REGISTRAR

Arbuthnot Latham & Co., Limited

Report and financial statements

for the year ended 31st December 2006

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COMPANIES HOUSE

Registered Number 819519

Contents

Company Information

Directors

Henry Angest (Chairman)
John Reed (Chief Executive)
Brian C Collis
Robin AE Herbert (Non-executive)
David P Kidd
Wayne B Mathews
Andrew A Salmon
Paul N Sheriff
Robert JJ Wickham (Non-executive)

Secretary

Jeremy R Kaye F C I S

Registered office

Arbuthnot House
20 Ropemaker Street
London
EC2Y 9AR

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Incorporated in the United Kingdom

Chairman's Statement

The past year has marked a period of continued progress for Arbuthnot Latham Business volumes have grown strongly and further investment has been made in both people and services, albeit at the expense of short term profitability This investment has resulted in customer deposits growing by 18% to £244 million whilst discretionary assets under management grew by 36% The loan book grew by 12% to £120 million

We are continually attempting to improve our service delivery and 2006 was no exception to this At the end of the first quarter we launched our new investment management service to our clients Integral to this service is a bespoke risk profiling tool which ensures that each client's portfolio reflects the level of risk they are willing to take As a result of the introduction of this new service, the rate of growth in discretionary assets under management increased steadily throughout the year The new service was underpinned by excellent performance of discretionary assets under management, which recorded an average relative return of 3 3% above the benchmark, and an average absolute return of 12 7% for the calendar year At the end of the year we introduced internet banking and we have been encouraged by the level of take-up of this service during early 2007

In common with 2005, we continued to invest in quality staff to provide our clients with the level of service that they have come to expect We were pleased to attract a number of senior private bankers, pensions consultants and specialists in the finance of 'super yachts' and high-end overseas property Changes to the pensions legislation in April 2006, known as 'A Day', have created opportunities Having reviewed and improved our pensions process, we believe that we are in a unique position as we are able to offer an in-house self invested personal pension (SIPP) wrapper

In December 2006, Arbuthnot Latham entered into a sale and leaseback of Arbuthnot House, our London headquarters The profit on the sale of the building, after allowing for the revaluation in 2004 and related sale costs was £12 6 million

Looking to 2007, we are continuing to invest in the business to expand and improve the services that we provide to our clients In particular, in the second quarter of 2007 we will be launching a credit card and implementing improvements to our back office systems Plans for Arbuthnot Banking Group to open a banking business in Switzerland are well advanced The Chief Executive Officer has been recruited and the process to obtain a regulatory licence is proceeding We believe the services that we will be able to offer in Switzerland will also be attractive to many of our clients

The continued growth and development of the business has not been achieved without significant drive and professionalism from our staff On behalf of the Board, I would like to express our thanks to them

During 2006 we invested £1 1 million in new people and infrastructure, which has adversely affected the profitability However, the underlying profitability of the bank has held up well and we anticipate that the investments, coupled with the structural changes that were made to the private banking division at the end of 2005, will ensure that the bank is well placed to deliver an improved return in 2007

Henry Angest
21st March, 2007

Directors

Henry Angest Chairman
Chairman and Chief Executive of Arbuthnot Banking Group PLC He is also Chairman of Secure Trust Bank PLC, and Arbuthnot Securities Limited, Chairman of the Banking Committee of the London Investment Banking Association and Middle Warden of the Guild of International Bankers

John Reed Chief Executive
Joined the bank in April 2003 from SG Hambros Bank & Trust Ltd private bank where he was Group Chief Operating Officer Prior to this he was a Director of Hambros Bank Ltd and held several positions in Midland Bank plc Over a 28 year career in the industry he has managed businesses in both offshore and onshore private banking, corporate and international banking and risk management He is also a Director of Arbuthnot Banking Group PLC

Brian Collis Risk Management Director
Reassumed executive duties in November 2006 to fill a temporary gap, having retired and been a non-executive director since June 2001 He previously spent 34 years with Midland Bank plc, during which time he held several senior positions

Robin Herbert Non-executive Director
Formerly Chairman of Leopold Joseph Holdings plc and has served as Deputy Chairman of Consolidated Gold Fields plc and a non-executive director of National Westminster Bank plc, Marks & Spencer PLC and other companies

David Kidd Chief Investment Officer
He has over 24 years investment management experience, including 17 years as a Chief Investment Officer He is also a non-executive director of Martin Currie Portfolio Investment Trust plc, Shires Income PLC and The Salvation Army International Trustee Company

Wayne Mathews Finance Director
He is a Chartered Accountant Joined the bank in 1990 from Midland Bank plc Prior to this, he held positions in leading accountancy firms both in the UK and overseas

Andrew Salmon Director
Chief Operating Officer and Head of Business Development of Arbuthnot Banking Group PLC He was previously a director of Hambros Bank Limited and qualified as a Chartered Accountant with Peat Marwick (now KPMG)

Paul Sheriff Director
Group Finance Director of Arbuthnot Banking Group PLC He was previously Commercial Director of the Prudential's UK and European business Prior to this he spent five years in private equity and qualified as a Chartered Accountant with Arthur Andersen

Robert Wickham Non-executive Director
Deputy Chairman and senior independent non-executive Director of Arbuthnot Banking Group PLC He was formerly on the Management Board of Bank of Scotland and is a non-executive director of Secure Trust Bank PLC, Rutland Trust Plc and Georgica PLC

Directors' Report

The Directors present the annual report and audited financial statements of Arbuthnot Latham & Co , Limited for the year ended 31 December, 2006

Principal activities

Arbuthnot Latham & Co , Limited is a banking institution which is authorised and regulated by the Financial Services Authority It also provides fund management, pensions and investment management services, all within the European Union

Business review

A review of the bank's operations, including an indication of future developments is set out in the Chairman's Statement on page 3 A summary of the key performance indicators is as follows

	2006	2005	Increase
Operating income	£11 4m	£10 5m	9%
Customer deposits	£244 0m	£206 9m	18%
Customer loans	£120 0m	£107 1m	12%
Total assets	£286 0m	£246 2m	16%

Note The operating income for 2005 includes £4 8 million of income of the former subsidiary businesses acquired as part of the group restructuring exercise completed on 31 December 2005

Financial results

The profit before tax was £12,697,000 (2005 £778,000) and the retained profit for the year was £9,952,000 (2005 £614,000) An interim dividend of £7,000,000 was paid on 20 December 2006 and the Directors recommend the payment of a final dividend of £1,800,000 (2005 Nil)

Financial Risk Management

Details of how the Company manages risk are set out in both the financial statements of Arbuthnot Banking Group PLC and also in Note 28 to these Financial Statements

Tangible fixed assets

Movements in tangible fixed assets during the year are shown in note 16 to the financial statements The freehold property purchased in August 2003 was the subject of a sale and leaseback which resulted in a profit in the year of £12,612,000

Directors

The Directors of the Company who served during the year were as follows

H Angest
BC Collis
RAE Herbert
AM James
PWL Keech
DP Kidd
SJ Lockley
WB Mathews
C Moore
J Reed
B Rout
AA Salmon
PN Sheriff
A C Wakelin
AS Whitton
RJJ Wickham

Mr AC Wakelin retired from the Board on 1 March 2006 Mr B Rout resigned from the Board on 28 April 2006, Mr AS Whitton on 2 May 2006, Mr PWL Keech on 19 June 2006, Mr SJ Lockley on 30 September 2006, Mr C Moore on 30 November 2006 and Mr AM James on 31 December 2006

Mr PN Sheriff was appointed a director on 20 September 2006 He retires under the Articles of Association and, being eligible, offers himself for re-election

The Directors due to retire by rotation are Mr H Angest, Mr AA Salmon and Mr DP Kidd who, being eligible, offer themselves for re-election

Directors' interests

None of the Directors has any beneficial interest in the shares of the Company

The interests of Messrs H Angest, J Reed, PN Sheriff and RJJ Wickham in the share capital of Arbuthnot Banking Group PLC are shown in the Directors' Report of that Company

Insurance of Directors

Insurance has been maintained for the Directors of Arbuthnot Latham & Co , Limited in respect of their duties as Directors of the Company

Supplier payment policy

The Company's policy is to make payment in line with terms agreed with individual suppliers, payment being effected on average within 30 days of invoice

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting

Statement of Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 that the financial statements comply with IFRSs as adopted by the European Union,
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that 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 and, as regards the financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure of information to auditors

The directors confirm that,

a so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and

b the directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the Board

J.R. Kaye

JR Kaye

21 March, 2007

Independent Auditors' Report

To the members of Arbuthnot Latham & Co , Limited

We have audited the financial statements of Arbuthnot Latham & Co , Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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 Company 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 Directors' Report and Chairman's Statement and consider the implications for our report if we become aware of any apparent misstatements within them

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of its profit and cash flows 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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 March, 2007

INCOME STATEMENT

	Note	Year ended 31 December 2006 £000	2005 £000
Interest and similar income		13,291	11 596
Interest expense and similar charges		(7 886)	(7 181)
NET INTEREST INCOME		5,405	4,415
Fee and commission income	3	6,515	1,637
Fee and commission expense		(481)	(338)
NET FEE AND COMMISSION INCOME		6,034	1 299
OPERATING INCOME		11,439	5 714
Dividend income		-	605
Gain on sale of subsidiary	14	-	57
Gain on sale of freehold premises	16	12,612	-
Gain on sale of investment securities		667	926
Other income		1 936	2,628
Impairment gains/(losses) on loans and advances	11	4	(18)
Operating expenses	4	(13,961)	(9,134)
PROFIT BEFORE INCOME TAX		12 697	778
Income tax expense	6	(2,745)	(164)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	24	9 952	614

The notes on pages 13 to 28 are an integral part of these financial statements

BALANCE SHEET

	Note	At 31 December 2006 £000	2005 £000
ASSETS			
Cash	8	158	167
Loans and advances to banks and building societies	9	43,322	18 265
Loans and advances to customers	10	120,082	107,079
Debt securities held-to-maturity	12	105,962	88,389
Investment securities	13	1 954	577
Investments in subsidiary undertakings	14	56	31
Intangible assets	15	6 693	6 466
Property, plant and equipment	16	1,924	22 008
Current tax asset		-	50
Deferred tax asset	17	290	-
Other assets	18	5 548	3,160
TOTAL ASSETS		285,989	246 192
LIABILITIES			
Deposits from banks	19	3,029	7,090
Deposits from customers	20	243,975	206,911
Subordinated loan	21	3,100	3,100
Other liabilities	22	4,195	3 338
Tax liability		3,664	-
Deferred tax liabilities	17	-	679
TOTAL LIABILITIES		257 963	221,118
EQUITY			
Share capital	23	15,000	15 000
Retained earnings	24	13 026	8 220
Other reserves	24	-	1,854
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS		28,026	25,074
TOTAL EQUITY AND LIABILITIES		285,989	246 192

The financial statements on pages 9 to 28 were approved by the Board of Directors on 21 March 2007 and were signed on its behalf by

J Reed - Director

WB Mathews - Director

The notes on pages 13 to 28 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £000	Other Reserves £000	Retained earnings £000	Total £000
BALANCE AT 1 JANUARY 2005		15,000	1,854	7,606	24 460
Profit for 2005		-	-	614	614
AT 31 DECEMBER 2005/ 1 JANUARY 2006		15,000	1,854	8,220	25,074
Profit for 2006		-	-	9,952	9 952
Released on sale of freehold premises	24	-	(2,649)	2 649	-
Release of deferred tax on sale of freehold premises	24	-	795	(795)	-
Interim dividend for 2006 (£0 47 per share)	7	-	-	(7,000)	(7,000)
AT 31 DECEMBER 2006		15,000	-	13 026	28,026

The notes on pages 13 to 28 are an integral part of these financial statements

CASH FLOW STATEMENT

	Note	Year ended 31 December 2006 £000	2005 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		12,566	11 424
Interest paid		(7,645)	(7 059)
Dividends received		-	605
Net fees and commissions received		5,569	1 296
Other income		1,936	2,616
Recoveries on loans previously written off	11	-	155
Cash payments to employees and suppliers		(11,861)	(8,375)
Taxation repaid		-	122
Cash flows from operating profits before changes in operating assets and liabilities		565	784
Changes in operating assets and liabilities			
- net increase in loans and advances to customers	10	(12,999)	(17,593)
- net (increase)/decrease in other assets	18	(1,198)	893
- net decrease in deposits from other banks	19	(4,061)	(15,440)
- net increase in amounts due to customers	20	37 064	43 002
- net increase in other liabilities	22	(715)	1,956
NET CASH FROM OPERATING ACTIVITIES		18,656	13,602
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(1,488)	(490)
Purchase of computer software	15	(361)	(51)
Purchase of businesses	15	(50)	(6 860)
Net proceeds from sale of property, plant and equipment	16	33 599	55
Proceeds from sale of investment securities	13	1 244	1,515
Purchase of investment securities	13	(1,954)	-
Purchase of investment in subsidiary undertakings	14	(25)	-
Proceeds from sale of investment in subsidiary undertakings	14	-	7,820
Purchase of debt securities	12	(139,481)	(84 097)
Proceeds from sale of debt securities	12	122,647	59 039
NET CASH FROM INVESTING ACTIVITIES		14,131	(23 069)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds and debt securities	21	-	500
Dividends paid	7	(7,000)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		(7,000)	500
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		25,787	(8,967)
Cash and cash equivalents at beginning of year		47,016	55,983
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	72,803	47 016

The notes on pages 13 to 28 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

Basis of preparation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union This means those International Accounting Standards, International Financial Reporting Standards and related interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Commission

The financial statements have been prepared on a historical cost basis except for the revaluation of freehold premises The principal accounting policies adopted are set out below and, unless otherwise stated have been applied consistently to both this and the preceeding year

Available for sale investments, which were previously classified as loans and advances, are now disclosed separately

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the company's accounting policies The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2

a) Amendments to published standards and interpretations effective 1 January 2006
During the year the Company has adopted the amendments to the following standards
- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures,
- IAS 21 (Amendment), Net investment in a foreign operation,
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intra-group transactions,
- IAS 39 (Amendment), The fair value option,
- IAS 39 and IFRS 4 (Amendment) Financial guarantee contracts,
- IFRIC 4, Determining whether an arrangement contains a lease

Adoption of these amendments did not have a material impact on the reported results or position of the Company for the year ended 31 December 2006

b) Standards and interpretations issued but not yet effective
The following standards and interpretations have been issued but are not yet effective for the Company, and hence the Company has chosen
- IFRS 7 Financial instruments Disclosures, and the related amendment to IAS 1 on capital disclosures (effective for annual periods
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)
- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006),
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

The application of these new interpretations will not have a material impact on the Company's financial statements in the period of initial application

Foreign currency translation
(a) Functional and presentation currency
The Company operates primarily in the United Kingdom and items included in the financial statements are measured using pounds sterling ('the functional currency') The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Interest income and expense
Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument but does not consider future credit losses The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the original effective interest rate

Fee and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan Asset and other management, advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis The same principal is applied for financial planning services that are continuously provided over an extended period of time

Financial assets
The Company classifies its financial assets in the following categories financial assets at fair value through profit or loss loans and receivables, held-to-maturity investments, and available-for-sale financial assets Management determines the classification of its investments at initial recognition

(a) Financial assets at fair value through profit or loss
This category comprises financial assets held for trading The Company held no such assets during the two financial years ended 31 December 2006

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable

(c) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity

(d) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates exchange rates or equity prices The Company has made equity investments in special purpose vehicles set up to acquire and enhance the value of commercial properties These investments are likely to be of a medium term nature There is no open market for these securities and due to the nature of the underlying assets any valuation would contain significant estimation Consequently, these investments are held at cost

Loans are recognised when cash is advanced to the borrowers Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Impairment of financial assets
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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 discounted at the financial asset s original effective interest rate 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 If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract

When a loan is uncollectable, it is written off against the related provision for loan impairment Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement

Intangible assets
(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary or business at the date of acquisition Goodwill on acquisitions of subsidiaries and businesses is included in 'intangible assets' Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

(b) Computer software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software These costs are amortised on a straight line basis over their expected useful lives (five years)

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred

NOTES TO THE FINANCIAL STATEMENTS (continued)

Property, plant and equipment
Land and buildings comprised the Company's head office and, prior to sale was stated at latest valuation with subsequent additions at cost less depreciation Plant and equipment is stated at historical cost less depreciation Historical cost includes expenditure that is directly attributable to the acquisition of the items

Land is not depreciated Depreciation on other assets is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives, applying the following annual rates

Freehold buildings	2%
Office equipment	10% to 33%
Computer equipment	20% to 25%
Motor vehicles	25%

Gains and losses on disposals are determined by comparing proceeds, less associated sale costs, with carrying amount These are included in the income statement

Leases - as a lessor
When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return

When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation The assets are depreciated down to their estimated residual values on a straight line basis over the lease term Lease rental income is recognised on a straight line basis over the lease term

Leases - as a lessee
Rentals made under operating leases are recognised in the income statement on a straight line basis over the term of the lease

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, loans and advances to banks and building societies and short-term highly liquid debt securities

Post-retirement benefits
The Company contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees

The Company has no further payment obligations once the contributions have been paid The contributions are recognised as an employee benefit expense when they are due Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

There are no post-retirement benefits other than pensions

Deferred tax
Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised

Borrowings
Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

Dividends
Final dividends on ordinary shares are recognised in equity in the period in which they are approved, while interim dividends are recognised in the period in which they are paid

Fiduciary activities
The Company commonly acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts retirement benefits and other institutions These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Company

Guarantees
The Company issues guarantees to third parties on behalf of its customers These items, which are normally secured on customer assets, are recorded as contingent liabilities at the contracted value of the guarantee, which equates to the fair value

NOTES TO THE FINANCIAL STATEMENTS (continued)

Business combinations
In accordance with the exemption offered by IFRS3, the Company deals with internal corporate reorganisations by transferring assets at their carrying value

The purchase method of accounting is used to account for the acquisition of businesses by the Company The cost of an acquisition is measured as the fair value of the assets given equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the Company's shares of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the income statement

Inventory
Inventory comprises stock of assets purchased but not yet leased It is valued at the lower of cost or net realisable value

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

a) IMPAIRMENT LOSSES ON LOANS AND ADVANCES
The Company reviews its loan portfolios to assess impairment at least on a half-yearly basis In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Company, or national or local economic conditions that correlate with defaults on assets in the Company Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

b) IMPAIRMENT OF GOODWILL
The Company reviews the carrying value of goodwill at least on an annual basis to determine whether there has been any impairment In determining whether an impairment loss should be recognised in the income statement, the Company makes judgements as to whether there has been a quantifiable decrease in the value of the goodwill by reference to both the underlying income streams that continue to accrue from the acquired business and available data in the public domain regarding the market prices for similar businesses In carrying out this assessment the Company has due regard for its future plans for the business

c) HELD-TO-MATURITY INVESTMENTS
The Company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity The classification requires significant judgement In making this judgement the Company evaluates its intention and ability to hold such investments to maturity If the Company fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale The investments would therefore be measured at fair value not amortised cost

3 FEE AND COMMISSION INCOME
Included in fee and commision income is loan fee income of £959,000 (2005 £913,000) which has been accounted for using the effective interest method

4 OPERATING EXPENSES

	2006 £000	2005 £000
Staff costs including directors		
Wages and salaries	6 434	3,914
Social security costs	767	422
Other pension costs	517	337
Amortisation of software (Note 15)	184	170
Depreciation (Note 16)	585	589
Operating lease rentals	150	59
Other administrative expenses	5 324	3,643
TOTAL OPERATING EXPENSES	13,961	9,134

Directors emoluments are disclosed in note 27

Fees payable to the Company's auditors for the audit of the Company's financial statements is £96,000 (2005 £56,000) Fees payable to the Company's auditors for other services consist of other services pursuant to legislation £5,000 (2005 £nil) and tax services of £7,000 (2005 £22,000)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 AVERAGE NUMBER OF EMPLOYEES

	2006	2005
	127	78

6 INCOME TAX EXPENSE

	2006 £000	2005 £000
United Kingdom corporation tax at 30% (2005 30%)		
- Current	2,875	(7)
- Adjustment in respect of prior years	44	20
Deferred tax (note 17)	(174)	151
TAXATION EXPENSE	2 745	164
TAX RECONCILIATION		
Profit before tax	12 697	778
Tax at 30% (2005 30%)	3 809	233
Capital allowances in excess of depreciation	(139)	(70)
Sale of fixed asets	(845)	(3)
Sale of investment in subsidiary	-	(17)
Expenses not deductible for tax purposes	50	32
Dividends received	-	(182)
Prior period adjustments	44	20
Deferred taxation	(174)	151
Corporation tax charge for the year	2,745	164

7 DIVIDENDS

During the year, a dividend of £0 47 per share (2005 £nil per share) totalling £7 000,000 (2005 £nil) was paid The directors propose a dividend of £0 12 per share (totalling £1 800,000) for the year ended 31 December 2006 The dividend will be submitted for formal approval at the Annual General Meeting to be held on 23 May 2007

8 CASH

	2006 £000	2005 £000
Cash in hand included in cash and cash equivalents (Note 26)	158	167

9 LOANS AND ADVANCES TO BANKS AND BUILDING SOCIETIES

	2006 £000	2005 £000
Placements with banks and building societies included in cash and cash equivalents (Note 26)	43 322	18 265

For a maturity profile of loans and advances to banks and building societies, refer to Note 28

10 LOANS AND ADVANCES TO CUSTOMERS

	2006 £000	2005 Restated £000
Gross loans and advances (see Note 28(ii))	120,477	107,542
Less allowances for impairment on loans and advances (Note 11)	(395)	(463)
	120,082	107 079

For a maturity profile of loans and advances to customers, refer to Note 28
In 2005 available for sale investments totalling £577,000 were included in loans and advances to customers These have now been reclassified (see Note 13)

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 ALLOWANCES FOR IMPAIRMENT ON LOANS AND ADVANCES

Movement in allowance for impairment on loans and advances

	2006 £000	2005 £000
At 1 January	463	407
Impairment (gains)/losses	(4)	18
Loans written off during the year as uncollectible	(64)	(117)
Amounts recovered during the year	-	155
AT 31 DECEMBER	395	463

Interest income of £99,000 (2005 £70 000) has been accrued on impaired loans and advances

12 DEBT SECURITIES HELD-TO-MATURITY

Debt securities represent certificates of deposit The Company's intention is to hold them to maturity and, therefore they are stated in the balance sheet at amortised cost Amounts include £29,323,000 (2005 £28,584,000) with an original maturity of 3 months or less included in cash and cash equivalents (Note 26)

The movement in debt securities held to maturity may be summarised as follows

	2006 £000	2005 £000
AT 1 JANUARY	88 389	50,500
Exchange difference on monetary assets	(278)	127
Additions	240,897	268 352
Redemptions	(223 046)	(230,590)
AT 31 DECEMBER	105 962	88,389

13 INVESTMENT SECURITIES

	2006 £000	2005 Restated £000
Investments in available-for-sale securities	1 954	577

The Company has made equity investments in special purpose vehicles set up to acquire and enhance the value of commercial properties These investments are of a medium term nature There is no open market for these securities and due to the nature of the underlying assets any valuation would contain significant estimation Consequently, the Directors believe that it is appropriate to hold the investments at cost In previous years these investments were reported in Loans and advances to customers (see note 10)

The movement in investment securities may be summarised as follows

	2006 £000	2005 £000
AT 1 JANUARY	577	1 166
Additions	1 954	-
Disposals	(577)	(589)
AT 31 DECEMBER	1 954	577

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2006 £000	2005 £000
AT 31 DECEMBER	31	7 794
Acquisitions	25	-
Disposals	-	(7,763)
AT 31 DECEMBER	56	31

In 2005 there was a gain on the sale of a subsidiary of £57,000

On 14 July 2006 the Company formed UK Regional Hotel Property Fund Manager Limited a Jersey registered company, in order to act as manager of the UK Regional Hotel Property Fund, a specialist expert Jersey Property Unit Trust The Company owns the entire share capital of this undertaking

At 31 December 2006, the Company also owned the entire share capital of The Musical Instrument Finance Company Limited (formerly Weinel & Partners Limited), Arbuthnot Weinel Financial Consultants Limited, Artillery Nominees Limited Arbuthnot Actuarial Consultancy Limited, Arbuthnot Latham (Nominees) Limited, Nelson Nominees Limited, John K Gilliat & Co , Limited and Partnership Protection Limited All of the companies are dormant

All the above interests relate wholly to ordinary shares

15 INTANGIBLE ASSETS

	Computer software £000	Goodwill £000	Total £000
AT 1 JANUARY 2005			
Cost	906	-	906
Accumulated amortisation	(348)	-	(348)
NET BOOK AMOUNT	558	-	558
YEAR ENDED 31 DECEMBER 2005			
Opening net book amount	558		558
Additions	51	6,027	6 078
Amortisation charge	(170)	-	(170)
Closing net book amount	439	6,027	6 466
AT 31 DECEMBER 2005			
Cost	957	6,027	6,984
Accumulated amortisation	(518)	-	(518)
Net book amount	439	6 027	6 466
YEAR ENDED 31 DECEMBER 2006			
Opening net book amount	439	6,027	6 466
Additions	361	50	411
Amortisation charge	(184)	-	(184)
Closing net book amount	616	6 077	6,693
AT 31 DECEMBER 2006			
Cost	1 317	6 077	7 394
Accumulated amortisation	(701)	-	(701)
NET BOOK AMOUNT	616	6,077	6,693

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £000	Operating Leases £000	Computer and other equipment £000	Motor vehicles £000	Total £000
AT 1 JANUARY 2005					
Cost or valuation	20,800	-	1,452	474	22 726
Accumulated depreciation	-	-	(445)	(141)	(586)
Net book amount	*20 800*	-	*1 007*	333	22 140
YEAR ENDED 31 DECEMBER 2005					
Opening net book amount	20,800	-	1,007	333	22,140
Additions	31	-	303	97	431
Group transfers	-	-	69	-	69
Disposals	-	-	-	(43)	(43)
Depreciation charge	(147)	-	(323)	(119)	(589)
CLOSING NET BOOK AMOUNT	20,684	-	1,056	268	22 008
AT 31 DECEMBER 2005					
Cost or valuation	20,831	-	1 893	466	23 190
Accumulated depreciation	(147)	-	(837)	(198)	(1,182)
Net book amount	20,684	-	1 056	268	22 008
YEAR ENDED 31 DECEMBER 2006					
Opening net book amount	20 684	-	1 056	268	22,008
Additions	-	892	429	167	1,488
Disposals	(20,550)	-	(315)	(122)	(20 987)
Depreciation charge	(134)	(51)	(302)	(98)	(585)
CLOSING NET BOOK AMOUNT	-	841	868	215	1,924
AT 31 DECEMBER 2006					
Cost or valuation	-	892	2,007	511	3,410
Accumulated depreciation	-	(51)	(1 139)	(296)	(1,486)
NET BOOK AMOUNT	-	841	868	215	1 924

On 20th December 2006 the Company entered into a sale and leaseback of its freehold premises The property was sold for £35 million which resulted in a profit on sale (after costs) of £12,612,000 The Company has entered into an agreement to lease the premises for a period of up to 15 years (see note 25)

The historical cost of freehold property included at valuation is as follows

	2006 £000	2005 £000
Cost	-	18 182
Accumulated depreciation	-	(61)
Net book amount	-	18,121

The operating lease receivables under non-cancellable operating leases is as follows

	2006 £000	2005 £000
Expiring		
No later than 1 year	141	-
Later than 1 year and no later than 5 years	430	-
Later than 5 years	-	-
	571	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 DEFERRED TAX

	2006 £000	2005 £000
The deferred tax asset/(liability) comprises		
Unrealised surplus on revaluation of freehold property	-	(795)
Capital allowances	290	116
	290	(679)
At 1 January	(679)	(528)
Credited/(charged) to income statement	174	(151)
Revaluation reserve	795	-
At 31 December	290	(679)

18 OTHER ASSETS

	2006 £000	2005 £000
Inventory	448	295
Trade receivables	2 275	1,062
Prepayments and accrued income	2,825	1,803
	5,548	3 160

19 DEPOSITS FROM BANKS

	2006 £000	2005 £000
Deposits from other banks	3 029	7,090

For a maturity profile of deposits from banks, refer to Note 28

20 DEPOSITS FROM CUSTOMERS

	2006 £000	2005 £000
Retail customers		
- current/demand accounts	93,480	86 560
- term deposits	150,495	120 351
	243,975	206 911

For a maturity profile of deposits from customers refer to Note 28

21 SUBORDINATED LOAN

	2006 £000	2005 £000
	3,100	3 100

The subordinated loan is provided by Arbuthnot Banking Group PLC It had an original maturity date of 30 August 2008, which was further extended to 30 August 2011 in August 2006 The subordinated loan carries interest at the interbank rate for one week deposits

22 OTHER LIABILITIES

	2006 £000	2005 £000
Trade payables	573	1,047
Accruals and deferred income	3,622	2 291
	4 195	3,338

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 SHARE CAPITAL

Authorised, alloted, called up and fully paid shares of £1 each	Number of shares	Ordinary shares £000
AT 31 DECEMBER 2005 AND 31 DECEMBER 2006	15,000,000	15 000

24 RESERVES AND RETAINED EARNINGS

	2006 £000	2005 £000
Retained earnings	13,026	8,220
Revaluation reserve	-	1 854
TOTAL RESERVES AT 31 DECEMBER	13 026	10 074

Movements in retained earnings were as follows

At 1 January	8,220	7 606
Profit for the year	9 952	614
Transfer from revaluation reserve	1,854	-
Interim dividend for 2006 (£0 47 per share) - Note 7	(7,000)	-
AT 31 DECEMBER	13,026	8,220

Movements in revaluation reserve was as follows

At 1 January	1,854	1,854
Movement on sale of freehold property	(1,854)	-
AT 31 DECEMBER	-	1,854

25 CONTINGENT LIABILITIES AND COMMITMENTS

a) Capital commitments
At 31 December 2006 the Company had capital commitments of £nil (2005 £308,000) in respect of equipment purchases

b) Credit commitments
The contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers are as follows

	2006 £000	2005 £000
Guarantees and other contingent liabilities		
Documentary letters of credit	13	15
Guarantees	312	569
Other contingent liabilities	8	8
Commitments to extend credit		
- Original term to maturity of one year or less	10,450	9,011
	10 783	9,603

c) Operating lease commitments
Where the Company is the lessee, the future aggregate lease payments under non-cancellable operating leases are as follows

	2006 £000	2005 £000
No later than 1 year	1,843	136
Later than 1 year and no later than 5 years	7 305	459
Later than 5 years	234	167
	9,382	762

On 20 December 2006 the Company entered into a sale and leaseback transaction in respect of its freehold premises (see Note 16) The term in respect of this lease is 15 years with an annual commitment of £1 705,000 Under the terms of the lease the Company can exercise an option to terminate the lease after 5 years

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months maturity from the date of acquisition

	2006 £000	2005 £000
Cash (Note 8)	158	167
Loans and advances to banks and building societies (Note 9)	43 322	18 265
Debt securities held-to-maturity (Note 12)	29,323	28 584
	72 803	47 016

27 RELATED-PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business These include loans deposits and foreign currency transactions The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows

i) TRANSACTIONS WITH GROUP COMPANIES

	2006 £000	2005 £000
LOANS		
At 1 January	7 191	1,000
Loans issued during the year	7,399	7,191
Loan repayments during the year	(8,090)	(1,000)
At 31 December	6 500	7 191
Interest income earned	231	16

	2006 £000	2005 £000
DEPOSITS AND CURRENT ACCOUNTS		
At 1 January	10,758	3 577
Net movement on current accounts	93	(862)
Net movement on deposit accounts	2 531	8,043
At 31 December	13 382	10 758
Interest expense	230	157
Commission income earned	35	50

The Company uses Arbuthnot Securities Limited, a fellow group undertaking, to execute a number of secutities transactions on behalf of discretionary asset management clients During 2006, commissions of £13,000 were paid (2005 £nil) There were no balances outstanding at 31 December 2006

Included in the Income Statement are costs recharged to Arbuthnot Banking Group PLC, Arbuthnot Secuntes Limited and, for 2005 only, a number of subsidiaries of the Company whose businesses were acquired by the Company on 31 December 2005, in respect of property costs, IT support and usage of fixed assets, amounting to £1,936,000 (2005 £2,410,000) The balances outstanding at 31 December 2006 were £1,238,000 (2005 £643,000)

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 RELATED-PARTY TRANSACTIONS (continued)

ii) TRANSACTIONS WITH DIRECTORS

	2006 £000	2005 £000
LOANS		
Loans outstanding at 1 January	303	79
Loans issued during the year	590	1,157
Loan repayments during the year	(353)	(933)
Loans outstanding at 31 December	540	303
Interest income earned	28	14

No provisions have been recognised in respect of loans given to related parties (2005 £nil)

The loans issued to directors during the year consist of credit card transactions and term loans All loans were on normal commercial terms and are all repayable on demand

	2006 £000	2005 £000
DEPOSITS		
Deposits at 1 January	1 041	55
Deposits received during the year	2,583	1,214
Deposits repaid during the year	(3,108)	(228)
Deposits at 31 December	516	1 041
Interest expense on deposits	37	4

Directors' remuneration

The Directors' emoluments (including pension contributions and benefits in kind) for the year were as follows

	2006 £000	2005 £000
Fees	21	27
Other emoluments	1,093	1,070
Compensation for loss of office	121	-
Pension contributions	172	176
	1,407	1 273

Pension contributions are being accrued under money purchase schemes for 7 directors in respect of qualifying service The emoluments of H Angest SJ Lockley AA Salmon, PN Sheriff, RJJ Wickham and AC Wakelin were paid by the immediate parent company which makes no recharge to the Company Their total emoluments are disclosed in the financial statements of the parent company

The Directors' remuneration includes amounts paid to the highest paid Director in respect of

	2006 £	2005 £
Emoluments	297,045	284,780
Amounts payable to a money purchase pension scheme	22,080	32,000

28 FINANCIAL RISK MANAGEMENT

i) STRATEGY IN USING FINANCIAL INSTRUMENTS

By their nature, the Company's activities are principally related to the use of financial instruments The Company accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets The Company seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due The Company also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing

NOTES TO THE FINANCIAL STATEMENTS (continued)

ii) CREDIT RISK

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due Impairment provisions are provided for losses that have been incurred at the balance sheet date Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date Management therefore carefully manages its exposures to credit risk

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers Such risks are monitored on a revolving basis and subject to an annual or more frequent review Limits on the level of credit risk are approved periodically by the Board of Directors and actual exposures against limits are monitored daily

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans guarantees or letters of credit With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments However the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

iii) MARKET RISK

The Company takes on exposure to market risks Market risks arise from open positions in interest rate, currency and equity products all of which are exposed to general and specific market movements The Board sets limits on the market risk that may be accepted, which is monitored on a daily basis

iv) CURRENCY RISKS

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows The Board sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December Included in the table are the Company s assets and liabilities at carrying amounts, categorised by currency

AT 31 DECEMBER 2006	£	US$	Euro	Other	Total
ASSETS	£000	£000	£000	£000	£000
Loans and advances to banks	32,985	6,712	3,602	23	43,322
Loans and advances to customers	113,749	153	6,180	-	120,082
Debt securities	104,942	1 020	-	-	105,962
Investment securities	-	-	1,954	-	1,954
Other assets	14,492	49	120	8	14 669
TOTAL ASSETS	266 168	7,934	11 856	31	285,989
LIABILITIES					
Deposits from banks	406	71	2552	-	3 029
Deposits from customers	227,103	7,690	9177	5	243,975
Subordinated loan	3,100	-	-	-	3 100
Other liabilities & shareholders equity	35 721	45	117	2	35,885
TOTAL LIABILITIES	266,330	7,806	11,846	7	285,989
NET ON-BALANCE SHEET POSITION	(162)	128	10	24	-
CREDIT COMMITMENTS	10,252	115	416	-	10,783
AT 31 DECEMBER 2005					
Total assets	230,394	4,726	11,022	50	246 192
Total liabilities	230,392	4,756	10 994	50	246 192
NET ON-BALANCE SHEET POSITION	2	(30)	28	-	-
CREDIT COMMITMENTS	9 363	42	198	-	9,603

NOTES TO THE FINANCIAL STATEMENTS (continued)

v) INTEREST RATE RISK

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise

The table below summarises the Company's exposure to interest rate risks Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates

AT 31 DECEMBER 2006

	Not more than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non- interest bearing	Total
ASSETS	£000	£000	£000	£000	£000	£000	£000
Loans and advances to banks	42,836	-	-	-	-	486	43,322
Loans and advances to customers	119,377	70	17	-	-	618	120 082
Debt securities	60,160	11,772	34,030	-	-	-	105,962
Investment securities	-	-	-	1 450	-	504	1,954
Other assets	-	-	-	-	-	14,669	14,669
TOTAL ASSETS	222,373	11,842	34,047	1,450	-	16 277	285,989
LIABILITIES							
Deposits from banks	2,624	-	-	-	-	405	3 029
Deposits from customers	222,830	7,351	5,138	179	-	8,477	243 975
Other liabilities	3,100	-	-	-	-	7,859	10 959
Equity	-	-	-	-	-	28,026	28 026
TOTAL LIABILITIES	228,554	7,351	5,138	179	-	44 767	285,989
Interest rate sensitivity gap	(6 181)	4,491	28,909	1,271	-	(28 490)	
Cumulative gap	(6,181)	(1 690)	27,219	28,490	28 490	-	

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss

AT 31 DECEMBER 2006	£ %	US$ %	Euro %
ASSETS			
Loans and advances to banks	5 15%	5 23%	3 31%
Loans and advances to customers	8 21%	9 61%	6 03%
Debt securities	5 14%	5 57%	-
LIABILITIES			
Deposits by banks	0 06%	-	3 81%
Customer accounts	4 13%	3 07%	3 15%

NOTES TO THE FINANCIAL STATEMENTS (continued)

AT 31 DECEMBER 2005

	Not more than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non- interest bearing	Total
ASSETS	£000	£000	£000	£000	£000	£000	£000
Loans and advances to banks	17,712	-	-	-	-	553	18,265
Loans and advances to customers	105,011	282	521	-	-	1 265	107,079
Debt securities	56 371	17,008	15,010	-	-	-	88,389
Investment securities	577	-	-	-	-	-	577
Other assets	-	-	-	-	-	31,882	31,882
TOTAL ASSETS	179,671	17,290	15,531	-	-	33,700	246,192
LIABILITIES							
Deposits from banks	7,090	-	-	-	-	-	7,090
Deposits from customers	195 057	2,767	-	70	-	9,017	206,911
Other liabilities	3 100	-	-	-	-	4,017	7 117
Equity	-	-	-	-	-	25,074	25,074
TOTAL LIABILITIES	205,247	2 767	-	70	-	38,108	246 192
Interest rate sensitivity gap	(25,576)	14,523	15,531	(70)	-	(4,408)	
Cumulative gap	(25,576)	(11,053)	4,478	4,408	4 408	-	

The table below summarises the effective interest rate by major currencies for monetary financial instruments

AT 31 DECEMBER 2005	£ %	US$ %	Other %
ASSETS			
Loans and advances to banks	4 62%	3 18%	2 28%
Loans and advances to customers	8 04%	7 31%	8 76%
Debt securities	4 58%	4 25%	-
LIABILITIES			
Deposits by banks	5 10%	-	-
Customer accounts	3 65%	1 28%	2 05%

vi) LIQUIDITY RISK

The Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits loan draw downs and guarantees The Company does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types An unmatched position potentially enhances profitability, but also increases the risk of losses

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates

NOTES TO THE FINANCIAL STATEMENTS (continued)

The table below analyses the Company's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date

AT 31 DECEMBER 2006

	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
ASSETS					
Loans and advances to banks	43,322	-	-	-	43,322
Loans and advances to customers	85,988	18,860	13 191	2 043	120,082
Debt securities	60,159	45,803	-	-	105,962
Investment securities	-	-	1,954	-	1 954
Other assets	5,706	290	1,924	6,749	14,669
TOTAL ASSETS	195,175	64,953	17,069	8 792	285,989
LIABILITIES					
Deposits by banks	3,029	-	-	-	3 029
Customer accounts	208,331	35 465	179	-	243,975
Other liabilities	7,859	-	3,100	-	10,959
Shareholders' funds	-	-	-	28,026	28,026
TOTAL LIABILITIES	219,219	35 465	3,279	28,026	285 989
Net liquidity gap	(24,044)	29 488	13,790	(19,234)	-

AT 31 DECEMBER 2005

	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Total assets	147,874	58,033	10,332	29,953	246,192
Total liabilities	185,751	24,518	10 849	25,074	246,192
Net liquidity gap	(37,877)	33 515	(517)	4 879	-

vii) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of those financial assets and liabilities not presented in the Company's balance sheet at fair value are not materially different from their carrying values

29 ULTIMATE PARENT COMPANY

The Directors regard Arbuthnot Banking Group PLC, a company registered in England and Wales, as the ultimate parent company and also the ultimate controlling party A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from the Secretary Arbuthnot Banking Group PLC, One Arleston Way, Solihull, B90 4LH