification:

2019	FVTPL £000	Amortised Cost £000	FVOCI £000	Non financial instruments and others £000	Total £000
Cash and cash equivalents	-	32,683	-	-	32,683
Investment in subsidiary	-	-	-	4,253	4,253
Loans and advances to banks	28,429	1,157,577	-	-	1,186,006
Loans and advances to customers	-	1,435,262	-	-	1,435,262
Debt investments - FVOCI	-	-	277,909	-	277,909
Derivative financial assets	336	-	-	-	336
Tangible fixed assets	-	-	-	39,303	39,303
Current tax asset	-	-	-	730	730
Deferred tax asset	-	-	-	2,041	2,041
Prepayments, accrued income and other debtors	-	41,599	-	7,564	49,163
Total assets	28,765	2,667,121	277,909	53,891	3,027,686
Deposits from banks	-	1,875,147	-	-	1,875,147
Customer deposits	-	243,923	-	-	243,923
Derivative financial liabilities	3,975	-	-	-	3,975
Other liabilities, accruals and deferred income	-	34,689	-	21,477	56,166
Corporation tax liability	-	-	-	1,746	1,746
Pension scheme liability	-	-	-	11,718	11,718
Term borrowing	-	288,149	-	-	288,149
Subordinated liabilities	-	50,000	-	-	50,000
Total liabilities	3,975	2,491,908	-	34,941	2,530,824

9. **Analysis of assets and liabilities by classification (continued):**

	2018				
	FVTPL	Amortised Cost	FVOCI	Non financial instruments and others	Total
	£000	£000	£000	£000	£000
Cash and cash equivalents	-	70,763	-	-	70,763
Investment in subsidiary	-	-	-	33	33
Loans and advances to banks	91,729	1,763,458	-	-	1,855,187
Loans and advances to customers	-	1,414,678	-	-	1,414,678
Debt investments - FVOCI	-	-	265,129	-	265,129
Derivative financial assets	1,905	-	-	-	1,905
Tangible fixed assets	-	-	-	39,561	39,561
Current tax asset	-	-	-	322	322
Deferred tax asset	-	-	-	2,314	2,314
Prepayments, accrued income and other debtors	-	45,380	-	866	46,246
Total assets	93,634	3,294,279	265,129	43,096	3,696,138
Deposits from banks	-	2,382,938	-	-	2,382,938
Customer deposits	-	432,416	-	-	432,416
Derivative financial liabilities	2,533	-	-	-	2,533
Other liabilities, accruals and deferred income	-	26,602	-	24,560	51,162
Corporation tax liability	-	-	-	2,369	2,369
Pension scheme liability	-	-	-	11,550	11,550
Term borrowing	-	275,634	-	-	275,634
Subordinated liabilities	-	50,000	-	-	50,000
Total liabilities	2,533	3,167,590	-	38,479	3,208,602

10. **Loans and advances to banks**

	2019	2018
	£000	£000
Repayable:		
on demand	15,457	16,535
within three months	564,910	1,170,174
between three months and one year	574,107	633,460
between one and five years	35,917	37,869
after five years	-	121
	1,190,391	1,858,159
ECL allowance	(4,385)	(2,972)
	1,186,006	1,855,187
Loans and advances to banks - amortised cost	1,161,962	1,766,430
Loans and advances to banks - measured at FVTPL	28,429	91,729
	1,190,391	1,858,159

Below is an analysis in the gross carrying amount and corresponding ECL allowances:

	2019			
	£000	£000	£000	£000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
As at 1 January 2019	1,798,733	58,887	539	1,858,159
New assets originated / purchased	1,165,263	-	-	1,165,263
Assets fully repaid or derecognised (excluding write-offs)	(1,718,876)	(55,065)	-	(1,773,941)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(1,304)	1,304	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	74	81	-	155
Recoveries	-	-	(50)	(50)
Amounts written-off	-	-	-	-
Foreign exchange & other adjustments	(57,228)	(1,936)	(32)	(59,195)
As at 31 December 2019	1,186,662	3,271	458	1,190,391
ECL allowance				
As at 1 January 2019	2,193	340	439	2,972
New assets originated / purchased	3,954	-	-	3,954
Assets fully repaid or derecognised (excluding write-offs)	(2,016)	(289)	-	(2,305)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(4)	4	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(57)	(34)	-	(91)
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	(50)	(50)
Amounts written-off	-	-	-	-
Foreign exchange & other adjustments	(73)	(10)	(13)	(96)
As at 31 December 2019	3,999	11	376	4,385
Net carrying amount	1,182,664	3,261	81	1,186,006

Included with Stage 1 is £6.4 million of exposures to our Parent with a corresponding ECL charge of £11k.

10. Loans and advances to banks (continued)

	2018			
	£000	£000	£000	£000
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
As at 1 January 2018	1,426,185	14,966	572	1,441,723
New assets originated / purchased	1,847,367	-	-	1,847,367
Assets fully repaid or derecognised (excluding write-offs)	(1,496,623)	(15,731)	-	(1,512,354)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(58,887)	58,887	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	252	(112)	-	140
Amounts written-off	-	-	-	-
Foreign exchange & other adjustments	80,438	877	(33)	81,282
As at 31 December 2018	1,798,732	58,887	539	1,858,159
ECL allowance				
Assets fully repaid or derecognised (excluding write-offs)	(1,918)	(35)	-	(1,953)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(341)	341	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(81)	(14)	-	(95)
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written-off	-	-	-	-
Foreign exchange & other adjustments	116	2	(21)	97
As at 31 December 2018	2,193	340	439	2,972
Net carrying amount	1,796,540	58,547	100	1,855,187

11. Loans and advances to customers

	2019	2018
	£000	£000
Repayable:		
on demand	16,475	31,119
within three months	753,645	881,525
between three months and one year	409,378	350,013
between one and five years	257,147	162,500
after five years	7,464	8,590
	1,444,109	1,433,747
ECL allowance	(8,847)	(19,069)
	1,435,262	1,414,678

ABCIB defines forbearance as a temporary deferral of payments prior to an agreement or formal restructure being reached between ABCIB and customers. At the year end, none of the loans were subject to forbearance (2018: none).

Below is an analysis in the gross carrying amount and corresponding ECL allowances:

	2019			
	£000	£000	£000	£000
	Stage 1	Stage 2	Stage 3*	Total
Gross carrying amount				
As at 1 January 2019	1,292,777	126,344	14,626	1,433,747
New assets originated / purchased	1,298,694	-	-	1,298,694
Assets fully repaid or derecognised (excluding write-offs)	(1,116,698)	(109,001)	-	(1,225,698)
Transfers to stage 1	1,050	(1,050)	-	-
Transfers to stage 2	(119,954)	119,954	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(2,510)	(3,661)	-	(6,171)
Recoveries	-	-	(43)	(43)
Amounts written-off	-	-	(12,227)	(12,227)
Foreign exchange & other adjustments	(40,411)	(4,153)	373	(44,191)
As at 31 December 2019	1,312,947	128,434	2,729	1,444,109
ECL allowance				
As at 1 January 2019	1,932	3,131	14,006	19,069
New assets originated / purchased	4,095	-	-	4,095
Assets fully repaid or derecognised (excluding write-offs)	(1,113)	(436)	-	(1,550)
Transfers to stage 1	2	(2)	-	-
Transfers to stage 2	(3,010)	3,010	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(93)	(704)	-	(797)
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	(43)	(43)
Amounts written-off	-	-	(12,227)	(12,227)
Foreign exchange & other adjustments	(64)	(103)	465	299
As at 31 December 2019	1,750	4,897	2,201	8,847
Net carrying amount	1,311,197	123,537	528	1,435,262

*£171k of credit enhancements via export credit agency or bank guarantee.

11. Loans and advances to customers (continued)

	2018			
	£000	£000	£000	£000
	Stage 1	Stage 2	Stage 3*	Total
Gross carrying amount				
As at 1 January 2018	1,048,077	78,929	17,713	1,144,719
New assets originated / purchased	1,192,528	-	-	1,192,528
Assets fully repaid or derecognised (excluding write-offs)	(879,905)	(58,699)	-	(938,604)
Transfers to stage 1	10,454	(10,454)	-	-
Transfers to stage 2	(114,366)	114,366	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(20,615)	(2,421)	-	(23,036)
Amounts written-off	-	-	(3,574)	(3,574)
Foreign exchange & other adjustments	56,603	4,624	487	61,714
As at 31 December 2018	1,292,777	126,344	14,626	1,433,747
ECL allowance				
As at 1 January 2018	1,513	3,512	16,715	21,740
New assets originated / purchased	4,217	-	-	4,217
Assets fully repaid or derecognised (excluding write-offs)	(930)	(3,319)	-	(4,249)
Transfers to stage 1	43	(43)	-	-
Transfers to stage 2	(2,940)	2,940	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(59)	(165)	-	(224)
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written-off	-	-	(3,574)	(3,574)
Foreign exchange & other adjustments	89	205	865	1,159
As at 31 December 2018	1,932	3,131	14,006	19,069
Net carrying amount	1,290,844	123,214	620	1,414,678

*£242k of credit enhancements via export credit agency guarantee.

12. Debt investments - FVOCI

	2019	2018
	£000	£000
Listed (Debt investments)	277,909	265,129
	277,909	265,129
Due within one year	140,276	112,845
Due between one and two years	75,176	113,590
Due between two and five years	62,457	38,694
	277,909	265,129

All debt instruments are issued by Governments and non-public corporate bodies.

The movement on debt investments is as follows:

	2019	2018
	£000	£000
At 1st January	265,129	277,687
Additions	266,109	272,892
Repayments and disposals	(251,630)	(287,808)
Fair value movement	831	(600)
Exchange movements	(2,530)	2,958
At 31st December	277,909	265,129

13. 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%
Arab Banking Corporation SA*	Financial services	France	99.9%

The registered address for all of the above entities is the same as that of ABCIB, apart from Arab Banking Corporation SA, which has a registered address of 8 Rue Halévy, Paris, 75009, France.

* Arab Banking Corporation SA is the newly created French subsidiary which will be the hub of the European operations post Brexit transition. During 2019 there was a capital injection of €4.96 million by ABCIB.

14. Derivative financial assets

	2019 £000	2018 £000
Interest rate swaps	-	-
Foreign exchange contracts	336	1,905
	336	1,905

15. Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost:						
At 1st January 2019	37,406	2,488	2,711	10,929	132	53,666
Additions	-	24	102	1,431	-	1,557
Disposals	-	-	(129)	(1,899)	(45)	(2,073)
Exchange differences and other adjustments	-	(230)	148	(231)	(9)	(322)
At 31st December 2019	37,406	2,282	2,832	10,230	78	52,828
Depreciation:						
At 1st January 2019	1,407	1,079	1,762	9,757	100	14,105
Charge for the year	563	206	212	783	12	1,776
Disposals	-	-	(129)	(1,899)	(45)	(2,073)
Exchange differences and other adjustments	-	(220)	165	(221)	(7)	(283)
At 31st December 2019	1,970	1,065	2,010	8,420	60	13,525
Net book value						
At 31st December 2019	35,436	1,217	822	1,810	18	39,303
At 31st December 2018	35,999	1,409	949	1,172	32	39,561

Included within the 'Freehold land and buildings' is land of £18.0 million, which is not depreciated.

16. *Deferred tax asset*

	2019 £000	2018 £000
At 1st January	2,314	2,915
Impact of adopting IFRS9	-	563
Recognised deferred tax (charge) / credit to income statement for the period	(218)	(559)
Deferred tax (charge) / credit in OCI for the period in respect of pension scheme	(113)	(605)
Adjustment in respect of prior years	58	-
At 31st December	2,041	2,314
The major components of the deferred tax asset are as follows:		
Deferred tax on IFRS9 Day 1 impact	403	453
AFS adjustment	(43)	-
Liability in respect of temporary differences trading	43	90
Liability in respect of accelerated capital allowances	(354)	(193)
Deferred tax asset on pension	1,992	1,964
	2,041	2,314

There is an unrecognised deferred tax asset of £1.12 million (at the tax rate of 17%) in relation to gross unrelieved foreign taxes of £6.6 million (2018: £6.1 million). There are also unrecognised amounts in relation to overseas branches (fixed assets, timing differences) which total £648k. 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the Balance Sheet date. The Finance Act No.2 2015 reduced the tax rate to 19% (effective from 1 April 2017) and the Finance Act 2016 further reduced the tax rate to 17% (effective From 1 April 2020). These changes to the main tax rate had been enacted at the balance sheet date and are reflected in the measurement of deferred tax balances.

17. Prepayments, accrued income and other debtors

	2019 £000	2018 £000
Interest receivable	14,054	18,612
Prepayments and accrued income	3,995	2,386
Right-to-use asset	3,860	-
Other	27,254	25,248
	49,163	46,246

18. Deposits from banks

	2019 £000	2018 £000
Repayable:		
on demand	372,417	489,435
within three months	296,804	561,376
between three months and one year	835,142	1,025,413
between one and five years	370,707	306,321
more than five years	77	393
	1,875,147	2,382,938

19. Customer deposits

	2019 £000	2018 £000
Repayable:		
on demand	94,451	118,784
within three months	55,973	275,805
between three months and one year	93,499	37,828
between one and five years	-	-
	243,923	432,417

20. Derivative financial liabilities

	2019 £000	2018 £000
Interest rate swaps	81	182
Foreign exchange contracts	3,894	2,351
	3,975	2,533

21. Other liabilities, accruals and deferred income

	2019 £000	2018 £000
Interest payable	3,317	4,348
Accruals and deferred income	11,634	15,026
Tax and social security costs	2,698	1,569
Lease liability	3,915	-
Other	34,602	30,219
	56,166	51,162

22. Term borrowing

	2019 £000	2018 £000
Repayable:		
within one year	224,351	79,847
between one and two years	63,798	195,787
	288,149	275,634

Interest on all term borrowing is calculated by reference to LIBOR plus margins which are repriced monthly. If LIBOR was no longer quoted it would move onto the equivalent market acceptable convention.

23. Subordinated liabilities

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

	2019 £000	2018 £000
GBP 50.0 million Sub-Debt carrying interest at three months LIBOR plus 3.25%	50,000	50,000
	50,000	50,000

On 2nd December 2015 ABCIB issued an FRN for £50 million repayable at par on 31st December 2025. The subordinated liabilities are due to the Ultimate Parent Undertaking.

24. Share capital

	Authorised	Issued
Ordinary shares of £1 each	£000	£000
At 1st January 2019	300,000	212,296
At 31st December 2019	300,000	212,296

25. Regulatory capital (unaudited)

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 Prudential Regulation Authority (PRA) 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 PRA supervises ABCIB and as such receives information on the capital adequacy of ABCIB. The PRA requires each bank to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance transactions. ABCIB complied in full with the regulatory capital adequacy requirements during 2019 and 2018.

ABCIB's capital is divided into two tiers:
Tier 1 capital comprises equity shareholders' funds.
Tier 2 capital comprises an allowance for collective impairment losses and the £50 million subordinated debt we have received from the Parent.

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 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 and interest rate position risks, and counterparty risk.

Capital structure

	2019	2018
	£000	£000
Share capital	212,296	212,296
Retained earnings	284,231	275,816
IFRS 9 *transitional arrangements**	7,396	6,222
Foreseeable dividend	(4,008)	(5,771)
Other regulatory adjustments	(4,493)	(1,298)
Tier 1 Capital	495,422	487,265

	2019	2018
	£000	£000
Tier 1 Capital Ratio	17.5%	16.6%
Subordinated liability	50,000	50,000
Tier 2 capital	50,000	50,000
Total regulatory capital	545,422	537,265
Risk-weighted assets		
Credit and counterparty credit risk	2,664,618	2,795,003
Operational risk	151,210	140,618
Market risk	8,983	5,246
Total	2,824,811	2,940,867
Risk-weighted assets included in the totals above in respect of:		
-contingent liabilities	285,760	433,182
-commitments	186,878	184,622
Risk Asset Ratio	%	%
Total capital	19.3%	18.3%

Tier 1 Capital incorporates the profit for the respective years.
* Transitional arrangements as per EBA regulation 2017/2395 and article 473a of CRR

26. Credit commitments and contingent items

Credit commitments and contingent items include commitments to extend credit, standby letters of credit, acceptances and guarantees, which are structured to meet the At the balance sheet date, the principal outstanding was as follows:

	2019 £000	2018 £000
Contingent liabilities	960,495	1,723,031
Commitments	352,924	333,655
	1,313,419	2,056,686

Below is an analysis in the gross carrying amounts and corresponding ECL allowances is as follows:

2019	£000 Stage 1	£000 Stage 2	£000 Stage 3*	£000 Total
Gross carrying amount				
As at 1 January	2,004,384	41,501	10,801	2,056,686
New exposures	770,498	-	-	770,498
Matured exposures	(1,301,740)	(15,340)	(1,291)	(1,318,372)
Transfers to stage 1	6,170	(6,170)	-	-
Transfers to stage 2	(118,996)	118,996	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	(142,066)	(1,609)	-	(143,676)
Amounts written off	-	-	-	-
Foreign exchange & other adjustments	(49,783)	(1,364)	(570)	(51,717)
As at 31 December	1,168,466	136,013	8,940	1,313,419
ECL allowance				
As at 1 January	1,698	828	3,931	6,457
New exposures	1,001	-	-	1,001
Matured exposures	(514)	(63)	-	(577)
Transfers to stage 1	20	(20)	-	-
Transfers to stage 2	(2,408)	2,408	-	-
Transfers to stage 3	-	-	-	-
Partial redemptions and other drawdowns	1,443	(240)	-	1,202
Amounts written off	-	-	-	-
Impact on year end ECL of exposures transferred between stages	-	-	-	-
Foreign exchange & other adjustments	(58)	(26)	(192)	(275)
As at 31 December	1,182	2,886	3,739	7,807

* £2.988 million of credit enhancements via export credit agency or bank guarantee.
Included with Stage 1 is £23.7 million of exposures to our Parent with a corresponding ECL charge of £27k.

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

2018	£000 Stage 1	£000 Stage 2	£000 Stage 3*	£000 Total
Gross carrying amount				
As at 1 January	1,392,597	200,678	569	1,593,844
New exposures	1,410,565	-	-	1,410,565
Matured exposures	(704,824)	(110,188)	-	(815,011)
Transfers to stage 1	71,251	(71,251)	-	-
Transfers to stage 2	(19,629)	19,629	-	-
Transfers to stage 3	-	(10,196)	10,196	-
Partial redemptions and other drawdowns	(227,152)	1,116	-	(226,036)
Amounts written off	-	-	-	-
Foreign exchange & other adjustments	81,577	11,712	36	93,325
As at 31 December	2,004,384	41,501	10,801	2,056,686
ECL allowance				
As at 1 January	2,959	2,697	569	6,225
New exposures	769	-	-	769
Matured exposures	(539)	(974)	-	(1,513)
Transfers to stage 1	249	(249)	-	-
Transfers to stage 2	(23)	23	-	-
Transfers to stage 3	-	(964)	964	-
Partial redemptions and other drawdowns	(1,890)	137	-	(1,753)
Amounts written off	-	-	-	-
Impact on year end ECL of exposures transferred between stages	-	-	2,365	2,365
Foreign exchange & other adjustments	173	158	33	364
As at 31 December	1,698	828	3,931	6,457

* £3.093 million of credit enhancements via export credit agency guarantee.

27. Leases

i) Bank acting as a lessee (IFRS16)

The Bank has entered into a number of commercial leases for premises and other equipment.

Right-of-use assets	Land and buildings	IT equipment	Motor vehicles	Total
	2019			
	£000	**£000**	**£000**	**£000**
Balance at 1 January	**4,838**	**93**	**120**	**5,051**
Depreciation charge for the year	**(894)**	**(27)**	**(74)**	**(995)**
Additions to right-of-use assets	**-**	**-**	**55**	**55**
Derecognition of right-of-use assets	**-**	**-**	**-**	**-**
Exchange differences and other adjustments	**(245)**	**(5)**	**(1)**	**(251)**
Balance at 31 December	**3,699**	**61**	**100**	**3,860**

Future minimum lease payments under non-cancellable operating leases as at 31 December 2018 were as follows:	2018
	£000
Within one year	1,162
After one year but not more than five years	3,527
More than five years	849
	5,538

The Bank had total cash outflows for leases of £1.124 million in 2019.

ii) Bank acting as a lessor

The Bank acts as a lessor for commercial leases for premises in respect of ABC House.

	2019	2018
	£000	£000
Within one year	375	375
After one year but not more than five years	488	863
	863	1,238

28. 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 Hedges entered into by ABCIB which provide economic hedges are treated as 'Derivatives at fair value through profit or loss'.

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 economic hedges of certain foreign currency denominated equity investments (note 12).

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

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

	2019			2018		
	FV -Assets	**FV -Liabilities**	**Notional amount**	FV -Assets	FV - Liabilities	Notional amount
	£000	**£000**	**£000**	£000	£000	£000
i) Derivatives at fair value through profit or loss						
Forward foreign exchange contracts & Interest rate swaps						
Total at 31st December	**336**	**3,975**	**297,161**	1,905	2,533	400,018

ABCIB uses interest rate swap contracts to hedge against interest rate movements in relation to certain loans and advances to customers, deposits from customers and subordinated liabilities. The fair value of the hedging instruments is disclosed above. The main counterparty to these swaps contracts is the parent company. At 31st December 2019, none of the interest rate swaps hedges met the hedge accounting criteria.

ii) 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.

28. Financial Instrument Contracts (continued)

iii) 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.

2019

	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	Total £m
Assets							
Cash and cash equivalents	32.7	-	-	-	-	-	32.7
Investment in subsidiary	-	-	-	-	-	4.3	4.3
Loans and advances to banks	851.5	93.2	237.6	7.7	-	(4.0)	1,186.0
Loans and advances to customers	1,205.1	187.3	28.7	21.5	-	(7.4)	1,435.2
Debt investments - FVOCI	247.9	30.0	-	-	-	-	277.9
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	52.3	52.3
Fixed assets	-	-	-	-	-	39.3	39.3
Total assets	2,337.2	310.5	266.3	29.2	-	84.4	3,027.6
Liabilities and shareholders' funds							
Deposits from banks	1,722.1	40.4	41.7	70.9	-	-	1,875.1
Customer deposits	150.4	93.5	-	-	-	-	243.9
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	73.6	73.6
Term borrowing and subordinated liabilities	141.8	196.3	-	-	-	-	338.1
Shareholders' funds	-	-	-	-	-	496.9	496.9
Total liabilities and shareholders' funds	2,014.3	330.2	41.7	70.9	-	570.5	3,027.6
Net position	322.9	(19.7)	224.6	(41.7)	-	(486.1)	
Off balance sheet	-	-	-	-	-	-	
Interest rate sensitivity gap	322.9	(19.7)	224.6	(41.7)	-	(486.1)	
Cumulative gap	322.9	303.2	527.8	486.1	486.1	-	

2018

	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	Total £m
Assets							
Cash and cash equivalents	70.9	-	-	-	-	(0.1)	70.8
Investment in subsidiary	-	-	-	-	-	-	-
Loans and advances to banks	1,603.0	167.1	80.7	6.9	-	(2.6)	1,855.1
Loans and advances to customers	1,202.0	196.0	13.6	20.2	-	(17.2)	1,414.6
Debt investments - FVOCI	215.2	50.0	-	-	-	-	265.2
Derivative financial instruments, deferred tax asset, prepayments, accrued income and other assets	-	-	-	-	-	50.8	50.8
Fixed assets	-	-	-	-	-	39.6	39.6
Total assets	3,091.1	413.1	94.3	27.1	-	70.5	3,696.1
Liabilities and shareholders' funds							
Deposits from banks	1,947.8	35.3	399.9	-	-	-	2,383.0
Customer deposits	394.6	36.1	1.7	-	-	-	432.4
Derivative financial liabilities, other liabilities, accruals and deferred income, current tax liability and pension scheme liability	-	-	-	-	-	67.6	67.6
Term borrowing and subordinated liabilities	275.6	50.0	-	-	-	-	325.6
Shareholders' funds	-	-	-	-	-	487.5	487.5
Total liabilities and shareholders' funds	2,618.0	121.4	401.6	-	-	555.1	3,696.1
Net position	473.1	291.7	(307.3)	27.1	-	(484.6)	
Off balance sheet	-	-	-	-	-	-	
Interest rate sensitivity gap	473.1	291.7	(307.3)	27.1	-	(484.6)	
Cumulative gap	473.1	764.8	457.5	484.6	484.6	-	

29. 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.

		2019			2018		
	Measurement level	Carrying amount	Fair value	Unrecognised gain/(loss)	Carrying amount	Fair value	Unrecognised gain/(loss)
		£000	£000	£000	£000	£000	£000
Financial assets							
Loans and advances to banks	3	1,186,006	1,190,964	4,958	1,855,187	1,776,878	(78,309)
Loans and advances to customers	3	1,435,262	1,448,572	13,310	1,414,678	1,348,454	(66,224)
Debt investments - FVOCI	1	277,909	277,909	-	265,129	265,129	-
Derivative financial assets	2	336	336	-	1,905	1,905	-
Other	2	21,156	21,156	-	22,254	22,254	-
Financial liabilities							
Deposits from banks	3	1,875,147	1,853,608	21,539	2,382,938	2,239,626	143,312
Customer deposits	3	243,923	243,477	446	432,416	425,085	7,331
Term borrowing	3	288,149	289,764	(1,615)	275,634	202,529	73,105
Subordinated liabilities	3	50,000	56,105	(6,105)	50,000	49,477	523
Derivative financial liabilities	2	3,975	3,975	-	2,533	2,533	-
Other	2	21,156	21,156	-	22,254	22,254	-
				32,532			79,738

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 and fixed 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 based on instruments with similar risk characteristics and currency.

30. Market and liquidity risk

Market risk refers to the risk to the Bank resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, and equity and commodity price.

The Bank uses various market risk techniques and measurements to manage its investment and trading book by setting limits that are monitored on a daily basis by the Head of Market Risk & Head of Treasury. The Bank uses the Historical Value at Risk "VaR" as one of the measurements with 99% confidence level and one day holding period where positions are re-valued on a daily basis using historical market data. The Bank uses the Basis Point Value "BPV" technique to measure and monitor the banking book sensitivity to interest rates, which are monitored daily at the bank level as well as by currencies against a set of limits.

The Bank has a small Trading book for spot and forward foreign exchange markets, the trading for which is within a modest VaR limit and other market risk parameters. Any open positions are relatively small and are re-valued on a daily basis.

The Bank uses derivatives in order to reduce its exposure to market risks as part of its asset and liability management. This is achieved by entering into derivatives that hedge against the risk of treasury losses from mismatches in maturities, interest rates and currencies in relation to the asset and liability base. Interest rate and currency swap agreements are most commonly used to this effect.

Market Risk and other risks are reviewed in the Assets and Liabilities Committee (ALCO).

ABCIB's VaR exposures:	**2019**		2018	
	Maximum £000	**Minimum £000**	Maximum £000	Minimum £000
Trading	**37**	**0**	29	0
Banking	**10,871**	**47**	5,916	1,519

Liquidity risk

Liquidity risk is the risk to the Bank'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).

Liquidity risks are reviewed and monitored in the Assets and Liabilities Committee (ALCO). The Bank has robust strategies, policies, processes and systems that are comprehensive and proportionate to the nature, scale and complexity of the Bank's activities and enable the Bank to identify, measure, manage and monitor liquidity risk ensuring continuous liquidity. The Bank also assesses, monitors and maintains on a daily basis the amounts, types and distribution of liquidity resources that it considers adequate to cover:

• The nature and level of the liquidity risk to which it is or might be exposed;
• The risk that the Bank cannot meet its liabilities as they fall due;
• The risk that its liquidity resources might in the future fall below the level, or differ from the quality and funding profile, of those resources considered appropriate and agreed with the Prudential Regulation Authority (PRA) and covered by Individual Liquidity Adequacy Assessment Process (ILAAP)); and
• The risk that the Bank's liquidity resources fall below the level detailed in the Capital Requirements Regulation (CRR) requirements for the Liquidity Cover Ratio.
The Bank has set risk appetite levels for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank also manages liquidity risk through various Early Warning Indicators (EWIs).

Analysis of financial liabilities by remaining maturities

The table below summarises the maturity of ABCIB's financial liabilities at 31st December 2019 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.

	2019				
	Not more than 3 months	**More than 3 months but not more than 1 year**	**More than 1 year but not more than 5 years**	**More than 5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Financial Liabilities					
Deposits from Banks, Customers, Term borrowing and Subordinated Liabilities	**854,645**	**1,117,992**	**434,505**	**50,077**	**2,457,218**
Derivative financial liabilities	**3,975**	**-**	**-**	**-**	**3,975**
Commitments	**44,290**	**113,459**	**193,362**	**1,813**	**352,924**
Financial guarantees	**160,843**	**137,448**	**32,097**	**4,218**	**334,606**
Other	**21,156**	**-**	**-**	**-**	**21,156**

	2018				
	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	1,490,245	1,098,241	502,108	50,393	3,140,987
Derivative financial liabilities	2,432	-	-	101	2,533
Commitments	37,336	63,126	233,192	-	333,654
Financial guarantees	205,921	128,797	56,327	11,861	402,906
Other	22,254	-	-	-	22,254

31. Credit risk

Credit Risk is defined as risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Credit risk is managed by the ABCIB Credit Committee ("IBCC"), which is the main credit risk decision-making forum of ABCIB. IBCC has the following roles and responsibilities:

- Review and decision Credit Proposals in line with its delegated authorities.
- Review and approve Internal Risk ratings (IRR) and any overrides as applicable.
- Review and recommend ABCIB Credit Policy
- Review and approve Country Risk Policy, Credit Risk Mitigation Policy, Large Exposure Policy & Provisions Policy
- Review and approve other policies, Risk Acceptance Criteria & Guidance notes.
- Review and approve relevant Credit Models & IFRS9 models.
- Review and approve Credit Impairment Provisions.
- Credit Portfolio Reviews.
- Review of Credit Resources and Infrastructure.
- Delegate its authorities to a sub-committee.
- Review its Terms of reference annually

Credit risk is managed through risk assessment of counterparty, country, industry and other relevant risks. Credit limits are set in line with the aforementioned risk assessment and also considers standard mitigation and credit control practices.

- Relationship managers in the first line of defence are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks.
- The centralised credit unit in the second line of defence is responsible for:
  - o Independent credit review of the clients.
  - o Monitoring and maintaining oversight of the credit portfolio through client reviews, portfolio MI and KRIs.
  - o Supporting the IBCC with reference to its roles and responsibilities

Credit risk impairment assessment and mitigation

Exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for unfunded facilities is calculated by multiplying the outstanding exposure with the credit conversion factor (CCF) ranging from 20% to 100%.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the date of the statement of financial position and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default (LGD)

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. The Bank uses models to calculate the LGD values taking into account the collateral type, collateral value, economic scenarios, industry of the borrower, etc. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material negative change in the borrower's financial performance or structure
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 12 consecutive months. The asset is then transferred to Stage 2 and after a cure period of further 6 months to Stage 1.

The Bank uses internal risk ratings that reflect its assessment of the probability of default of individual counterparties. The Bank uses a combination of external and internal rating models tailored to various categories. Borrower and loan specific information collected at the time of applications fed into this rating model.In addition expert judgement is factored in where appropriate to arrive at Final Internal Risk Rating (IRR) for each counterparty. This allows for considerations which may not be captured as part of the model output.

31. Credit risk (continued)

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 01 and 02+ rating grade is lower than the difference in the PD between a 05- and 06+ rating grade.

The following are additional considerations for each type of portfolio held by the Bank:

Wholesale portfolio

Wholesale portfolio includes Banks & Financial Institutions , Corporates & Real Estate exposure.

For Banks & Financial Institution exposures a substantial part are rated using external ratings provided by rating agencies i.e. (S&P, Moodys, Fitch & Capital Intelligence)

For Corporate exposures, the rating model uses a combination of qualitative and quantitative factors are used to determine Internal Risk Ratings.

For Real Estate exposures, the rating model uses a combination of qualitative and quantitative factors are used to determine Internal Risk Ratings.

Treasury portfolio

For debt investment securities in the non-trading portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The external ratings are mapped to the Bank's internal ratings scale an the PD's associated with each grade are used for the ECL computation.

The Bank's rating method comprises 20 rating levels for instruments not in default (1 to 8) and three default classes (9 to 11). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Bank's internal credit rating grades along with the respective PDs are as below:

Internal rating grades	Internal rating grade description	PD range (%)
1+ to 4-	Superior	>=0.00% to <0.49%
5+ to 5-	Satisfactory	>=0.49% to <1.52%
6+ to 6-	Satisfactory	>=1.52% to <5.02%
7	Marginal	>=5.02% to <17.32%
8	Accounts requiring close monitoring	>=17.32%

The PDs obtained as above are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk on various factors including number of notches change in internal risk rating, ARCM customers, restructured /forbearance, historical delinquency, etc.

A backstop is applied and the financial instrument considered to have experienced SICR if the borrower is more than 30 to 60 days past due on its contractual payments.

ECL measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer above for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Stage 3 provision is estimated on a specific name by name basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit- impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	Significant increase in credit risk (since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

31. **Credit risk (continued)**

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty.

These are instances where:

-The borrower is in long-term forbearance
-The borrower is deceased
-The borrower is insolvent
-The borrower is in breach of financial covenant(s)
-An active market for that financial asset has disappeared because of financial difficulties
-Concessions have been made by the lender relating to the borrower's financial difficulty
-It is becoming probable that the borrower will enter bankruptcy
-Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Bank's expected loss calculations.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default" above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12m PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed. Further, the Bank has applied LGD floors with respect to the secured portfolio depending on the collateral type.

For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Economic variable assumptions

An overview of the approach to estimating ECLs is set out above and in note 1.4.2. To ensure completeness and accuracy, the Bank relies on the data used from third party sources (e.g. Moody's). A team of economists within the Group's Credit Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios. The following table set out the impact on the base ECL provision arising from a +/-5% change in the following economic variables: GDP, Oil, Equity.

	5.00%			-5.00%		
Category	**GDP**	**Oil**	**Equity**	**GDP**	**Oil**	**Equity**
% change in Provision from Base ECL (Q4-2019)	-5.77%	-0.23%	-3.86%	4.81%	0.26%	4.03%

31. Credit risk (continued)

The above macroeconomic variables are selected based on the regression analysis between the macroeconomic variables and the PD. These economic variables and their associated impact on the PD and LGD vary by country and industry. Forecasts of these economic variables (for all scenarios) are provided by Moody's on a quarterly basis and provide the best estimate view of the economy over future years.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Industry exposure

The table below analyses the industrial spread of loans and advances to banks, loans and advances to customers and debt investments - FVOCI.

	2019				
	Stage 1	Stage 2	Stage 3	Total	2018
	£000	£000	£000	£000	£000
Financial	1,500,574	9,252	81	1,509,908	1,691,768
Central Banks and Governments	225,459	-	85	225,544	839,421
Other	348,666	2,155	444	351,265	383,270
Property Related	352,892	106,817	-	459,708	299,704
Motor Vehicle Related	215,873	-	-	215,873	204,495
Commodity Related	128,304	8,574	-	136,878	116,336
	2,771,769	126,798	610	2,899,176	3,534,994

The table below analyses the industrial spread of credit commitments and contingent items which include commitments to extend credit, standby letters of credit, acceptances and guarantees.

	2019				
	Stage 1	Stage 2	Stage 3	Total	2018
	£000	£000	£000	£000	£000
Financial	479,930	25,990	-	505,920	1,222,822
Central Banks and Governments	224,806	-	-	224,806	203,594
Other	126,309	35,900	5,201	167,408	255,750
Property Related	78,006	13,193	-	91,200	153,181
Motor Vehicle Related	52,180	58,045	-	110,225	70,461
Commodity Related	206,052	-	-	206,052	144,422
	1,167,283	133,127	5,201	1,305,611	2,050,229

Country exposure

The table below analyses the geographical spread of loans and advances to banks, loans and advances to customers and debt investments - FVOCI, and is stated before collateral.

	2019				
	Stage 1	Stage 2	Stage 3	Total	2018
	£000	£000	£000	£000	£000
Europe	1,279,163	108,972	435	1,388,570	1,841,799
MENAT	1,000,523	17,826	8	1,018,357	1,227,756
Asia	88,458	-	167	88,625	183,605
North America	64,304	-	-	64,304	131,976
South America	79,608	-	-	79,608	110,679
Other	259,713	-	-	259,713	39,179
	2,771,769	126,798	610	2,899,177	3,534,994

The table below analyses the geographical spread of credit commitments and contingent items which include commitments to extend credit, standby letters of credit, acceptances and guarantees.

	2019				
	Stage 1	Stage 2	Stage 3	Total	2018
	£000	£000	£000	£000	£000
Europe	389,002	117,774	5,159	511,935	633,714
MENAT	765,240	12,647	42	777,929	1,375,897
Asia	2,181	-	-	2,181	19,217
North America	-	2,706	-	2,706	15,675
South America	3,298	-	-	3,298	2,330
Other	7,562	-	-	7,562	3,396
	1,167,283	133,127	5,201	1,305,611	2,050,229

31. **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, for example, through the use of collateral agreements.

	2019	2018
	£000	£000
Cash and cash equivalents	32,683	70,763
Loans and advances to banks	1,186,006	1,855,187
Loans and advances to customers	1,435,262	1,414,678
Debt investments - FVOCI	277,909	265,129
Derivative financial assets	336	1,905
	2,932,196	3,607,662
Contingent liabilities	960,495	1,723,031
Commitments	352,924	333,655
	1,313,419	2,056,686

	2019	2018
	£000	£000
Cash collateralised		
Loans and advances to customers and banks	56,740	85,161
Contingent liabilities	434,438	930,059
Guaranteed by Banks and Credit Agencies		
Loans and advances to customers and banks	289,875	398,965
Contingent liabilities	21,950	25,669
Commitments	35,753	15,864
Risk concentration against individual counterparties		
Largest customer exposure before collateral	84,064	87,983
Largest customer exposure after collateral	84,064	87,983
Largest central bank placement before collateral	225,627	790,350
Largest central bank placement after collateral	-	790,350

Credit quality per class of financial assets

	Amortised cost	Debt investments - FVOCI	Total
	2019	2019	2019
	£000	£000	£000
Loans and advances to banks			
Investment grade	627,010	-	627,010
Sub investment grade	558,996	-	558,996
Total	1,186,006	-	1,186,006
Loans and advances to customers			
Investment grade	422,598	-	422,598
Sub investment grade	1,012,664	-	1,012,664
Total	1,435,262	-	1,435,262
Debt investments - FVOCI			
Investment grade	-	277,909	277,909
Total	-	277,909	277,909

	Amortised cost	Debt investments - FVOCI	Total
	2018	2018	2018
	£000	£000	£000
Loans and advances to banks			
Investment grade	1,247,374	-	1,247,374
Sub investment grade	607,813	-	607,813
Total	1,855,187	-	1,855,187
Loans and advances to customers			
Investment grade	297,827	-	297,827
Sub investment grade	1,116,851	-	1,116,851
Total	1,414,678	-	1,414,678
Debt investments - FVOCI			
Investment grade	-	265,129	265,129
Total	-	265,129	265,129

32. **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 the carrying amount of the instrument. This rate is the historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or an instrument carried at fair value.

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

	2019			2018		
	GBP	USD	EUR	GBP	USD	EUR
Loans and advances to banks & loans and advances to customers	2.58%	4.26%	1.62%	3.59%	4.05%	0.50%
Debt investments - FVOCI	0.00%	2.33%	0.16%	0.00%	2.62%	0.32%
Deposits from banks	0.78%	1.60%	0.00%	0.94%	2.53%	-0.29%
Customer deposits	1.35%	1.38%	0.13%	0.79%	2.51%	0.14%
Term borrowing	2.41%	3.15%	1.10%	2.81%	3.99%	1.10%

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.

	2019	2018
33. **Net trading income**	£000	£000
Dealing profits are analysed as follows:		
Foreign exchange gains and losses from financial assets and	67	(5)
Interest rate products	-	16
	67	11

34. **Assets, liabilities and equity in foreign currencies**	2019 £000	2018 £000
Denominated in sterling	764,396	534,608
Denominated in US dollars	1,490,147	1,903,060
Denominated in other currencies	773,143	1,258,470
Total assets	3,027,686	3,696,138
Denominated in sterling	806,047	526,954
Denominated in US dollars	1,524,580	1,591,589
Denominated in other currencies	697,059	1,577,595
Total liabilities and shareholders' funds	3,027,686	3,696,138

ABCIB's balance sheet consists entirely of monetary items, except for fixed assets totalling £39.3 million which have been included as part of assets denominated in Sterling and equity.

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 28.

35. **Ultimate parent undertaking and parent undertakings**

The directors consider the ultimate parent undertaking is Central Bank of Libya. Arab Banking Corporation (B.S.C) incorporated in the Kingdom of Bahrain is the immediate parent for which consolidated financial statements including ABCIB are prepared. The consolidated financial statements are available from the parent on request. Arab Banking Corporation (B.S.C) is jointly owned by Central Bank of Libya (59.37%) and Kuwait Investment Authority (29.69%).

36. Related party transactions

Related parties represent the ultimate parent undertaking, immediate parent undertaking, major shareholders and entities controlled, subsidiaries, associates, directors and senior management and companies jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length.

The income, expense and year end balances in respect of related parties included in the financial statements are as follows:

	2019						
	Ultimate Parent undertaking	Immediate Parent undertaking	Direct Subsidiaries & Joint ventures	Fellow associates and subsidiaries	Directors & Senior management	Other related	Total
	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	488	-	-	-	5.7	494
Loans and advances to banks	801	-	-	4,421	-	13,628	18,851
Loans and advances to customers	-	-	-	(12)	-	66,485	66,473
Deposits from banks	1,224,671	73,449	5,612	11,471	-	300,480	1,615,682
Customer deposits	-	-	-	-	123	66,777	66,900
Term borrowing	132,546	35,000	-	-	-	-	167,546
Subordinated liabilities	-	50,000	-	-	-	-	50,000
Off Balance sheet	11,563	16,483	-	1,459	-	91,408	120,914
Interest rate swaps	-	-	-	-	-	-	-
Other assets	-	-	-	-	17	-	17
Other liabilities	-	-	-	-	-	15	15
Interest income	-	(3)	4,618	90	-	2,944	7,649
Interest expense	35,455	2,357	4,619	118	-	5,188	47,737
Fee and commission income	5,969	147	43	187	-	19,336	25,682
Fee and commission expense	1,692	9	-	91	-	4,752	6,544
Net trading income	-	-	(2)	-	-	-	(2)
Other operating income	(0)	-	33	26	-	78	137

The aggregate amounts outstanding at 31st December 2019 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 (2018 - nil).

	2018						
	Ultimate Parent undertaking	Immediate Parent undertaking	Direct Subsidiaries & Joint ventures	Fellow associates and subsidiaries	Directors & Senior management	Other related	Total
	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	-	-	-	-	-	-
Loans and advances to banks	-	228	-	-	-	1,149	1,377
Loans and advances to customers	-	-	-	-	-	62,159	62,159
Deposits from banks	1,270,155	333,412	1,382	48,189	-	479,332	2,132,468
Customer deposits			2	-	282	81,307	81,309
Term borrowing	137,051	35,000		-	-	-	172,051
Subordinated liabilities	-	50,000	-	-	-	-	50,000
Off Balance sheet	95,839	79,434	-	5,514	-	140,870	321,657
Interest rate swaps	-	-	-	-	-	-	-
Other assets	-	(269)	-	-	12	-	(269)
Other liabilities	-	269	-	0	-	1	271
Interest income	-	53	4,449	49	-	1,806	6,357
Interest expense	28,473	2,744	4,362	52	-	5,138	40,768
Fee and commission income	4,457	200	24	200	-	19,756	24,637
Fee and commission expense	1,287	9	-	32	-	4,900	6,228
Net trading income	-	(21)	(1)	-	-	1	(20)
Other operating income	(0)	1	6	(0)	-	181	187

37. Pensions

ABCIB participates in a defined benefit pension scheme known as the ABC International Bank plc UK Retirement Benefits & Life Assurance Scheme ("the Scheme"). The Scheme provides benefits based on final pensionable salary and length of service on retirement, leaving service or death. 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 has no active members. The Scheme was closed to the future accrual of benefits on 30th September 2010. All active members at this date became deferred members. All current employees are offered membership of a separate defined contribution scheme. ABCIB expects to contribute £2,268,200 to the Scheme during the year to 31st December 2020.

The scheme is subject to the Statutory Funding Objective under the Pension Act 2004. A valuation of the scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, ABCIB must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these financial statements.

The last formal triennial valuation was carried out as at 30th September 2017, using the projected unit credit actuarial valuation method. The market value of the assets as at 30th September 2017 was sufficient to cover 62% of the then current value of the benefits accrued to that date, representing a gross Scheme deficit of £21,113,000.

The 30th September 2017 triennial valuation was updated by an independent actuary, to take account of the requirements of IAS19 (using the projected unit method) in order to assess the liabilities of the scheme at 31st December 2019. Note that the IAS19 liability values are not directly comparable to the valuations used to assess the Scheme against the Statutory Funding Objective since the assumptions for this latter purpose are "prudent" (i.e. they provide sufficient margins for adverse deviation consistent with the Trustees' appetite for risk and the perceived strength of the Employer Covenant) and reflect the actual investment strategy of the Scheme rather than assuming that the Scheme invests in AA corporate bonds as the IAS19 disclosures must assume. The IAS19 net pension liability as at 31 December 2019 was £11,718,000.

Scheme assets are stated at their market values at the respective balance sheet dates.

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

• RPI inflation is in line with implied inflation rate curve published by the Bank of England as at the relevant balance sheet dates. CPI inflation is assumed to be 1.0% pa less than the equivalent RPI assumption at each term. The single equivalent rate of the RPI inflation assumption is 3.2% pa (2018: 3.45% pa).

• Some of the pensions in payment will increase at 5% pa fixed and the remainder of pension increases in line with RPI inflation at each term, subject to a maximum of 5% and minimum of 0% in each year. The single equivalent rate of the inflation linked increase assumption is 3.0% pa (2018: 3.3% pa).

• Deferred pensions, in excess of any Guaranteed Minimum Pension (GMP), will increase in line with CPI inflation. The single equivalent rate of increase for deferred revaluation is 2.2% pa (2018: 2.45% pa).

• Discount rates are in line with Merrill Lynch nominal AA corporate spot yield curve as at the relevant balance sheet dates. Since this curve is based on corporate bonds with durations of less than 20 years, we have used the Bank of England gilt spot curve plus an appropriate margin to reflect the spread of corporate bonds over gilts of durations of 20 years and above. The single equivalent discount rate is 2.05% pa (2018: 2.8% pa).

• The mortality rate used is 95% of the S2NA tables with allowance for future improvements in line with the CMI 2017 projection model with a long term improvement rate of 1.25% pa.

The fair value of assets and expected rate of return on assets were:	2019		2018	
	Fair value	Long term rate of return expected	Fair value	Long term rate of return expected
	£m	%	£m	%
LDI	11.2		13.4	
Cash	0.4		0.1	
Equities	15.6		8.6	
Investment funds	9.5		9.1	
Total value of assets	36.7	2.05	31.2	2.80

Movement in scheme deficit	2019	2018	2017	2016
	£000	£000	£000	£000
Deficit in the Scheme after tax at 1st January	(11,550)	(15,202)	(18,086)	(8,581)
Contribution paid	2,200	1,600	1,600	1,320
Other finance (charge)	(293)	(345)	(449)	(296)
Past service cost and curtailment cost	-	(130)	-	-
Actuarial gains/ (losses)	(2,075)	2,527	1,733	(10,529)
Net pension liability at 31st December	(11,718)	(11,550)	(15,202)	(18,086)

Changes in the fair value of pension scheme assets	2019	2018
	£000	£000
Fair value of assets at 1st January	31,244	34,905
Interest on assets	879	802
Company contributions	2,200	1,600
Benefits paid	(1,896)	(4,641)
Return on assets less interest	4,260	(1,422)
Fair value of assets at 31st December	36,687	31,244

37. Pensions (continued)

Changes in the Defined benefit obligation	2019	2018
	£000	£000
Defined Benefit Obligation at 1st January	42,794	50,107
Past Service cost	-	130
Interest cost	1,172	1,147
Benefits paid	(1,896)	(4,641)
Experience loss / (gain) on defined benefit obligation	(1,150)	(856)
Loss / (gain) from changes to demographic assumptions	817	(299)
Loss / (gain) from changes in financial assumptions underlying present value of liabilities	6,668	(2,794)
Defined Benefit Obligation at 31st December	48,405	42,794

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in Assumption	Impact on scheme liabilities
		£000
Discount Rate	Plus 0.50%	(4,550)
	Minus 0.50%	5,244
Inflation	Plus 0.50%	1,877
	Minus 0.50%	(1,709)
Age rating	Plus 1.0 year	(1,959)
	Minus 1.0 year	1,996

Amount (debited) / credited to other financial charges	2019	2018
	£000	£000
Interest on pension scheme assets	(879)	(802)
Interest on pension scheme liabilities	1,172	1,147
	293	345

Future expected contributions to the defined benefit plan The following payments are expected contributions to the defined benefit plan in future years:	2019 £000	2018 £000
Within the next 12 months (next annual reporting date)	2,268	2,200
Between 2 and 5 years	9,798	9,503
Between 5 and 10 years	5,366	7,929
Total expected payments	17,433	19,632

The estimated duration of the scheme's liabilities as at 31 December 2019 on the accounting disclosure basis is approximately 21 years. (2018: 21 years)

Amount recognised in the Statement of Comprehensive Income	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Return on assets less interest	4,260	(1,422)	656	1,523	(1,349)
Experience (loss)/ gain on liabilities	1,150	856	1,375	1,098	1,786
(Loss)/gain from changes to demographic assumptions	(817)	299	2,221	(222)	(186)
(Loss)/gain from changes in financial assumptions underlying present value of liabilitie:	(6,668)	2,794	(2,519)	(12,928)	75
Actuarial gain/ (loss) recognised in the Statement of Comprehensive Income	(2,075)	2,527	1,733	(10,529)	326

% of Scheme asset value at balance sheet date represented by:	2019	2018	2017	2016	2015
	%	%	%	%	%
Return on assets less interest	11.6	(4.6)	1.9	4.3	(4.2)

% of Scheme liability value at balance sheet date represented by:	2019	2018	2017	2016	2015
	%	%	%	%	%
Experience gain/ (loss) on liabilities	2.4	2.0	2.7	2.1	4.4
Changes in financial assumptions underlying present value of liabilities	(13.8)	6.5	(5.0)	(24.3)	0.2
Actuarial gain/ (loss) recognised in the Statement of Comprehensive Income	(4.3)	5.9	3.5	(19.8)	0.8

38. *Events after the balance sheet date*

Dividend proposed

A final dividend relating to year ended 31 December 2019 amounting to £4.0m was proposed on 28 February 2020.

ECL

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. The coronavirus outbreak that started in mainland China in early 2020, is causing disruption to business and economic activity on a global scale and emerging as a new risk. The impact on GDP and other key indicators will be considered when determining the impact and likelihood of downside economic scenarios that will be used to estimate ECL under IFRS 9 in 2020.

ABCIB NETWORK

HEAD OFFICE (AND REGISTERED OFFICE)

BANK ABC in the UK
Arab Banking Corporation House
1-5 Moorgate, London EC2R 6AB
Tel: (44) (20) 3765 4000 (General)
Fax: (44) (20) 7606 9987 (General)
E-mail: abcib@bank-abc.com

ABC INTERNATIONAL BANK PLC, BRANCHES

HEAD OFFICE AND LONDON BRANCH
Arab Banking Corporation House
1-5 Moorgate, London EC2R 6AB
Tel: (44) (20) 3765 4000 (General)
Fax: (44) (20) 7606 9987 (General)
E-Mail: abcib@bank-abc.com

PARIS BRANCH
8 Rue Halévy
75009 Paris
France
Tel: (33) (1) 4952 5400
Fax: (33) (1) 4720 7469
Swift: ABCOFR PP
E-Mail: abcib.paris@bank-abc.com

Fehmi Hannachi
General Manager

FRANKFURT BRANCH
Neue Mainzer Strasse 75
60311 Frankfurt am Main
Germany
Tel: (49) (69) 71403- 0
Fax: (49) (69) 71403- 240
Swift: ABCA DE FF
E-Mail: abcib.frankfurt@bank-abc.com

Alf Soerensen
General Manager

MILAN BRANCH
Via Amedei, 8
20123 Milan
Italy
Tel: (39) (02) 863 331
Fax: (39) (02) 86 450 117
Swift: ABCO IT MM
E-Mail: abcib.milan@bank-abc.com

Roberto Papadia
General Manager

REPRESENTATIVE OFFICE

ISTANBUL
Eski Buyukdere Cad. Ayazaga Yolu Sok
Iz Plaza No:9, Kat:19, D:69
34398 Maslak, Istanbul
Turkey
Tel : (90) (212) 329 8000
Fax: (90) (212) 290 6891
E-Mail: abcib.istanbul@bank-abc.com

Muzaffer Aksoy
Chief Executive Officer - Turkey

BANK ABC NETWORK

BAHRAIN

Head Office
ABC Tower, Diplomatic Area PO Box 5698, Manama Kingdom of Bahrain
Tel: (973) 17 543 000
Fax: (973) 17 533 163
bank-abc.com
webmaster@bank-abc.com

Bank ABC Islamic
ABC Tower, Diplomatic Area PO Box 2808, Manama Kingdom of Bahrain
Tel: (973) 17 543 342
Fax: (973) 17 536 379 / 17 533 972

Arab Financial Services B.S.C. (c)
PO Box 2152, Manama Kingdom of Bahrain Tel: (973) 17 290 333
Fax: (973) 17 291 323

JORDAN

P.O. Box 926691, Amman 11190, Jordan
Tel: (962) (6) 5633 500
Fax: (962) (6) 5686 291
info@bank-abc.com

EGYPT

90^{th} Street (north) – N39 B
Fifth Settlement – P.O. Box 46
New Cairo, Egypt
Tel: (202) 25861199/25861000
Fax: (202) 28111555
abcegypt@bank-abc.com

ALGERIA

PO Box 367
38 Avenue des Trois Freres Bouaddou
Bir Mourad Rais, Algiers, Algeria
Tel: (213) (0) 23 56 95 11/22/23 (213) (0) 23 56 95 01
Fax: (213) (0) 23 56 92 08
information@bank-abc.com

TUNISIA

ABC Building, Rue du Lac d'Annecy
Les Berges du Lac, 1053 Tunis, Tunisia
Tel: (216) (71) 861 861
Fax: (216) (71) 960 427 / 960 406 (216) (71) 860 921 / 860 835
abc.tunis@bank-abc.com

LIBYA

That Emad Administrative Centre Tower 5
16th Floor, PO Box 91191, Tripoli, Libya
Tel: (218) (21) 335 0226
(218) (21) 335 0227 / 335 0228
Fax: (218) (21) 335 0229

UNITED KINGDOM

Arab Banking Corporation House
1-5 Moorgate, London EC2R 6AB, UK
Tel: (44) (20) 3765 4000
Fax: (44) (20) 7606 9987
abcib@bank-abc.com

FRANCE

8 Rue Halévy,
75009, Paris, France
Tel: (33) (1) 4952 5400
Fax: (33) (1) 4720 7469
abcib.paris@bank-abc.com

GERMANY

Neue Mainzer Strasse 75
60311 Frankfurt am Main, Germany
Tel: (49) (69) 7140 30
Fax: (49) (69) 7140 3240
abcib.frankfurt@arabbanking.com

ITALY

Via Amedei, 8, 20123 Milan, Italy
Tel: (39) (02) 863 331
Fax: (39) (02) 8645 0117
abcib.milan@bank-abc.com

TURKEY

Eski Büyükdere Cad. Ayazaga Yolu Sok
Iz Plaza No: 9 Kat:19 D:69
34398 Maslak, Istanbul, Turkey
Tel: (90) (212) 329 8000
Fax: (90) (212) 290 6891
abcib.istanbul@bank-abc.com

UNITED ARAB EMIRATES

Office 1203, Level 12, Burj Daman,
P.O. Box 507311, DIFC, Dubai, UAE
Tel: (971) 4247 9300
Fax: (971) 4401 9578

BRAZIL

Banco ABC Brasil
Av. Cidade Jardim, 803 - 2nd floor - Itaim Bibi - São Paulo-SP -
CEP: 01453-000, Brazil
Tel: (55) (11) 317 02000
Fax: (55) (11) 317 02001
www.abcbrasil.com.br

UNITED STATES

140 East 45 Street, 38^{th} Floor
New York, NY 10017, USA
Tel: (1) (212) 583 4720
Fax: (1) (212) 583 0921

SINGAPORE

9 Raffles Place, #60-03 Republic Plaza
Singapore 048619
Tel: (65) 653 59339
Fax: (65) 653 26288