Statement of Directors' Responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the Bank and of the profit and loss of the Bank for that period. In preparing those financial statements the Directors are required to:

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

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

Independent Auditor's Report

To Members of ABC International Bank plc

We have audited the Bank's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to [38]. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

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

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

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

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

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
London
30th March 2007

Profit and Loss Account

For the year ended 31st December 2006

	Notes	2006 £000	2005 £000
Interest receivable and similar income arising from debt securities and certificates of deposit purchased		**20,460**	16,473
Other interest receivable and similar income		**106,565**	76,435
		127,025	92,908
Interest payable		**(101,238)**	(66,675)
NET INTEREST INCOME	3	**25,787**	26,233
Fees and commissions receivable		**19,729**	19,224
Fees and commissions payable		**(2,462)**	(3,167)
Dealing profits		**141**	192
Other operating income	4	**3,149**	3,254
		20,557	19,503
Total operating income		**46,344**	45,736
Administrative expenses	5	**(28,631)**	(30,618)
Depreciation and amortisation		**(1,085)**	(1,184)
Net reversal of credit loss expense	6	**158**	2,251
		(29,558)	(29,551)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	7	**16,786**	16,185
Tax credit/(charge) on ordinary activities	8	**1,517**	(601)
PROFIT FOR THE FINANCIAL YEAR		**18,303**	15,584

The results for the year ended 31st December 2006 are derived from continuing operations.

Statement of Total Recognised Gains and Losses

For the year ended 31st December 2006

	2006 £000	2005 £000	2004 £000
Profit for the financial year	**18,303**	15,584	6,639
Actuarial profit/(loss) recognised on pension scheme	**2,449**	(2,151)	923
Deferred tax relating to actuarial gains/(losses) on pension schemes	**(496)**	367	(216)
Change in fair value of available for sale investments	**177**	-	-
Total recognised gains in the year	**20,433**	13,800	7,346
Prior year adjustment arising from the implementation of FRS 17 (Note 38)	**-**	(5,223)	-
Effect of FRS 26 implementation (Note 31)	**503**	-	-
TOTAL RECOGNISED PROFITS SINCE LAST ANNUAL REPORT	**20,936**	8,577	7,346

Balance Sheet

As at 31st December 2006

	Notes	2006 £000	2005 £000
ASSETS			
Cash and balances at central banks		**16,684**	18,621
Certificates of deposit purchased	9	**291,648**	294,000
Due from banks	10	**506,630**	636,656
Financial assets designated at fair value through profit and loss	11	**6,745**	-
Loans and advances to customers	12	**720,364**	784,304
Financial investments - available-for-sale	15	**187,715**	199,814
Interest in associated undertakings	16	**3,677**	4,348
Tangible fixed assets	18	**2,547**	3,063
Deferred tax asset	19	**3,000**	-
Other assets	20	**5,014**	5,353
Prepayments and accrued income	21	**31,632**	24,865
Total Assets		**1,775,656**	1,971,024
LIABILITIES			
Deposits from banks and other financial institutions	22	**1,043,016**	1,292,578
Deposits from customers	23	**163,475**	178,933
Certificates of deposit issued	24	**19,629**	25,806
Other liabilities	25	**10,420**	16,606
Accruals and deferred income	26	**15,397**	16,647
Term borrowing	27	**187,952**	126,105
Pension scheme liability	38	**4,673**	6,789
		1,444,562	1,663,464
Subordinated liability	28	**52,874**	50,145
Called up share capital	29	**182,296**	182,296
Profit and loss account		**95,780**	75,119
Fair value reserve		**144**	-
Equity shareholders' funds	30	**278,220**	257,415
Capital Resources		**331,094**	307,560
Total Liabilities and Shareholders' Funds		**1,775,656**	1,971,024
MEMORANDUM ITEMS			
Contingent Liabilities			
Acceptances and endorsements		**13,345**	11,777
Guarantees and letters of credit		**1,151,277**	851,267
		1,164,622	863,044
Commitments			
Other commitments	33	**208,218**	165,992
		208,218	165,992

Farhat O Ekdara
Chairman
28th March 2007

Notes to the Accounts

1. Accounting policies

1.1 Basis of preparation

The accounts are prepared under the historical cost convention, except for available-for-sale investments, derivative financial assets and derivative financial liabilities and financial assets and financial liabilities held at fair value through profit and loss, that have been measured at fair value. They are prepared in accordance with the special provisions of part VII of the Companies Act 1985 relating to banking companies, and applicable accounting standards.

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

1.2 Significant accounting judgements and estimates

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

Fair value of financial instruments

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

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to the specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Impairment of equity investments

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

Deferred tax assets

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

Pensions

The cost of the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 38 for the assumptions used.

1.3 Changes of accounting policy

During the year, the following accounting policy changes have been applied.

The Bank has adopted FRS 23 'The Effect of Changes in Foreign Currency Rates' with effect from 1st January 2006. The adoption of this standard does not impact the current year results, prior year balance sheets and prior year results.

The Bank has adopted FRS 25 'Financial Instruments: Disclosures and Presentation' and FRS 26 'Financial Instruments: Measurements'. The adoption of these standards gives rise to changes in accounting policies.

As permitted by FRS 25 and FRS 26, the Bank has utilised the exemption not to present comparative information in accordance with these standards. Had FRS 25 and FRS 26 been applied from 1st January 2006, the available-for-sale (debt securities) and certain loans and advances would have been carried at fair value rather than cost.

The interest rate swaps would have also been carried at fair value rather than on an accrual basis. Details of the effect of the adoption of FRS 25 and FRS 26 as at 1st January 2006 are given in note 31.

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

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the 'Other operating income' or 'Other operating expenses' in the income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non-monetary items that are measured in terms of 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. Any goodwill arising on the acquisition on a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

b) Financial instruments - initial recognition and subsequent measurement
i) Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

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

iii) Derivatives recorded at fair value through profit or loss
Derivatives include interest rate swaps, cross currency swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair values are negative. Changes in the fair value of derivatives held for trading are included in 'Net trading income'.

iv) Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

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

v) Financial assets designated at fair value through profit or loss
Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

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

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

1. Accounting policies (continued)

1.4 Summary of significant accounting policies (continued)

vi) Due from banks and loans and advances to customers

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

vii) Available-for-sale financial investments

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When a security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income' or 'Other operating expense'. 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. Interest earned while holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investment are recognised in the income statement in 'Impairment losses on financial investments' and removed from the available-for-sale reserve.

viii) Debt issued and other borrowed finance

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 arrangements result in the Bank having an obligation either to deliver cash or another financial asset to the holder.

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

c) Determination of fair value

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

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

d) Impairment of financial assets

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

i) Due from banks and loans and advances to customers

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

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

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

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

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

ii) Available-for-sale financial investments

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

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

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

e) Hedge accounting

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

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

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

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement in 'Net trading income'. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in 'Net trading income'.

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

f) Offsetting financial instruments

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

1. Accounting policies (continued)

g) Recognition of income and expense
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the effective interest rate applied to the new carrying amount.

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

iii) Dividend income
Revenue is recognised when the Bank's right to receive the payment is established.

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

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

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

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

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

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

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

k) Leases
Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Equipment on an operating lease is capitalised as a fixed asset and is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost less residual value over the primary lease term.

l) Pension benefits

i) Defined benefit pension plan

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

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

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

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

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

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

ii) Defined contribution pension scheme

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

m) 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.

2. Segmental reporting

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

3. Net interest income

Interest payable includes £2,861,233 in respect of interest on the subordinated liability (2005 : £1,970,263).

4. Other operating income

	2006 £000	2005 £000
Rental income	**874**	871
Islamic banking income	**1,436**	739
Dividends received	**292**	305
Profit/(loss) on sale of investment securities	**192**	(7)
Profit on redemption of deep discounted bond	**-**	379
Profit on sale of equity investments	**-**	353
Profit/(loss) on disposal of fixed assets	**108**	(9)
Other	**247**	623
	3,149	3,254

Notes to the Accounts

5. Administrative expenses

a) Staff costs:

	2006 £000	2005 £000
Salaries	**14,889**	13,627
Social security costs	**1,989**	1,898
Pension costs		
- Defined benefit scheme	**891**	749
- Defined contribution schemes	**315**	230
- Restructuring costs	**750**	1,386
	18,834	17,890
Other administrative expenses	**9,797**	12,728
	28,631	30,618

Other administrative expenses for 2006 include a credit of £1.8 million as a rebate of inter-group rental charges from 2001.

	2006 Number	2005 Number
The average number of employees (excluding Directors) during the year	**211**	225

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

	2006 £000	2005 £000
Aggregate emoluments in respect of qualifying services	**774**	385
Number of Directors accruing benefits under defined benefit scheme	**2**	2
In respect of the highest paid Director:		
Aggregate emoluments	**394**	104

The highest paid Director was the ex-Managing Director of the Bank, who resigned from office on 30th April 2006. His emoluments include payments arising from his resignation.

6. Net reversal of credit loss expense

The net credit for the year in respect of provisions is made up as follows:

	2006 £000	2005 £000
Loans and advances to customers	**(50)**	2,021
Recoveries in respect of advances previously written off	**208**	230
	158	2,251

7. Profit on ordinary activities before tax

		2006 £000	2005 £000
Profit is stated after (charging)/crediting:			
Foreign currency gains		**134**	156
Auditor's remuneration:	audit of the financial statements	**(203)**	(208)
	taxation services	**(277)**	(115)
	Other services	**(37)**	(49)
Operating lease rentals:	hire of equipment	**(792)**	(946)
	land and buildings	**(1,207)**	(3,619)
Income from listed securities		**6,910**	3,666

8. Taxation

Analysis of tax charge for the year

	2006 £000	2005 £000
Current tax:		
UK corporation tax	**(200)**	-
Foreign Tax	**(1,283)**	(601)
Total current tax	**(1,483)**	(601)
Deferred tax:		
Recognition of brought forward losses	**3,000**	-
Total deferred tax	**3,000**	-
Total tax credit/(charge) for the year	**1,517**	(601)

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

	2006 £000	2005 £000
Profit on ordinary activities before tax	**16,786**	16,185
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 : 30%)	**(5,036)**	(4,856)
Effect of:		
Disallowed expenses and non-taxable income	**(86)**	(463)
Depreciation in excess of capital allowances	**86**	279
Increase in other unrecognised deferred tax assets	**(819)**	-
Tax losses utilised	**1,917**	1,250
Group relief	**2,874**	3,790
Others	**(419)**	(601)
Deferred tax asset recognised in respect of brought forward losses	**3,000**	-
Tax credit/(charge)	**1,517**	(601)

9. Certificates of deposit purchased

	2006 £000	2005 £000
Analysed by maturity:		
within three months	**271,648**	249,000
between three months and one year	**20,000**	45,000
	291,648	294,000

10. Due from banks

	2006 £000	2005 £000
Repayable:		
on demand	**561**	921
within three months	**312,975**	392,026
between three months and one year	**92,162**	157,527
between one and five years	**94,155**	72,202
after five years	**9,116**	27,662
	508,969	650,338
Allowance for impairment losses (note 13)	**(2,339)**	(13,682)
	506,630	636,656
Included in the above are balances due from ABC Group undertakings of:	**28,108**	1,471

Included in the above are available-for-sale loans amounting to £2,302,000.

Notes to the Accounts

11. Financial assets designated at fair value through profit and loss account

	Total £000
At 1st January 2006	-
Additions	**6,745**
At 31st December 2006	**6,745**

12. Loans and advances to customers

	2006 £000	2005 £000
Repayable:		
on demand	**3,801**	1,862
within three months	**301,303**	348,660
between three months and one year	**122,411**	93,073
between one and five years	**174,928**	186,202
after five years	**124,869**	161,745
	727,312	791,542
Allowance for impairment losses (note 13)	**(6,948)**	(7,238)
	720,364	784,304
Included in the above are balances due from ABC Group undertakings of:	**92,765**	90,021

Included in the above are available-for-sale loans amounting to £1,176,000.

13. Movements in allowance for impairment losses

	Banks £000	Customers £000	Total £000
Brought forward 1st January 2006	**13,682**	**7,238**	**20,920**
Provision for the year	**-**	**50**	**50**
Amounts written off in the year	**(10,183)**	**(8)**	**(10,191)**
Foreign currency translation adjustment	**(1,160)**	**(332)**	**(1,492)**
Carried forward 31st December 2006	**2,339**	**6,948**	**9,287**

14. Movements in provision for suspended interest

	2006 £000	2005 £000
Brought forward 1st January	**13,154**	11,822
Interest suspended during the year	**155**	723
Interest written off during the year	**(11,734)**	(52)
Foreign currency translation adjustment	**(379)**	661
Carried forward 31st December	**1,196**	13,154

	2006 £000	2005 £000
Loans and advances where interest is suspended at year end		
Before allowance for impairment losses	**4,949**	16,622
After allowance for impairment losses	**164**	203

15. Financial investments - available-for-sale/debt securities

	2006 £000	2005 £000
Listed	**187,715**	187,472
Unlisted	**-**	12,342
	187,715	199,814
Due within one year	**4,703**	39,865
Due between one and two years	**9,401**	4,701
Due between two and five years	**120,442**	88,505
Due over five years	**53,169**	66,743
	187,715	199,814
Issued by public bodies	**-**	27,523
Issued by other issuers	**187,715**	172,291
Net Book Value	**187,715**	199,814

The market value of all listed debt securities was £187,715,000 (2005 : £187,564,000). Unlisted debt securities are valued at £Nil (2005 : £12,218,000).

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

	Debt Securities £000	Investments Available-for-sale £000	Total £000
At 1st January 2006	**199,814**	**-**	**199,814**
Reclassification (note 31)	**(199,814)**	**199,814**	**-**
Effect of FRS 26 implementation (Note 31)	**-**	**108**	**108**
At 1st January 2006 revised	**-**	**199,922**	**199,922**
Additions	**-**	**163,922**	**163,922**
Repayments and disposals	**-**	**(164,073)**	**(164,073)**
Fair value adjustment	**-**	**177**	**177**
Exchange movements	**-**	**(12,233)**	**(12,233)**
At 31st December 2006	**-**	**187,715**	**187,715**

The net unamortised discount at 31st December 2006 was £324,904 (2005 : £198,573).

16. Interest in associated undertakings

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

	Total £000
At 1st January 2006	**4,348**
Redemption	**(533)**
Exchange movements	**(138)**
At 31st December 2006	**3,677**

The Directors' valuation of unlisted associates held for investment purposes is £3,677,000 (2005 : £4,348,000).
The Bank owns the following investment in associated companies:

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

Notes to the Accounts

17. Shares in group undertakings

The Bank owns the following investments in subsidiaries:

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

18. Tangible fixed assets

	Leasehold improvements £000	Furniture and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1st January 2006	829	738	6,271	241	8,079
Additions	14	20	764	117	915
Disposals	(124)	-	(342)	(112)	(578)
Exchange differences	(9)	5	(79)	(3)	(86)
At 31st December 2006	**710**	**763**	**6,614**	**243**	**8,330**
Depreciation					
At 1st January 2006	318	403	4,147	148	5,016
Charge for the year	70	73	874	68	1,085
Disposals	(49)	-	(160)	(112)	(321)
Exchange differences	(1)	15	(13)	2	3
At 31st December 2006	**338**	**491**	**4,848**	**106**	**5,783**
Net book value					
At 31st December 2006	**372**	**272**	**1,766**	**137**	**2,547**
At 31st December 2005	511	335	2,124	93	3,063

19. Deferred tax asset

	£000
At 1st January 2006	-
Recognised during the year	**3,000**
At 31st December 2006	**3,000**

	£000
The major components of the deferred tax asset are as follows:	
Unutilised tax losses	**3,000**

There is an unrecognised deferred tax asset of £16.2 million (2005 : £27.9 million) in respect of brought forward tax losses.

20. Other assets

	2006 £000	2005 £000
Derivative financial assets	**515**	-
Other assets	**4,499**	5,353
	5,014	5,353

21. Prepayments and accrued income

	2006 £000	2005 £000
Prepayments and accrued income	**3,322**	2,766
Interest receivable	**28,310**	22,099
	31,632	24,865

22. Deposits from banks and other financial institutions

	2006 £000	2005 £000
Repayable:		
on demand	**134,401**	130,606
within three months	**873,935**	1,103,318
between three months and one year	**34,680**	58,654
	1,043,016	1,292,578
Included in the above are balances due to ABC Group undertakings of:	**146,551**	215,494

23. Deposits from customers

	2006 £000	2005 £000
Repayable:		
on demand	**64,120**	73,601
within three months	**90,517**	104,545
between three months and one year	**2,338**	787
between one and five years	**6,500**	-
	163,475	178,933
Included in the above are balances due to ABC Group undertakings of:	**1,470**	580

24. Certificates of deposit issued

	2006 £000	2005 £000
Repayable:		
within three months	**19,629**	25,806
	19,629	25,806

25. Other liabilities

	2006 £000	2005 £000
Debt service reserve	**-**	1,981
Derivative financial liabilities	**514**	-
Tax and social security costs	**2,244**	999
Other liabilities	**7,662**	13,626
	10,420	16,606

26. Accruals and deferred income

	2006 £000	2005 £000
Interest payable	**8,436**	8,141
Accruals and deferred income	**6,961**	8,506
	15,397	16,647

Notes to the Accounts

27. Term borrowing

	2006 £000	2005 £000
Repayable:		
within one year	**85,984**	68,114
between one and two years	**-**	57,991
between two and five years	**101,968**	-
	187,952	126,105
Included in the above are balances due to ABC Group undertakings of:	**35,000**	35,000

28. Subordinated liability

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

	2006 £000	2005 £000
GBP50 million Zero Coupon Bond	**52,874**	50,145
	52,874	50,145

On 12th December 2005 the Bank issued a Subordinated Zero Coupon Bond for £50 million repayable at par of £85 million on 14th December 2015.

29. Called up share capital

	2006 & 2005 Authorised	2006 & 2005 Issued
Ordinary shares of £1 each	**300,000,000**	**182,296,000**

30. Equity shareholders' funds

	Ordinary Share Capital £000	Profit & Loss Account £000	Fair value reserve £000	Total £000
Brought forward at 1st January 2006	**182,296**	**75,119**	**-**	**257,415**
Effect of FRS 26 implementation	**-**	**405**	**98**	**503**
	182,296	**75,524**	**98**	**257,918**
Profit for the year	**-**	**18,303**	**-**	**18,303**
Actuarial profits recognised in pension scheme (net)	**-**	**1,953**	**-**	**1,953**
Realised gain on available-for-sale investments and loans and advances reclassified to the income statement on disposal	**-**	**-**	**(126)**	**(126)**
Net unrecognised gain on available-for-sale investments and loans and advances	**-**	**-**	**172**	**172**
Carried forward at 31st December 2006	**182,296**	**95,780**	**144**	**278,220**

Shareholders' funds are all attributable to equity interests for 2006 and 2005.

The fair value reserve comprises changes in fair value of available-for-sale investments and available-for-sale loans and advances.

31. Implementation of FRS 25 and FRS 26

The Bank has implemented FRS 25 and FRS 26 for the first time in the accounts for the year ended 31st December 2006. The Bank adopted FRS 25 and FRS 26 with effect from 1st January 2006. The new accounting policies as applied for the year ended 31st December 2006 are set out in Note 1. Accordingly, the Bank has prepared the accounts which comply with FRS 25 and FRS 26 and the significant accounting policies meeting those requirements are described in Note 1. In preparing the accounts, the Bank made those changes in accounting policies required for the first time adoption of FRS 25 and FRS 26.

FRS 26 paragraph 108D allows an entity that first adopts FRS 25 and FRS 26 for an accounting period that commences before 1st January 2007 not to restate comparative information to comply with the standard. The Bank has taken this exemption and therefore comparative disclosure information on the relevant accounts has been prepared in accordance with the previous FRS 13 and the Bank has adopted FRS 25 and FRS 26 from 1st January 2006.

FRS 25
Adoption of FRS 25 has resulted in certain changes in the disclosures related to financial instruments. The adoption of the presentational requirements of FRS 25 has had no impact on the opening position as at 1st January 2006.

FRS 26
The adoption of FRS 26 has resulted in a net increase of £503,000 to reserve as at 1st January 2006.

a) Accounting for derivatives
Upon adoptation of FRS 26 those derivatives previously reported on an accrurals basis are now carried at fair value. This resulted in an increase in assets of £919,000 and an increase in liabilities of £514,000.

b) Accounting for certificates of deposits and debt securities
The Bank has elected to classify the debt securities as available for sale at fair value. Accordingly, upon adoption of FRS 26 debt securities of £199,814,000 previously reported at cost are now carried at fair value. This has resulted in an increase of £108,000 in financial investments available-for-sale.

c) Accounting for loans and advances
Due from banks and loans and advances to customers of £2,633,000 and £4,108,000 respectively, previously reported at cost are now carried at fair value. This has resulted in an increase of £23,000 in due from banks and a decrease of £33,000 in loans and advances to customers.

d) Taxation
The taxation liability is assessed on the basis of FRS 26 compliant numbers. There was no tax effect on the profit and loss.

Reconciliation showing the impact of FRS 26 adjustments as at 1st January 2006

	As at 31st December 2005 £000	**Reclassification £000**	**Derivatives £000**	**Debt Securities £000**	**Loans £000**	**As Restated at 1st January 2006 £000**
Assets						
Cash and balances at central banks	18,621	-	-	-	-	18,621
Certificates of deposit purchased	294,000	-	-	-	-	294,000
Due from banks	636,656	-	-	-	23	636,679
Loans and advances to customers	784,304	-	-	-	(33)	784,271
Debt securities	199,814	(199,814)	-	-	-	-
Financial investments - Available-for-sale		199,814	-	108	-	199,922
Interest in associated undertakings	4,349	-	-	-	-	4,349
Tangible fixed assets	3,063	-	-	-	-	3,063
Other assets	5,352	-	919	-	-	6,271
Prepayments and accrued income	24,865	-	-	-	-	24,865
	1,971,024					**1,972,041**
Liabilities						
Deposits from banks and other financial institutions	1,292,578	-	-	-	-	1,292,578
Deposits from customers	178,933	-	-	-	-	178,933
Certificates of deposit issued	25,806	-	-	-	-	25,806
Other liabilities	16,606	-	514	-	-	17,120
Accruals and deferred income	16,647	-	-	-	-	16,647
Term borrowing	126,105	-	-	-	-	126,105
Pension scheme liability	6,789	-	-	-	-	6,789
	1,663,464					1,663,978
Subordinated liability	50,145	-	-	-	-	50,145
Called up share capital	182,296	-	-	-	-	182,296
Profit and loss account	75,119	-	405	-	-	75,524
Fair value reserve	-	-	-	108	(10)	98
	1,971,024					**1,972,041**

Notes to the Accounts

32. Transactions with Directors and officers

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

	Number of persons	**2006 £000**	Number of persons	2005 £000
Loans to Directors:	**1**	**567**	1	2

33. Commitments

	2006 £000	2005 £000
Contract or underlying principal amount:		
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**50,018**	84,764
Within one to two years	**29,969**	21,001
More than two years	**128,231**	60,227
	208,218	165,992

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

	2006		2005	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Leases which expire:				
within two years	**-**	**-**	-	77
within two to five years	**518**	**28**	265	889
between five and ten years	**2,188**	**26**	2,794	-

34. Financial instrument contracts

a) Derivative financial instruments

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

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

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

Forward and future contracts are contractual agreements to buy and sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standarised 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.

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

Notes to the Accounts

	2006 Assets £000	2006 Liabilities £000	2006 Notional amount £000	2005 Assets £000	2005 Liabilities £000	2005 Notional amount £000
I) Derivatives held for trading						
Forward foreign exchange contracts						
Total at 31st December	**515**	**514**	**164,946**	45	53	206,000
II) Derivatives held as fair value hedges						
Interest rate swaps						
Total at 31st December	**990**	**170**	**103,659**	868	465	182,000

b) Other financial instruments

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

The fair value of listed and publicly traded securities held for non-trading purposes is disclosed in note 15.

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

2006	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 balances at central banks	**16.7**	-	-	-	-	-	**16.7**
Certificates of deposit purchased	**271.6**	**20.0**	-	-	-	-	**291.6**
Due from banks	**339.9**	**145.6**	**16.6**	**18.1**	**0.1**	**(13.9)**	**506.4**
Financial assets designated at fair value through profit and loss	-	-	-	**6.7**	-	-	**6.7**
Loans and advances to customers	**538.0**	**146.7**	**18.5**	**19.5**	**6.6**	**(9.0)**	**720.3**
Financial investments - Available-for-sale	**187.8**	-	-	**0.2**	-	**(0.3)**	**187.7**
Interest in associated undertaking	-	-	-	-	-	**3.7**	**3.7**
Other assets, prepayments and deferred tax asset	-	-	-	-	-	**39.8**	**39.8**
Fixed assets	-	-	-	-	-	**2.7**	**2.7**
Total assets	**1,354.0**	**312.3**	**35.1**	**44.5**	**6.7**	**23.0**	**1,775.6**
Liabilities and shareholders' funds							
Deposits from bank and other financial institutions	**1,011.7**	**30.7**	**0.7**	-	-	-	**1,043.1**
Deposits from customers	**154.9**	**1.2**	**0.8**	**6.5**	-	-	**163.4**
Certificates of deposits issued	**19.6**	-	-	-	-	-	**19.6**
Other liabilities, accruals and pension liability	-	-	-	-	-	**30.6**	**30.6**
Term borrowing and subordinated debt	**187.9**	-	-	-	**52.9**	-	**240.8**
Shareholders' funds	-	-	-	-	-	**278.1**	**278.1**
Total liabilities and shareholders' funds	**1,374.1**	**31.9**	**1.5**	**6.5**	**52.9**	**308.7**	**1,775.6**
Net position	**(20.1)**	**280.4**	**33.6**	**38.0**	**(46.2)**	**(285.7)**	
Off balance sheet	**(8.5)**	**6.3**	**(0.6)**	**(34.1)**	**36.9**	-	
Interest rate sensitivity gap	**(28.6)**	**286.7**	**33.0**	**3.9**	**(9.3)**	**(285.7)**	
Cumulative gap	**(28.6)**	**258.1**	**291.1**	**295.0**	**285.7**	-	

34. Financial instrument contracts (continued)

b) Other financial instruments

II) Interest Rate Reprising

	2005						
	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 balances at central banks	18.6	-	-	-	-	-	18.6
Certificates of deposit purchased	249.0	25.0	20.0	-	-	-	294.0
Due from banks	455.7	81.6	91.3	21.1	-	(13.1)	636.6
Loans and advances to customers	647.7	93.3	32.2	15.8	3.4	(8.1)	784.3
Financial investments - available-for-sale	168.7	30.6	0.5	-	-	-	199.8
Interest in associated undertaking	-	-	-	-	-	4.4	4.4
Other assets and prepayments	-	-	-	-	-	30.3	30.3
Fixed assets	-	-	-	-	-	3.0	3.0
Total assets	1,539.7	230.5	144.0	36.9	3.4	16.5	1,971.0
Liabilities and shareholders' funds							
Deposits from banks and other financial institutions	1,237.4	50.8	4.3	-	-	-	1,292.5
Deposits from customers	178.1	0.3	0.5	-	-	-	178.9
Certificates of deposits issued	25.8	-	-	-	-	-	25.8
Other liabilities, accruals and pension liability	-	-	-	-	-	40.2	40.2
Term borrowing and subordinated debt	68.1	58.0	-	-	50.1	-	176.2
Shareholders' funds	-	-	-	-	-	257.4	257.4
Total liabilities and shareholders' funds	1,509.4	109.1	4.8	-	50.1	297.6	1,971.0
Net position	30.3	121.4	139.2	36.9	(46.7)	(281.1)	
Off balance sheet	(76.3)	10.4	54.7	43.6	(32.4)	-	
Interest rate sensitivity gap	(46.0)	131.8	193.9	80.5	(79.1)	(281.1)	
Cumulative gap	(46.0)	85.8	279.7	360.2	281.1	-	

III) Effective average interest rate

The effective average interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in carrying amount of the instrument. This rate is the historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or an instrument carried at fair value.
The effective average interest rates of the Bank for various products in denominated Pound Sterling and US Dollar (major dealing currencies) and are as follows:

	2006	
	GBP	USD
Due from banks and loans and advances to customers	**5.02%**	6.03%
Financial investments - available-for-sale	**0.00%**	5.72%
Deposits from banks and other financial institutions	**5.06%**	5.32%
Deposits from customers	**5.25%**	5.24%
Term borrowings	**6.30%**	5.72%

IV) Currency risk

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

V) Dealing profits

	2006 £000	2005 £000
Dealing profits are analysed as follows:		
Foreign exchange	**129**	156
Interest rate products	**12**	36
	141	192

35. Assets, liabilities and shareholders' funds in foreign currencies

	2006 £000	2005 £000
Denominated in sterling	**515,236**	496,763
Denominated in US Dollar	**839,839**	1,028,434
Denominated in other currencies	**420,581**	445,827
Total assets	**1,775,656**	1,971,024
Denominated in sterling	**497,236**	496,763
Denominated in US Dollar	**883,055**	1,028,434
Denominated in other currencies	**395,365**	445,827
Total liabilities and shareholders' funds	**1,775,656**	1,971,024

The Bank's balance sheet consists entirely of monetary items, except for fixed assets totalling £2.5 million, which have been included as part of assets denominated in Sterling.

The above summary should not be considered as an indication of the Bank's exposure to foreign exchange risk due to the existence of compensating forward contracts held for hedging purposes as disclosed in note 34.

36. Ultimate parent undertaking and parent undertakings

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

37. Related party transactions

A Director, Mr S. Yassukovich, has a controlling interest in S. M. Yassukovich & Co Limited which received professional fees of £23,004 (2005 : £23,004) in relation to administration services provided to the Bank during the year.

There were no outstanding balances owed to S. M. Yassukovich & Co Limited at 31st December 2006.

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

38. Pensions

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

The valuation has been based on the most recent actuarial valuation carried out as at 1st October 2005, using the attained age method of valuation. The market value of the assets as at 1st October 2005 was sufficient to cover 74% of the then current value of the benefits accrued to that date, representing a gross Scheme deficit of £4,523,000. The total Bank and member contribution rate during 2006 was 28.6% of Pensionable Saleries, which included employee contributions of 3% of Pensionable Salary (limited to the Earnings Cap where relevant). This contribution rate includes provision for restoring the funding level to 100% over a 10 year period.

The October 2005 valuation was updated by an independent actuary, to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31st December 2006 and 31st December 2005. 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:

	2006 % per annum	2005 % per annum
Inflation	**3.10**	2.90
Rate of increase in salaries	**4.60**	4.40
Rate of increase of inflation linked pensions in payment	**3.00**	2.90
Rate of increase for deferred pensions	**2.50**	2.50
Discount rates	**5.10**	4.70

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

	2006 Fair value £m	2006 Long term rate of return expected %
Equities	**12.7**	8.3
Bonds	**2.2**	5.1
Other	**1.5**	4.5
Total value of assets	**16.4**	7.5

Notes to the Accounts

38. Pensions (continued)

	2005 Fair value £m	2005 Long term rate of return expected %
Equities	11.7	7.4
Bonds	1.5	4.7
Other	0.5	4.0
Total value of assets	13.7	7.0

Movement in scheme deficit

	2006 £000	2005 £000	2004 £000	2003 £000
Deficit in the Scheme after tax at 1st January	**(6,789)**	(5,223)	(6,137)	(5,833)
Contribution paid	**1,074**	1,019	1,352	1,248
Current service cost	**(869)**	(749)	(978)	(1,366)
Other finance charge	**(42)**	(52)	(167)	(237)
Actuarial gains/(losses)	**2,449**	(2,151)	923	(20)
Deficit in the plan at 31st December	**(4,177)**	(7,156)	(5,007)	(6,208)
Movement in deferred tax liability	**(496)**	367	(216)	71
Net pension liability at 31st December	**(4,673)**	(6,789)	(5,223)	(6,137)

Amount charged to the profit and loss account

	2006 £000	2005 £000
Current service cost	**869**	749

Amount debited to other financial charges

	2006 £000	2005 £000
Expected return on pension scheme assets	**994**	815
Interest on pension scheme liabilities	**(1,036)**	(867)
	(42)	(52)

Amount recognised in the Statement of Total Recognised Gains and Losses

	2006 £000	2005 £000	2004 £000	2003 £000
Actual less expected return on assets	**700**	1,574	165	917
Experience (loss)/gains on liabilities	**(128)**	356	1,293	369
Changes in assumptions underlying present value of liabilities	**1,877**	(4,081)	(535)	(1,307)
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	**2,449**	(2,151)	923	(21)

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

	2006 %	2005 %	2004 %	2003 %
Actual less expected return on assets	**4.2**	11.5	1.6	11.4

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

	2006 %	2005 %	2004 %	2003 %
Experience (loss)/gains on liabilities	**(0.6)**	1.6	7.7	2.4
Changes in assumptions underlying present value of liabilities	**8.4**	(18.5)	(3.2)	(8.4)
Actuarial gain/ (loss) recognised in the Statement of Total Recognised Gains and Losses	**11.0**	(9.7)	5.5	(0.1)

ABCIB Group Network

Head Office
(and Registered Office)

ABC INTERNATIONAL BANK PLC
Arab Banking Corporation House
1-5 Moorgate
London EC2R 6AB
Tel: (44) (20) 7776 4000
Fax: (44) (20) 7606 9987

Branches

LONDON BRANCH
ABC International Bank plc
Arab Banking Corporation House
1-5 Moorgate
London EC2R 6AB
Tel: (44) (20) 7776 4000
Fax: (44) (20) 7606 9987

Treasury
Tel: (44) (20) 7726 4091
Fax: (44) (20) 7606 1710
Reuters: ABCL

PARIS BRANCH
ABC International Bank plc
4 rue Auber, 75009 Paris
France
Tel: (33) (1) 49 52 54 00
Fax: (33) (1) 47 20 74 69
Reuters: ABCL

FRANKFURT BRANCH
ABC International Bank plc
Neue Mainzer Strasse 75
60311 Frankfurt am Main
Germany
Tel: (49) (69) 71403-0
Fax: (49) (69) 71403-240
Reuters: ABCL

MILAN BRANCH
ABC International Bank plc
Via Turati 16/18, 20121 Milan
Italy
Tel: (39) (02) 863331
Fax: (39) (02) 86450117
Reuters: ABCL

Marketing Offices

UK & IRELAND
ABC International Bank plc
Station House, Station Court
Rawtenstall
Rossendale BB4 6AJ
Tel: (44) (1706) 237900
Fax: (44) (1706) 237909

John Clegg
Email: john.clegg@arabbanking.com

IBERIA - Representative Office
ABC International Bank plc
Paseo de la Castellana 163
2º Dcha, Madrid 28046
Spain
Tel: (34) (91) 5672822
Fax: (34) (91) 5672829

Usama Zenaty
Email: usama.zenaty@arabbanking.com

NORDIC REGION
ABC International Bank plc
Stortorget 18-20
SE-111 29 Stockholm
Sweden
Tel: (46) 823 0450
Fax: (46) 823 0523

Klas Henrikson
Email: klas.henrikson@arabbanking.com

TURKEY - Representative Office
ABC International Bank plc
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

Muzaffer Aksoy
Email: muzaffer.aksoy@arabbanking.com

Management Structure

ABCIB Group Head Office

Nofal Barbar	Chief Executive Officer
William Playle	Head of Risk Management
Jill Bullimore	Acting Head of Support
Robert Large	Head of Internal Audit
Yvonne Sadowski	Head of Human Resources
Peter Downham	Head of Finance
David Bowen-Jones	Corporate Secretary and Compliance
Carolyn Kidman	Public Relations Manager

ABCIB Group Product Heads

TRADE & COMMODITY FINANCE AND FINANCIAL INSTITUTIONS

Paul Jennings	Global Head of Trade Finance, ABC Group
Jeff Fallon	European Head of Exporter Marketing
Sami Bengharsa	Head of Financial Institutions and Corporates – North Africa and Levant
Charlotte Wiltshire	European Head of Distribution, Trading and Forfaiting

PROJECT AND STRUCTURED FINANCE

Keith Louch	European Head of Project and Structured Finance

ISLAMIC FINANCIAL SERVICES

Derek Weist	Acting Head of Islamic Financial Services
Keith Leach	*alburaq*

TREASURY SERVICES

Sami Rais	Head of Treasury - Europe
Paul Judge	Chief Dealer

ABCIB Group European Branch Managers

PARIS BRANCH

Alexander Ashton	General Manager

FRANKFURT BRANCH

Gerald Bumharter	General Manager

MILAN BRANCH

Paolo Provera	General Manager

Directory of ABC Group Offices

Head Office

ABC Tower, Diplomatic Area
PO Box 5698, Manama
Kingdom of Bahrain
Tel: (973) 17 543 000
Fax: (973) 17 533 163 / 17 533 062
Tlx: 9432 ABCBAH BN
http: //www.arabbanking.com
Email: webmaster@arabbanking.com

Ghazi Abdul-Jawad,
President & Chief Executive

Abdulmagid Breish,
Deputy Chief Executive &
Chief Banking Officer

Branches

Tunis (OBU)
ABC Building, Rue du Lac d'Annecy
Les Berges du Lac, 1053 Tunis
Tunisia
Tel: (216) (71) 861 861
(216) (71) 861 110 (Treasury)
Fax: (216) (71) 860 921
Tlx: 12505 ABCTU TN
Email: abc.tunis@arabbanking.com
Direct Dealing Reuters Code: ABCT
Swift: ABCOTNTT

Saddek O. El-Kaber,
Resident Country Manager & General Manager

Baghdad
Al Saadon St., Al Firdaws Square
National Bank of Iraq Building
Baghdad, Iraq
Tel: (964) (1) 7173774 /
7173776/717 3779
Fax: (964) (1) 717 3364

Mowafaq H. Mahmood,
General Manager

Mobile: (964) 790 161 8048

New York
600 Third Avenue
New York, NY 10016, USA
Tel: (1) (212) 583 4720
Fax: (1) (212) 583 0921
Tlx: 661978/427531 ABCNY (General);
421911/661979 ABCFX
(Dealing Room)
Direct Dealing Reuters Code: ABCN

Robert Ivosevich,
General Manager

Grand Cayman
c/o ABC New York Branch

Representative Offices

Abu Dhabi
10th Floor, East Tower of the Trade Centre
2nd Street, Abu Dhabi Mall,
PO Box 6689, Abu Dhabi, UAE
Tel: (971) (2) 644 7666
Fax: (971) (2) 644 4429
Email: abcrep@eim.ae

Mohamed El Calamawy,
Chief Representative

Beirut
Berytus Parks, Block B, 2nd Floor
Minet El Hosn, Solidere
PO Box 11-5225, Beirut, Lebanon
Tel: (961) (1) 970770 / 970432
Fax: (961) (1) 985809
Mobile: (961) (3) 724644

Ghina Haddad,
Chief Representative

Tehran
4th Floor West
No. 34/1 Haghani Expressway
Tehran 15188, Iran
Tel: (98) (21) 8879 1105 / 8879 1106
Fax: (98) (21) 8888 2198
Email: arabbanking.teh@parsonline.net

Aziz Farrashi,
Chief Representative

Tripoli
That Emad Administrative Centre Tower 5
16th Floor, PO Box 3578, Tripoli, Libya
Tel: (218) (21) 335 0226/
335 0227 / 335 0228
Fax: (218) (21) 335 0229
Email: abc_rep_ly@lttnet.net

Mansour Abouen,
Chief Representative

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

Kah Eng Leaw,
Chief Representative

Subsidiaries

ABC Islamic Bank (E.C.)
ABC Tower, Diplomatic Area
PO Box 2808, Manama
Kingdom of Bahrain
Tel: (973) 17 543 342
Fax: (973) 17 536 379 / 533 972
Tlx: 9432 / 9433 ABCBAH BN

Naveed Khan,
Managing Director

ABC Securities (BSC) (c)
ABC Tower, Diplomatic Area
PO Box 5698, Manama
Kingdom of Bahrain
Tel: (973) 17 543 149
Fax: (973) 17 543 758
Tlx: 9432 ABCBAH BN

Bassam Khoury,
Chief Executive Officer

Arab Banking Corporation - Algeria
PO Box 367,
54 Avenue des Trois Freres Bouaddou
Bir Mourad Rais, Algiers, Algeria
Tel: (213) (21) 541 515 / 541 534
Fax: (213) (21) 541 604 / 541 122
Email:
information@arabbanking.com.dz
Swift: ABCODZAL

Reidha Slimane Taleb,
General Manager

Arab Banking Corporation - Egypt (S.A.E.) (ABC Bank, Egypt)
1, El Saleh Ayoub St., Zamalek
Cairo, Egypt
Tel: (202) 736 2684 (10 lines)/
(202) 736 3629
Fax: (202) 736 3643 / 14
Email: abcegypt@arabbanking.com.eg

Essam El Wakil,
Managing Director & CEO

Directory of ABC Group Offices

Subsidiaries (Continued)

ABC Securities (Egypt) S.A.E.
1, El Saleh Ayoub St. Zamalek,
Cairo, Egypt
Tel: (202) 736 2684 (10 lines)/
(202) 736 3629
Fax: (202) 736 3643 / 14

Essam El Wakil,
Chairman

Arab Banking Corporation (Jordan)
PO Box 926691, Amman 11190, Jordan
Tel: (962) (6) 566 4183-5 (General)
(962) (6) 569 2713 (Dealing Room)
(962) (6) 560 8302 (Foreign Dept.)
(962) (6) 562 3684 (Main Branch)
Fax: (962) (6) 568 6291 (General)
(962) (6) 562 3685 (Main Branch)
Tlx: 22258/21114 ABC JO
Email: info@arabbanking.com.jo

Nour Nahawi,
Managing Director & CEO

ABC Tunisie
ABC Building, Rue du Lac d'Annecy,
Les Berges du Lac, 1053 Tunis, Tunisia
Tel: (216) (71) 861 861
(216) (71) 861 110 (Treasury)
Fax: (216) (71) 960 427 / 960 406
Tlx: 12505 ABCTU TN
Email: abc.tunis@arabbanking.com
Direct Dealing Reuters Code: ABCT
Swift: ABCOTNTT

Sadok Attia,
General Manager

ABC (IT) Services Ltd.
Arab Banking Corporation House
1-5 Moorgate, London EC2R 6AB, UK
Tel: (44) (20) 7776 4050
Fax: (44) (20) 7606 2708
Email: abcits@arabbanking.com

Sael Al Waary,
Director

Banco ABC Brasil S.A.
Av. Pres. Juscelino Kubitschek, 1400
04543-000 Itaim Bibi
São Paulo – SP, Brazil
Tel: (55) (11) 317 02000
Fax: (55) (11) 317 02001

Tito Enrique da Silva Neto,
President

Affiliate

Arab Financial Services Company B.S.C. (c)
PO Box 2152, Manama,
Kingdom of Bahrain
Tel: (973) (17) 290 333
Fax: (973) (17) 291 323 / 290 050
Tlx: 7212 AFS BN

Rasool Hujair,
Chief Executive Officer