



Jordan International Bank Plc

Report & Accounts
2006

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Shareholders & Directors

Shareholders

	Percentage
Government of the Hashemite Kingdom of Jordan	15.000%
The Housing Bank for Trade and Finance	22.100%
Jordan AHLI Bank	18.900%
Bank of Jordan	7.825%
Jordan Kuwait Bank	7.450%
Cairo Amman Bank	6.700%
Jordan Commercial Bank	6.700%
Arab Jordan Investment Bank	5.200%
Jordan Investment and Finance Bank	5.125%
Arab Banking Corporation ~ Jordan	5.000%
	<u>100.000%</u>

Directors

H E Dr Umayya Toukan (Chairman)
H E Dr Michel Marto (Deputy Chairman) Alternate: Ahmed Abu Obeid
H E Dr Rajai Muasher Alternate: Khalil Nasr
H E Abdel Karim Kabariti Alternate: Mohamad Yaser Al-Asmar
H E Mohamad Jawad Hadid Alternate: Ayman Majali
Khaled Sabih Masri
David Colvin

Government of the Hashemite Kingdom of Jordan

The Government of the Hashemite Kingdom of Jordan is represented by the Governor of the Central Bank of Jordan as the Bank's Chairman, currently H E Dr Umayya Toukan. The Central Bank of Jordan was established in 1964 to maintain monetary stability in the Kingdom and to ensure the convertibility of the Jordanian Dinar, in addition to regulate the Jordanian financial sector and to promote a stronger banking system through close supervision and guidance.

The Housing Bank For Trade and Finance

	2006 JD'M's	2005 JD'M's
Total assets	<u>4,096</u>	<u>3,196</u>
Capital and reserves	<u>835</u>	<u>395</u>

The Housing Bank for Trade and Finance operates one of the largest branch networks in the country, with 105 branches, of which 97 in Jordan, 7 in Palestine and one in Bahrain. The Bank offers integrated banking services to retail and corporate customers and has a leading position in treasury and foreign exchange.

Jordan AHLI Bank

	2006 JD'M's	2005 JD'M's
Total assets	<u>1,741</u>	<u>1,672</u>
Capital and reserves	<u>213</u>	<u>178</u>

As part of a rebranding plan conducted through 2006, the Bank's name was changed to Jordan AHLI Bank. At the end of 2006 the Bank operated through 41 branches in Jordan, 5 in Palestine, one in Cyprus and 8 in Lebanon operating through the Bank's subsidiary AL AHLI International Bank SAL.

Bank of Jordan

	2006 JD'M's	2005 JD'M's
Total assets	<u>1,376</u>	<u>1,186</u>
Capital and reserves	<u>140</u>	<u>122</u>

At the end of 2006 Bank of Jordan operated through an expanded branch network of 81 outlets, including 45 full branches in Jordan and 7 full branches in Palestine. The Bank is active in corporate finance, retail banking and treasury management.

Jordan Kuwait Bank

(financial data available in US\$'s)

	2006 US\$M's	2005 US\$M's
Total assets	<u>2,327</u>	<u>1,988</u>
Capital and reserves	<u>276</u>	<u>153</u>

At the end of 2006, Jordan Kuwait Bank operated a domestic network of 46 branches, 2 branches in Palestine and a branch in Cyprus. A commercial bank in nature, the Bank is also active in corporate finance, treasury, consumer lending and private banking and was one of the first banks in Jordan to launch internet banking.

Shareholder Highlights

<i>Cairo Amman Bank</i>	2006 JD'M's	2005 JD'M's
Total assets	1,179	1,227
Capital and reserves	138	163

At the end of 2006 Cairo Amman Bank operated a network of 51 branches and offices in Jordan and 16 branches in Palestine.

<i>Jordan Commercial Bank</i>	2006 JD'M's	2005 JD'M's
Total assets	513	363
Capital and reserves	76	67

At the end of 2006 Jordan Commercial Bank operated a network of 30 branches.

<i>Arab Jordan Investment Bank</i>	2006 JD'M's	2005 JD'M's
Total assets	549	478
Capital and reserves	70	54

At the end of 2006 Arab Jordan Investment Bank operated a network of 9 branches, 8 exchange offices and an international banking unit (IBU) in Cyprus.

<i>Jordan Investment and Finance Bank</i>	2006 JD'M's	2005 JD'M's
Total assets	672	555
Capital and reserves	74	69

In addition to arranging syndicated loans, the Bank offers retail banking services including VISA credit cards on a selective basis. In addition it also participates in the underwriting of most bond issues in Jordan as manager and co-manager. The Bank was the first institution to provide stockbrokerage services to local and international institutional investors. The Bank comprises 8 branches.

<i>Arab Banking Corporation (Jordan)</i>	2006 JD'M's	2005 JD'M's
Total assets	518	411
Capital and reserves	66	53

A commercial bank in nature, ABCJ currently operates through 20 outlets and is active in retail banking, primary capital markets, mergers and acquisitions, securities trading, loan syndications and project finance. The Bank also has a domestic-based subsidiary, the Arab Co-operation Financial Investment Company Limited, whose services include commission brokerage, underwriting new stock issues and proprietary stock trading.

Executives & Professional Advisers

General Manager

David Gates

Deputy General Manager

Kevin Qualters

Senior Assistant General Manager and Treasurer

Bassel A Kekhia

Assistant General Manager

Fayez Al-Momani

Assistant General Manager, Private Banking

George A Shihata

Assistant General Manager, Corporate and Institutional Banking

Stephen Gulson

Assistant General Manager, Credit

Paul Van Dang

Secretary

James Story

Registered Office

103 Mount Street
London
W1K 2AP

Bankers

HSBC Bank Plc
London

Solicitors

Denton Wilde Sapte
London

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Internet

The Bank's website is at
www.jordanbank.co.uk

Chairman's Statement

I am able to report that the Bank's financial performance for 2006 resulted in a pre-tax profit of £270,000 and £133,000 after tax. During the year the Bank experienced a solitary bad or doubtful account and have decided to take a prudential view and have made a provision for this potential account impairment. As mentioned in my statement last year that for the Bank to continue to expand its Board approved business objectives, the Bank's capital resources need to be increased and therefore the Board of Directors have decided to retain all the profit for the year within the Bank and to add this amount to retained earnings.

This primary business focus during the year has been the continuing development of opportunities in the MENA region where the Bank, together with the support of its shareholder Banks, has made excellent progress. A significant proportion of this activity has been trade related where the strategy of marketing corporate customers in both Europe and the MENA region has proven to be most beneficial. Business in these areas has more than doubled in just two years.

The importance of increasing the Bank's commissions, fees and other off-balance sheet revenues remains high and the Corporate and Institutional Banking, Treasury and Private Banking business areas are all making important contributions. The Bank anticipates a further increase in off-balance sheet revenues through the development of its newly created Corporate Advisory activity.

The Bank is making its initial report under Financial Reporting Standards 25/26 and consequently this has created the need to undertake a 'fair value' exercise on the Bank's financial assets, liabilities and derivative instruments. This exercise has resulted in a revaluation of these categories and the financial result of which can be seen in the Bank's profit and loss account. The prior year profits have also been restated as is evidenced in the Statement of Total Recognised Gains and Losses.

On behalf of the Board, I would like to express our thanks to all our customers, market counterparts and correspondents for their continuing support and the management and staff for their loyalty and contribution to the Bank's success.

Dr Umayya Toukan
Chairman

21 March 2007

The directors are responsible for preparing the Annual Report including the Financial Statements. The directors have chosen to prepare the Financial Statements for the Bank in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view in accordance with UK GAAP of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

Principal activities and business review

The Bank continues to provide a range of wholesale banking services. The Chairman's Statement on page 5 reports on the Bank's business during the year. The directors aim to maintain and develop the policies which have resulted in the Bank's successful performance in recent years. The Bank's principal activities comprise:

Investment and Treasury related services

With comprehensive access to all the major financial markets, the Bank offers bond and foreign exchange dealing services. Deposits are accepted in all major currencies as well as Islamic murabaha. The Bank's Treasury department also execute orders on behalf of customers in precious metals.

Corporate & Institutional Banking services

European corporate clients are supported in respect of their business activities in the Middle East and North Africa (MENA) region. Services offered include Corporate Advisory Services, Correspondent Banking, Syndications, Project Finance and Islamic Banking.

Trade Finance services

Specialist trade services are provided to businesses exporting to, or importing from, the MENA region, including letters of credit advising, confirmation, negotiating and discounting, documentary collections and forfaiting.

Private Banking services

Personalised banking services are offered to high net worth clients both resident in the UK and overseas. Products offered include current, deposit and savings accounts, money transfer services, foreign exchange and precious metals dealing and property finance.

Corporate Advisory

This is a new activity primarily focused on the waste to energy industry where the Bank has been appointed financial advisor. It is intended to develop these services to other industries.

Business review summary

Total operating income for 2006 was £4.8million, 2% above the comparable figure for 2005. However, due to the impairment of a customer loan (see note 10) reported operating profit, after impairment, of £270,000 was significantly below that reported for 2005. As at 31 December 2006 total balance sheet footing stood at £237million, 14% higher than at 31 December 2005. After taking into account the reported profit for 2006, the revaluation of financial assets and derivatives as required under FRS 26, and the restatement of prior year reserves (see Statement of Total Recognised Gains & Losses on page 11), total reserves fell to £26.047million, 1.1% below the comparable figure as at 31st December 2005.

The Bank is Authorised and Regulated by The Financial Services Authority.

Directors' Report

Directors Report (continued)

Charitable donations

During the year, the Bank made charitable donations of £352 to UK registered charities and £3,000 to non-UK registered charities.

Directors' and officers' liability insurance

During the year, the Bank has purchased and maintained cover for directors and officers under directors' and officers' liability insurance policies as permitted by section 310(3) of the Companies Act 1985.

Substantial shareholders

Details of shareholders of the Bank are shown on page 1.

Disclosure of information to auditors

Each of the persons who is a director at the date of the approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

Secretary

21 March 2007

We have audited the financial statements of Jordan International Bank Plc for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report and Chairman's Statement is consistent with the financial statements.

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

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

Independent Auditors' Report (continued)

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Bank's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report and Chairman's Statement is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

29 March 2007

Profit & Loss account for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
<i>Interest receivable</i>			
Interest receivable and similar income arising from debt securities and treasury bills		3,942	4,240
Other interest receivable and similar income		9,116	5,209
		<u>13,058</u>	<u>9,449</u>
Interest payable		(9,340)	(5,761)
<i>Net interest income</i>		<u>3,718</u>	<u>3,688</u>
Fees and commissions receivable		666	673
Dealing profits	5	182	229
Other operating income		17	17
Gain on disposal of securities		22	98
Other financial assets revaluation	5	(368)	~
Derivatives revaluation	5	582	~
<i>Total operating income</i>		<u>4,819</u>	<u>4,705</u>
Administrative expenses	3	(2,208)	(1,996)
Depreciation	5, 14	(94)	(90)
Other operating charges		(1,403)	(1,374)
Impairment	10	(914)	~
Profit on sale of debt securities	5	70	51
<i>Operating profit and profit on ordinary activities before taxation</i>	5	270	1,296
Tax on profit on ordinary activities	6	(137)	(395)
<i>Profit on ordinary activities after taxation and profit for the financial year</i>		<u>133</u>	<u>901</u>
Retained profit for the financial year		<u>133</u>	<u>901</u>

The accompanying notes are an integral part of this profit and loss account.

All operations of the Bank continued throughout both periods and no operations were acquired or discontinued.

Balance Sheet

Balance Sheet at 31 December 2006

	Notes	2006 £'000	2005 £'000
<i>Assets</i>			
Cash		282	185
Collections on other banks		1,089	1,042
Loans and advances to shareholder banks	7	23,290	13,090
Loans and advances to other banks	8	100,307	73,617
Loans and advances to customers	9	49,207	43,466
Debt securities	12	60,920	73,796
Tangible fixed assets	14	449	438
Other assets	15	121	100
Deferred tax	6	120	~
Prepayments and accrued income		1,217	2,076
<i>Total assets</i>		237,002	207,810
<i>Liabilities</i>			
Deposits by shareholder banks	16	150,205	128,871
Deposits by other banks	17	28,624	28,394
Customer accounts	18	29,259	20,625
Other liabilities	19	817	724
Accruals and deferred income		2,050	2,858
		210,955	181,472
Called-up share capital	20	20,000	20,000
Share premium	21	316	316
Profit and loss account		5,731	6,022
<i>Shareholders' funds ~ equity interests</i>		26,047	26,338
<i>Total liabilities</i>		237,002	207,810

Balance Sheet at 31 December 2006 (continued)

	Notes	2006 £'000	2005 £'000
<i>Memorandum items</i>	34		
<i>Contingent liabilities</i>			
Acceptances		1,391	1,761
Guarantees and irrevocable letters of credit		<u>13,090</u>	<u>10,275</u>
		<u>14,481</u>	<u>12,036</u>

These financial statements were approved by the Board of Directors and authorised for issue on 21 March 2007.

Signed on behalf of the Board of Directors

Dr Umayya Toukan

Dr Michel Marto

Dr Rajai Muasher

} Directors

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement

Statement of cash flows for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
<i>Net cash inflow from operating activities</i>	22	<u>2,915</u>	<u>6,848</u>
<i>Returns on investments and servicing of finance</i>			
Interest received		<u>4,086</u>	<u>4,298</u>
<i>Net cash inflow from returns on investments and servicing of finance</i>		<u>4,086</u>	<u>4,298</u>
<i>Taxation</i>			
Corporation tax paid		<u>(390)</u>	<u>(391)</u>
Tax paid		<u>(390)</u>	<u>(391)</u>
<i>Capital expenditure and financial investment</i>			
Purchase of investments		<u>(50,391)</u>	<u>(58,785)</u>
Investments sold and matured		<u>58,604</u>	<u>78,230</u>
Purchase of tangible fixed assets	14	<u>(105)</u>	<u>(60)</u>
<i>Net cash inflow from capital expenditure and financial investment</i>		<u>8,108</u>	<u>19,385</u>
<i>Equity dividend paid</i>		<u>~</u>	<u>(800)</u>
<i>Increase in cash</i>	23	<u>14,719</u>	<u>29,340</u>

The accompanying notes are an integral part of this cash flow statement.

Statement of Total Recognised Gains and Losses

	Share Capital £'000	Share Premium £'000	Reserves £'000	Total £'000
<i>Balance at 31 December 2005</i>	20,000	316	6,022	26,338
<i>FRS 26 adjustments</i>				
Derivatives at fair value	~	~	(611)	(611)
Reversal of general provision	~	~	2	2
Tax impact of fair value adjustments	~	~	185	185
<i>Opening total equity as restated</i>	20,000	316	5,598	25,914
Retained profit for 2006	~	~	133	133
<i>Balance at 31 December 2006</i>	20,000	316	5,731	26,047

1 Accounting policies

a) Accounting convention

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom, under the historical cost convention basis except for derivatives and financial assets designated at fair value through profit and loss. The policies have been consistently applied except as noted in b) below.

b) Change in accounting policy

The Bank is required to present its 2006 accounts in accordance with Financial Reporting Standards ('FRS') issued under UK GAAP, and has therefore, in the current period adopted FRS 25 & FRS 26. Advantage has been taken of the exemption under FRS 25 & FRS 26 not to restate comparative information to comply with these standards.

The adoption of these standards has impacted on the accounting policies for the following;

- Impairment losses;
- Valuation of debt securities designated at fair value through profit and loss;
- Accounting for derivatives; and
- Accounting for financial instruments carried at amortised cost.

The effect of the change in accounting policy on the results for the current year is an increase in profit for the financial year after tax of £150,000.

Details on the impact of these changes in accounting policy on opening reserves for 2006 are provided in note 33.

c) Income recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities, other than those at fair value through profit and loss, are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition and early redemption fees. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets and financial liabilities held-for-trading or designated as at fair value through profit and loss are recorded at fair value. Changes in fair value are recognised in profit and loss together with dividends and interest receivable and payable.

d) Commissions and fees

Commissions and fees receivable which represent a return for services provided are credited to income when the related service is performed or where considered appropriate, taken to the profit and loss over the life of the facility.

1 Accounting policies (continued)

e) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at market rates of exchange ruling at the balance sheet date. Premiums and discounts arising on foreign exchange swap contracts entered into are apportioned over the periods of the transactions and included in interest in the profit and loss account. All transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses are included in the profit and loss account for the year. The Bank's functional currency is sterling (note 28).

f) Financial assets

Financial assets are classified as loans and receivables, held-to-maturity or designated at fair value through profit and loss.

Loans and receivables ~ non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment losses.

Held-to-maturity investments ~ financial instruments with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method.

Fair value through profit and loss

- a) Held-for-trading* ~ a financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the near term or forms part of portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking or it is a derivative. Held-for-trading financial assets are measured at fair value with gains and losses recognised in profit and loss as they arise.
- b) Fair value through profit and loss* ~ any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes accounted for in profit and loss.

Available for sale ~ those non-derivative financial assets that are not classified as loans and receivables, held to maturity, or not held for trading and are not designated as at fair value through profit and loss on initial recognition. Available for sale financial assets are measured at fair value with fair value gains or losses recognised directly in equity through the statement of total recognised gains and losses. Interest is calculated using the effective interest method and is recognised in profit and loss along with impairment losses.

On implementation of FRS 26, no financial assets were designated as available for sale.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date, all other regular way purchases are recognised on trade date.

1 Accounting policies (continued)

g) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset classified as either held-to-maturity or as loans and receivables is impaired. A financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost ~ if there is objective evidence that an impairment loss on a financial asset classified as loans and receivables or as held-to-maturity investments has been incurred, the Bank measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cashflows from the asset discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant.

Impairment losses are recognised in profit and loss and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

h) Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities are measured at amortised cost using the effective interest method (see income recognition note) or at fair value.

i) Derivatives and hedging

The Bank uses derivative financial instruments to hedge exposure to foreign exchange risk and interest rate risk. The Bank does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are measured at fair value with gains and losses arising from changes in their fair value being recognised in profit and loss. Derivative fair values are determined from quoted prices in an active market where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

A derivative embedded in a contract is accounted for as stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract unless the entire contract is carried at fair value through profit and loss.

j) Equity

Equity is represented by ordinary paid-up share capital, share premium and retained reserves adjusted to reflect the revaluation to fair values of the Bank's financial assets and their associated derivatives.

1 Accounting policies (continued)

k) Depreciation

Fixed assets are stated at cost net of depreciation and impairment in value. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life from the date it is brought into use, as follows:

Leasehold property and improvements	over period of the lease
All other tangible assets	5 years

Tangible fixed assets are reviewed for any impairment on an annual basis.

l) Taxation

Current UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

m) Pension costs

The Bank operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet (note 3).

n) Operating leases

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

2. Segmental information

The Bank has one main activity, commercial banking, which is carried out in the United Kingdom.

3 Administrative expenses

	2006 £'000	2005 £'000
Staff costs including directors:		
Salaries	1,672	1,487
Social security costs	193	174
Other pension costs (note 30)	219	196
	<u>2,084</u>	<u>1,857</u>
Other administrative expenses	124	139
	<u>2,208</u>	<u>1,996</u>

The average number of persons employed by the Bank in 2006 was 35 (2005 ~ 33), made up as follows:

	2006 No.s	2005 No.s
Retail banking	6	5
Corporate banking	6	7
Treasury and dealing activities	7	8
Other support staff	16	13
	<u>35</u>	<u>33</u>

4 Directors' emoluments

The aggregate amount of emoluments paid to directors consisted of:

	2006 £'000	2005 £'000
Fees	30	30
Salaries	128	88
	<u>158</u>	<u>118</u>

No directors were members of the Bank's Pension Scheme in the current and prior year.

5 Profit on ordinary activities before taxation

Profit is stated after charging:

	2006 £'000	2005 £'000
(i) Income:		
Profits from securities dealing ~ foreign exchange	182	229
Profits on disposal of investment securities	70	51
Net loss on financial assets and liabilities designated at fair value through profit and loss	(368)	~
Net gain on derivatives designated at fair value through profit and loss	582	~
(ii) Charges:		
Depreciation on owned assets	94	90
Auditors' remuneration		
~ audit services	60	48
~ non-audit services	16	8
Rental on land and buildings	<u>233</u>	<u>212</u>

Notes to Financial Statements

6 Tax on profit on ordinary activities

Based on profit for the year:

	2006 £'000	2005 £'000
United Kingdom corporation tax	(87)	(395)
Adjustments in respect of prior year periods	(4)	~
	<u>(91)</u>	<u>(395)</u>
Deferred tax ~ Current year	(1)	~
Deferred tax ~ Prior year adjustment	(45)	~
	<u>(137)</u>	<u>(395)</u>

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	<u>270</u>	<u>1,296</u>
Tax on profit on ordinary activities at standard UK corporation tax of 30% (2005 ~ 30%)	(81)	(389)
Effects of:		
Expenses not deductible for tax purposes	(14)	(12)
Movement in short-term timing differences	~	1
Marginal relief	8	5
Prior-period adjustments	(4)	~
	<u>(91)</u>	<u>(395)</u>

A deferred tax asset has not been recognised in respect of timing differences relating to capital losses carried forward and other short-term timing differences as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £33,592 (2005 ~ £41,479). The asset would be recovered if suitable taxable profits are generated in future periods.

The movement on deferred taxation balance in the period is:

	£'000
Opening balance	~
Charge to profit and loss account	(45)
Credit arising on fair value adjustments	165
Closing balance	<u>120</u>
Analysis of deferred tax balance;	
Depreciation in excess of capital allowances	(50)
Short-term timing differences	170
	<u>120</u>

7 *Loans and advances to shareholder banks*

	2006 £'000	2005 £'000
Repayable		
~ on demand	10,537	3,738
~ within three months	9,945	3,981
~ between three months and one year	351	1,522
~ between one and five years	1,404	2,248
~ more than five years	1,053	1,601
	<u>23,290</u>	<u>13,090</u>
Designated at fair value through profit and loss	2,808	
Loans and receivables at amortised cost	20,482	
	<u>23,290</u>	

8 *Loans and advances to other banks*

2006	Non performing loans £'000	Performing loans £'000	2006 Total £'000
Repayable			
~ on demand	~	52,050	52,050
~ within three months	~	26,170	26,170
~ between three months and one year	1,162	7,245	8,407
~ between one and five years	~	14,635	14,635
	<u>1,162</u>	<u>101,100</u>	<u>101,262</u>
Impairment (note 10)	(955)	~	(955)
	<u>207</u>	<u>100,100</u>	<u>100,307</u>
Designated at fair value through profit and loss less impairment			9,624
Loans and receivables at amortised cost			90,683
			<u>100,307</u>

Notes to Financial Statements

8 *Loans and advances to other banks (continued)*

2005	Non performing loans £'000	Performing loans £'000	2005 Total £'000
Repayable			
~ on demand	~	43,482	43,482
~ within three months	~	22,089	22,089
~ between three months and one year	1,425	5,250	6,675
~ between one and five years	~	2,440	2,440
	1,425	73,261	74,686
Provision for bad and doubtful debts (note 10)	(1,069)	~	(1,069)
	356	73,261	73,617

9 *Loans and advances to customers*

	2006 £'000	2005 £'000
Repayable		
~ on demand	9,393	8,373
~ within three months	6,125	4,791
~ between three months and one year	8,932	11,326
~ between one and five years	22,887	18,978
~ over five years	2,784	~
Impairment	(914)	~
General Provision (note 10)	~	(2)
	49,207	43,466
Designated at fair value through profit and loss	11,102	
Loans and receivables at amortised cost	38,105	
	49,207	

10 *Impairment losses on loans and advances*

	2006		2005	
	Total £'000	Specific £'000	General £'000	Total £'000
At 1 January	1,071	971	2	973
Reversal of general provision due to adoption of FRS 26	(2)	~	~	~
Charge to profit and loss	914	~	~	~
Recoveries/other movements	(114)	98	~	98
At 31 December	<u>1,869</u>	<u>1,069</u>	<u>2</u>	<u>1,071</u>
Relating to loans and receivables to banks (note 8)	955			1,069
Relating to loans and advances to customers (note 9)	914			2
	<u>1,869</u>			<u>1,071</u>

See accounting policy note 1(g) 'impairment of financial assets'.

11 *Concentrations of credit risk*

The Bank's balance sheet is widely diversified geographically and industrially. The following geographical concentrations are considered significant:

	2006 £'000	2005 £'000
OECD	105,750	107,825
Jordan	59,132	45,993
Arab/Middle East	58,201	37,341
Asia	33	3,984
Other	13,886	12,667
	<u>237,002</u>	<u>207,810</u>

The following industry concentrations are considered significant:

	2006 £'000	2005 £'000
Government/Quasi-Government	25,480	35,691
Banks	118,074	89,337
Investment and Finance	24,203	16,429
Other	69,245	66,353
	<u>237,002</u>	<u>207,810</u>

Notes to Financial Statements

12 Debt securities

2006	Issued by public bodies		Issued by other issuers	
	Govt securities £'000	Other public sector £'000	Other debt securities £'000	Totals £'000's
Held for trading	~	~	~	~
Designated at fair value through profit and loss	17,470	~	7,217	24,687
Held to maturity	1,619	~	34,614	36,233
At 31 December 2006	<u>19,089</u>	<u>~</u>	<u>41,831</u>	<u>60,920</u>
2005	Issued by public bodies		Issued by other issuers	
	Govt securities £'000	Other public sector £'000	Other debt securities £'000	Totals £'000's
Book value				
Investment Securities ~ Fixed	24,296	1,452	46,201	71,949
Investment Securities ~ Current	~	~	1,847	1,847
	<u>24,296</u>	<u>1,452</u>	<u>48,048</u>	<u>73,796</u>
Market value				
Investment Securities ~ Fixed	24,559	1,455	46,474	72,488
Investment Securities ~ Current	~	~	1,845	1,845
	<u>24,559</u>	<u>1,455</u>	<u>48,319</u>	<u>74,333</u>

The movement on debt securities held within the investment portfolio is as follows:

	£'000
<i>Cost</i>	
At 1 January 2006	71,949
Amortisation of debt securities	(970)
Additions	14,251
Disposals	(19,638)
Exchange adjustment	(5,567)
Fair value adjustment	207
Accrued interest	697
Amortisation of discounts and premiums	(9)
At 31 December 2006	<u>60,920</u>
Unamortised discounts and premiums at 31 December 2006	<u>1,947</u>

12 Debt securities (continued)

2006	Issued by public bodies		Issued by other issuers	
	Govt securities £'000	Other public sector £'000	Other debt securities £'000	Totals £'000's
Listed				
Held for trading	~	~	~	~
Designated at fair value through profit and loss	17,470	~	7,217	24,687
Held to maturity	1,619	~	34,614	36,233
	<u>19,089</u>	<u>~</u>	<u>41,831</u>	<u>60,920</u>
2005				
	Issued by public bodies		Issued by other issuers	
	Govt securities £'000	Other public sector £'000	Other debt securities £'000	Totals £'000's
Listed				
Book value				
Investment securities	24,296	1,452	~	25,748
Other debt securities	~	~	48,048	48,048
	<u>24,296</u>	<u>1,452</u>	<u>48,048</u>	<u>73,796</u>
Market value				
Investment securities	24,559	1,455	~	26,014
Other debt securities	~	~	48,319	48,319
	<u>24,559</u>	<u>1,455</u>	<u>48,319</u>	<u>74,333</u>

13 Trading book

	2006 £'000	2005 £'000
Net gain from trading in debt securities	14	13
Period-end fair value of financial assets held for trading	<u>~</u>	<u>1,845</u>

Notes to Financial Statements

14 Tangible fixed assets

	Furniture, fittings & office equipment £'000	Improvements to leasehold premises £'000	Total £'000
<i>Cost</i>			
At 1 January 2006	778	418	1,196
Additions	105	~	105
Disposals	~	~	~
At 31 December 2006	<u>883</u>	<u>418</u>	<u>1,301</u>
<i>Depreciation</i>			
At 1 January 2006	628	130	758
Charge for the year	64	30	94
Disposals	~	~	~
At 31 December 2006	<u>692</u>	<u>160</u>	<u>852</u>
<i>Net book value</i>			
At 31 December 2006	<u>191</u>	<u>258</u>	<u>449</u>
At 31 December 2005	<u>150</u>	<u>288</u>	<u>438</u>

15 Other assets

	2006 £'000	2005 £'000
Derivatives at fair value	2	~
Sundry loan receivables	119	100
	<u>121</u>	<u>100</u>

16 Deposits by shareholder banks

	2006 £'000	2005 £'000
Repayable		
~ on demand	18,208	14,858
~ within three months	123,797	113,839
~ between three months and one year	8,200	174
	<u>150,205</u>	<u>128,871</u>

17 Deposits by other banks

	2006 £'000	2005 £'000
Repayable		
~ on demand	1,441	3,999
~ within three months	27,183	24,395
	<u>28,624</u>	<u>28,394</u>

18 Customer accounts

	2006 £'000	2005 £'000
Repayable		
~ on demand	8,551	9,139
~ within three months	16,356	7,222
~ between three months and one year	4,352	1,589
~ between one and five years	~	2,675
	<u>29,259</u>	<u>20,625</u>

19 Other liabilities

	2006 £'000	2005 £'000
Current UK corporation tax	72	395
Derivatives at fair value	606	~
Other liabilities	139	329
	<u>817</u>	<u>724</u>

20 Called-up share capital

	2006 £'000	2005 £'000
Authorised:		
25,000 (2005 ~ 25,000) ordinary shares of £1 each	25,000	25,000
Called-up, allotted and fully paid:		
20,000 (2005 ~ 20,000) ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

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21 Share premium

	2006 £'000	2005 £'000
At 31 December	<u>316</u>	<u>316</u>

22 Reconciliation of operating profit to net cash flow from operating activities

	2006 £'000	2005 £'000
Operating profit	270	1,296
Interest received on investments	(4,086)	(4,298)
Increase in prepayments and accrued income	(415)	(131)
Increase in accruals and deferred income	181	746
Profit on sale of investments	(92)	(149)
Amortisation	9	64
Depreciation	94	90
Other financial asset revaluation	368	~
Derivative revaluation	(582)	~
Exchange adjustment	6,047	(5,771)
Net cash inflow/(outflow) from trading activities	<u>1,794</u>	<u>(8,153)</u>
Net increase in loans and advances	(27,065)	(20,788)
Net increase in deposits	28,418	35,683
Net (decrease)/increase in other assets and liabilities	(232)	106
Net cash inflow from operating activities	<u>2,915</u>	<u>6,848</u>

23 Analysis of the balances of cash as shown in the balance sheet

	2006 £'000	2005 £'000	Change in year £'000
Cash	282	185	97
Collections on other banks	1,089	1,042	47
Loans and advances to shareholder banks	10,537	3,738	6,799
Loans and advances to other banks	52,050	43,482	8,568
Deposits by shareholder banks	(18,208)	(14,858)	(3,350)
Deposits by other banks	(1,441)	(3,999)	2,558
	<u>44,309</u>	<u>29,590</u>	<u>14,719</u>

24 Derivatives at fair value

2006	Notional amounts £'000	Fair value assets £'000	Fair value liabilities £'000
Exchange rate contracts:			
Contract or underlying principal amount			
~ for dealing purposes	35,503	2	~
~ for hedging purposes	1,328	~	~
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	46,720	~	818
2005	Notional amounts £'000	Fair value assets £'000	Fair value liabilities £'000
Exchange rate contracts:			
Contract or underlying principal amount			
~ for dealing purposes	22,177	~	11
~ for hedging purposes	1,742	124	~
Interest rate contracts:			
Contract or underlying principal amount			
~ for hedging purposes	44,540	~	931

The Bank enters into derivative instruments solely for hedging purposes for managing interest rate and foreign exchange exposures.

The Bank, on behalf of its clients, buys and sells foreign exchange contracts. All such instruments are traded on a matched basis. The Bank does not hold any significant open positions.

The fair value of an instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale. The fair value of derivatives held for non-trading purposes is determined by market process.

25 Assets and liabilities in foreign currencies

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2006 £'000	2005 £'000
Assets	184,229	142,947
Liabilities	184,360	142,654

The above assets and liabilities denominated in foreign currencies do not indicate the Bank's exposure to foreign exchange risk.

26 Risk management

i) Governance Framework

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior staff in developing risk policies and in monitoring its application. Market, credit and liquidity risks are inherent in the Bank's core business. The evaluation of these risks and the setting of policies is carried out either through the Board, Executive Committee, Credit Committee, Assets and Liabilities Committee, senior management or internal audit.

The Board sets the overall risk appetite for the Bank. Various committees support these goals as follows:

- Board of Directors
- Audit Committee
- Executive Committee
- London Credit Committee
- Asset & Liability Committee

Audit Committee is a non-executive committee that supports the Board in carrying out its responsibilities for financial reporting and in respect of internal audit and risk assessment. The Committee monitors the ongoing process of the identification, evaluation and management of all significant risks throughout the Bank. The Committee is supported by internal audit who provides an independent assessment of the adequacy and effectiveness of the Bank's internal controls. Internal audit has direct access to the Chairman of all committees.

The Executive Committee exercises operational authority and oversight for the Bank. It is responsible for implementing a risk management framework consistent with the Board's risk appetite. The Executive Committee, in turn, is supported by the following committees:

London Credit Committee is a credit approval committee which reviews all credit applications received by the Bank's Credit department together with accompanying business proposals from departmental heads. Those applications outside of its delegated credit authority are recommended to the Bank's Executive Committee, who in turn either approve or recommend these applications to the Board of Directors for final approval.

26 Risk management (continued)

Asset and Liability Committee is an executive committee with no delegated authority, responsible for reviewing the Bank's balance sheet, funding, liquidity, structural foreign exchange, interest rate risk in the banking book, new products, regulatory limits including capital adequacy.

ii) Types of derivatives and their uses

Currency derivatives

The Bank uses cross currency swaps to eliminate currency risk on long or short lending positions against funding. In order to reflect the true economic impact to the Bank of the hedge, internal swaps are entered into in addition to the currency swap with the customer. These swaps are revalued daily against spot and forward rates and any change is recognised immediately in profit and loss.

The total notional amount of outstanding forward foreign exchange contracts to which the Bank is committed is disclosed in note 24.

Interest rate swaps

The Bank uses interest rate swaps to hedge the potential exposure to adverse interest rate movements on the funding of a bond or other fixed rate asset, by converting all the fixed rate receipts to floating rate.

The fair value of swaps entered into at 31 December 2006 is estimated at £45,826,000 (2005: £43,609,000). These amounts are based on quoted market prices at the balance sheet date.

iii) Risk management

The principal risks that the Bank manages are as follows:

Credit risk: is the risk arising from the possibility that the Bank will incur losses from the failure of customers to meet their obligations.

Liquidity risk: is the risk that the Bank is unable to meet its obligations as they fall due.

Market risk: the Bank is exposed to market risk because of its positions held in its banking and trading books, off and on-balance sheet.

Interest rate risk: is the possibility of a reduction in the value of an asset arising from a change in interest rates.

Operational risk: is defined as the risks associated and arising from the Bank's people, processes, systems and assets.

Regulatory risk: is the risk arising from failing to meet the requirements and expectations of the Bank's regulators, or from a failure to address or implement any change in these requirements or expectations.

26 Risk management (continued)

Credit risk

Key principles of credit risk management

- ~ Approval of all credit exposure must be granted prior to any advance or extension of credit.
- ~ An appropriate credit risk assessment of the customer and related credit facilities must be undertaken prior to approval of the credit exposure. This must include a review of, amongst other things, the purpose of the credit and sources of repayment, affordability, repayment history, ability to repay and sensitivity to economic and market developments.
- ~ The Board delegates credit authority to the Executive Committee and London Credit Committee.
- ~ All credit exposures, once approved, must be effectively monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment which may include the placement onto the Bank's credit watchlist.

Liquidity risk

Liquidity risk management within the Bank focuses on both the overall balance sheet structure and the day-to-day control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by the Board of Directors. Adherence to these parameters is monitored on a monthly basis by the Asset and Liability Committee and subsequently by the Executive Committee. Compliance, in respect of internal policy, is monitored and co-ordinated daily under the control of the Chief Treasurer, with the regulatory requirements of the Financial Services Authority being co-ordinated by the Senior Manager, Financial Reporting.

Funding Sources

Shareholder bank deposits and other bank deposits continue to represent the core of the Bank's funding, these short-termed funds increased by 13% during 2006 to £178m. Funding from customer accounts increased during 2006 to £29m.

Stress testing

As part of its stress testing of its access to sufficient liquidity, the Bank regularly evaluates the potential impact from a variety of scenarios. Contingency funding plans have been established in the event of a 'liquidity crisis' and management remain confident of the Bank's ability to manage its liquidity requirements effectively in all such circumstances.

Daily risk management

The Bank's day to day risk management activity is to ensure access to sufficient liquidity to meet its cashflow obligations within key time horizons out to one month ahead. The mainly short-term maturity structure of the Bank's liabilities is managed on a daily basis to ensure that all material cashflow obligations and potential cashflows arising from undrawn commitments and other contingent obligations, can be met as they arise from day to day, either from cashflows, from maturing assets, new borrowing or the sale of various debt securities held (after allowing for appropriate haircuts).

26 Risk management (continued)

Market risk

The Bank is exposed to market risk because of its banking and trading book positions.

Interest rate risk

Interest rate risk arises from the Bank's treasury activities and private, corporate and institutional banking businesses.

a) Treasury

The Bank's treasury activities include its money market business and the management of internal funds flow within the Bank's businesses.

b) Private, Corporate & Institutional banking

Structural interest rate risk arises in these activities where assets and liabilities have different repricing dates. It is the Bank's policy to minimise the sensitivity of net interest income to changes in interest rates. A maturity gap report is produced as at month-end in the major functional currencies.

Operational risk

Operational risk is defined as the risk arising in an organisation from:

- ~ People ~ risks arising from inappropriate level of staff, inadequately skilled or managed.
- ~ Process ~ risk caused by inadequate or failed processes.
- ~ Systems ~ risks of inadequately designed or maintained systems.
- ~ Assets ~ risk of damage, misappropriation or theft of the Bank's assets.

This risk is mitigated through work performed via internal audit.

Regulatory risk

Regulatory risk is the risk arising from the failing to meet the requirements of our regulators. To mitigate this risk the Bank remains vigilant in keeping abreast of various regulatory developments affecting risk, capital, large exposures and liquidity management.

Notes to Financial Statements

27 Financial instruments

Interest rate gap and sensitivity analysis

Exposure to interest rate movements arises where there is an imbalance between rate and non-rate sensitive assets and liabilities. The table below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2006. Assets and liabilities are included at the earliest date at which the applicable interest rate can change. This analysis for 2006 reflects the Effective Interest Rate (E.I.R.) for each class of interest earning asset and liability.

	<3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	>5 years £'000	Non- interest £'000	Total £'000	EIR %
Assets								
Cash	~	~	~	~	~	1,371	1,371	~
Loans and advances to shareholder banks	20,483	175	175	1,404	1,053	~	23,290	6.32
Loans and advances to other banks	86,838	10,152	2,848	469	~	~	100,307	5.95
Loans and advances to customers	48,756	451	~	~	~	~	49,207	7.07
Debt securities and equity shares ~ strategic investments	22,440	14,419	5,686	~	~	~	42,545	6.55
Asset swaps	9,558	8,817	~	~	~	~	18,375	6.24
Other assets	~	~	~	~	~	1,907	1,907	~
Total assets	188,075	34,014	8,709	1,873	1,053	3,278	237,002	~
Liabilities								
Deposits by shareholder banks	142,005	8,200	~	~	~	~	150,205	4.80
Deposits by other banks	28,624	~	~	~	~	~	28,624	4.76
Customer accounts	25,679	2,844	736	~	~	~	29,259	4.40
Other liabilities	~	~	~	~	~	2,867	2,867	~
Shareholder funds	~	~	~	~	~	26,047	26,047	~
Total liabilities	196,308	11,044	736	~	~	28,914	237,002	~
Interest rate sensitivity gap	(8,233)	22,970	7,973	1,873	1,053	(25,636)	~	~
Cumulative gap	(8,233)	14,737	22,710	24,583	25,636	~	~	~

27 Financial instruments (continued)

The tables below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2005. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

	<3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	>5 years £'000	Non- interest £'000	Total £'000
<i>Assets</i>							
Cash	~	~	~	~	~	1,227	1,227
Loans and advances to shareholder banks	7,719	604	918	2,248	1,601	~	13,090
Loans and advances to other banks	67,313	5,968	336	~	~	~	73,617
Loans and advances to customers	39,571	1,862	2,033	~	~	~	43,466
Debt securities and equity shares ~ strategic investments	21,648	15,936	10,896	~	~	~	48,480
Debt securities ~ strategic investments available for sale (trading book)	976	~	871	~	~	~	1,847
Asset swaps	14,740	8,729	~	~	~	~	23,469
Other assets	~	~	~	~	~	2,614	2,614
Total assets	151,967	33,099	15,054	2,248	1,601	3,841	207,810

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27 Financial instruments (continued)

	<3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	>5 years £'000	Non- interest £'000	Total £'000
<i>Liabilities</i>							
Deposits by shareholder banks	128,697	174	~	~	~	~	128,871
Deposits by other banks	28,394	~	~	~	~	~	28,394
Customer accounts	16,905	2,970	750	~	~	~	20,625
Other liabilities	~	~	~	~	~	3,582	3,582
Shareholder funds	~	~	~	~	~	26,338	26,338
Total liabilities	<u>173,996</u>	<u>3,144</u>	<u>750</u>	<u>~</u>	<u>~</u>	<u>29,920</u>	<u>207,810</u>
Interest rate sensitivity gap	(22,029)	29,955	14,304	2,248	1,601	(26,079)	~
Cumulative gap	<u>(22,029)</u>	<u>7,926</u>	<u>22,230</u>	<u>24,478</u>	<u>26,079</u>	<u>~</u>	<u>~</u>

The directors are of the opinion that the above position is representative of the Bank throughout the year.

The tables above provide only an indication of the sensitivity of the Bank's earnings to movement in interest rates.

A liability (or negative) gap position exists when liabilities reprice more quickly than assets during a given period and tends to benefit from net interest income in a declining interest rate environment.

An asset (or positive) gap position exists when assets reprice more quickly than liabilities during a given period and tends to benefit from net interest income in a rising interest rate environment.

The Bank's off-balance sheet items carry no interest rate repricing risk.

28 *Currency risk*

	Trading Net currency position		Non-trading Net currency position	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<i>Currency of denomination</i>				
US Dollar	~	~	31	33
Canadian Dollars	~	~	(12)	30
Japanese Yen	~	~	1	(16)
Euro	~	~	47	2
Jordanian Dinar	~	~	3	7
Other currencies	~	~	2	~
Total	~	~	72	56

The amounts shown in the table take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

The currency risk above relates to trading and non-trading book positions. The currency risk on the trading book is considered to be insignificant as the trading book positions are funded by liabilities in the same currency. The disclosure includes all monetary assets and liabilities including short-term debtors and creditors. Those assets and liabilities denominated in sterling have been excluded.

As stated in the disclosure note on derivatives and other financial instruments within the Directors' Report on page 8, the majority of currency deposits are converted into US Dollars. For the purposes of the net currency disclosure above, sterling has been used as the Bank's functional currency.

29 Fair values of financial instruments

Set out below is a year-end comparison of current fair values and book values of the Bank's financial instruments ('instruments') by category.

At 31 December 2006

	<u>Trading book</u>		<u>Non-trading book</u>	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<i>Assets</i>				
Loans and advances designated at fair value through profit and loss	~	~	23,534	23,534
Other loans and receivables at amortised cost	~	~	149,270	149,270
Debt securities designated at fair value through profit and loss	~	~	24,687	24,687
Debt securities held to maturity	~	~	36,233	36,233
<i>Liabilities</i>				
Deposits by banks and customers at amortised cost	~	~	208,088	208,088

At 31 December 2005

	<u>Trading book</u>		<u>Non-trading book</u>	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<i>Assets</i>				
Loans and advances to banks and customers	~	~	130,173	130,173
Debt securities	1,847	1,845	71,949	72,488
<i>Liabilities</i>				
Deposits by banks and customers	~	~	177,890	177,890

30 Pension scheme

The Bank operates a defined contribution scheme. The assets of the scheme are held separately from those of the Bank in an independently administered fund. The pension cost charge represents contributions payable by the Bank to the fund. All pension liabilities were fully satisfied at the year end.

31 Transactions with managers

The aggregate amounts outstanding from persons of managerial grade or above at 31 December 2006 were £63,001 (2005: £60,082).

32 Operating lease commitments

At 31 December the Bank was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings	
	2006	2005
	£'000	£'000
Leases which expire after five years or more	<u>233</u>	<u>233</u>
	<u>233</u>	<u>233</u>

33 Change in accounting policy

For the current period, the Bank has adopted FRS 25 and FRS 26 which are effective for accounting periods beginning on or after 1st January 2006. The Bank has taken the exemption available in FRS 25 and FRS 26 not to restate the comparative information to comply with these standards.

The impact of the adoption of FRS 26 on the opening balance sheet for 2006 is described below:

	31 December 2005 £'000	FRS 26 adjustments to opening retained earnings £'000	1 January 2006 £'000
Loans and advances to customers (note 9 &10)	43,466	2	43,468
Debt securities (note 12)	73,796	(161)	73,635
Other assets (note 15)	100	4	104
Other liabilities (note 19)	724	(454)	270
Other liabilities ~ corporation tax	~	20	20
Deferred tax	~	165	165
Impact on net assets	<u>118,086</u>	<u>(424)</u>	<u>117,662</u>

34 Contingent liabilities

The Bank has contingent liabilities arising from opened and confirmed letters of credit, guarantees issued and acceptances.

