CAPITAL BANK plc

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2004

Company number 392902

CAPITAL BANK plc

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004

CONTENTS

Page

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 December 2004 for Capital Bank plc (the Company).

Principal activity and business review

The principal activities of the company are the provision of financial and related services to third party customers, including leasing and instalment credit and acting as a holding company for the Capital Bank group (Capital Bank plc and subsidiaries "the group") investments in various subsidiaries and joint ventures and also provides loan funding to those entities.

Results and Dividends

The profit before taxation amounted to £158.1 million (year ended 31 December 2003: £34.6 million). The profit attributable to the shareholders was £133.5 million (year to 31 December 2003: £45.3 million).

Preference dividends amount to £12.2 million for the year. The Directors recommend the payment of a final ordinary dividend of £120.0 million, leaving £1.3 million to be transferred to reserves.

Payment Policy

The Company's suppliers are paid through HBOS plc's centralised Accounts Payable department.

For the forthcoming period HBOS plc's policy for the payment of suppliers will be as follows -

- Payment terms are agreed at the start of the relationship with the supplier and are only changed by agreement;

- Standard payment terms to suppliers of goods and services is 30 days from receipt of a correct invoice for satisfactory goods or services which have been ordered and received unless other terms are agreed in a contract;

- Payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made; and

- Suppliers will be advised without delay when an invoice is contested and disputes will be settled as quickly as possible.

HBOS plc complies with the Better Payment Practice Code. Information regarding this Code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

The Company had trade creditors outstanding at 31 December 2004 representing 15 days of purchases.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

Directors

The names of the Directors at the date of this report are:-

G. Mitchell
A.R. Christie
J. Coyle
D.R. Fryatt
J.N. Maclean
J. Morris
A.Webster
M.Wooderson

Mr G. Mitchell was appointed as a Director on 6 January 2004, Mr A. Webster was appointed as a Director on 12 February 2004, Mr M. Wooderson was appointed a Director on 23 March 2004 and Mr C. Matthew resigned as a Director on 2 January 2004.

Directors' beneficial interests in the ordinary shares of HBOS plc during the year were as follows:

References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc. During the year, no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than HBOS plc, the ultimate holding company.

The beneficial and non-beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below:

	At 31 December, 2003 or date of appointment if later HBOS plc shares	At 31 December, 2004 HBOS plc shares
G. Mitchell	72,622	90,562
A.R. Christie	28,244	30,515
J. Coyle	37,053	31,581
D.R. Fryatt	47,560	54,602
J.N. Maclean	5,038	5,000
J. Morris	51,383	41,834
A. Webster	143,029	155,078
M. Wooderson	15,224	23,852

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

Short-term Incentive Plan – HBOS Scheme and former Halifax scheme

Certain Directors have a conditional entitlement to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors:

	Grant effective from	Shares as at 31.12.04
G. Mitchell	March 2002	7,017
	March 2003	11,944
	March 2004	8,657
A.R. Christie	March 2002	1,165
	March 2003	932
	March 2004	721
J.Coyle	March 2002	1,554
	March 2003	2,845
	March 2004	2,034
D.R. Fryatt	March 2002	971
	March 2003	2,135
	March 2004	2,275
J. Morris	March 2002	4,746
	March 2003	4,849
	March 2004	4,360
A. Webster	March 2002	1,943
	March 2003	3,720
	March 2004	2,525
M. Wooderson	March 2002	1,943
	March 2003	3,328
	March 2004	4,209

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

Long-term Incentive Plan – HBOS scheme and former Halifax scheme

Details of the shares which have been conditionally awarded to Directors under the plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2004.

	Grant effective from	At 31.12.03 or date of appointment if later	Granted (G) or lapsed (L) in year	Added as a result of performance	Dividend reinv – estment shares	Re-leased in year	At 31.12.04
G. Mitchell	Jan 2002	56,250					56,250
	Jan 2003	76,562					76,562
	Jan 2004		75,313(G)				75,313
A.R. Christie	Jan 2002	14,606					14,606
	Jan 2003	18,854					18,854
	Jan 2004		17,340(G)				17,340
J.Coyle	Jan 2002	10,416					10,416
	Jan 2003	13,541					13,541
	Jan 2004		13,482(G)				13,482
D.R. Fryatt	Jan 2002	6,013					6,013
	Jan 2003	7,708					7,708
	Jan 2004		15,806(G)				15,806
J. Morris	Jan 2001	18,321		18,321	4,784	(41,426)	-
	Jan 2002	15,000					15,000
	Jan 2003	19,375					19,375
	Jan 2004		21,385(G)				21,385
A. Webster	Jan 2002	12,500					12,500
	Jan 2003	17,708					17,708
	Jan 2004		18,596(G)				18,596
M. Wooderson	Jan 2002	13,333					13,333
	Jan 2003	17,708					17,708
	Jan 2004		25,104(G)				25,104

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependent upon performance. The performance period for the January 2001 grant ended on 31 December 2003 and, in light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 26% of the original conditional grant were also released to participants in accordance with the rules of the plan.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

Long term incentive plan – HBOS scheme, former Bank of Scotland and former Halifax Scheme

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions, which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2004.

	Options outstanding At 31.12.03 or date of appointment if later	Granted (G), Lapsed (L) or Exercised (E) in year	At 31.12.04
G. Mitchell	220,000	-	220,000
A.R. Christie	88,000	23,500 (E)	64,500
D.R. Fryatt	27,367	-	27,367
A. Webster	26,000	-	26,000
M. Wooderson	35,000	-	35,000

Sharesave Plan

Share options granted under these plans are set out below.

	At 31.12.03 or date of appointment if later	Grant (G) Lapsed (L) or exercised (E) in year	At 31.12.04
G. Mitchell	1,723	1,740(G)	3,463
A.R. Christie	1,668	828(E)	840
J.Coyle	3,157	1,020(G) 994(E)	3,183
D.R. Fryatt	6,319	306 (G) 3,589(E)	3,036
J. Morris	1,607	-	1,607
A. Webster	5,483	752(G) 1,395(E)	4,840
M. Wooderson	3,571	-	3,571

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

Charitable and other donations

Charitable donations made by the company during the year amounted to £nil (year ended 31 December 2003 : £nil).

Corporate Governance

No separate report on corporate governance is presented. The company follows the principles of good governance set out in the revised Combined Code on Corporate Governance. Full details are contained in the Report and Accounts of HBOS plc, the company's ultimate parent undertaking.

Auditor

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

P.GITTINS
Secretary

Queens Park Road
Handbridge
CHESTER
CH88 3AN
21 February 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT
to the members of CAPITAL BANK plc

We have audited the accounts on pages 9 to 37.

This report is made solely to the Company'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 Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the director's report and, as described on page 7, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if 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 transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
21 February 2005

ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost convention. The accounts have been prepared in accordance with the applicable accounting standards and pronouncements of the Urgent Issues Task Force ("UITF") and in accordance with the applicable Statements of Recommended Practice, being those issued by the British Banker's Association and the Finance and Leasing Association. Accounting policies are reviewed regularly to ensure they are the most appropriate to the circumstances of the company for the purposes of giving a true and fair view.

The company's accounting policies are unchanged from those stated in the 2003 Annual Report and Accounts.

In accordance with the exemption afforded by S.228 of the Companies Act 1985, consolidated accounts have not been prepared. Note 34 gives details of the main operating subsidiaries and joint ventures. Note 37 gives details of the parent undertaking that prepares consolidated accounts. The parent undertaking delivers, to the Registrar, within the period allowed, copies of the group accounts and of its annual reports, together with the auditors' report thereon.

As a wholly owned subsidiary undertaking the company is exempt from including a statement of cash flows in its accounts. HBOS plc has included a consolidated statement of cash flows in its consolidated accounts. Copies of HBOS plc's accounts can be obtained from The Mound, Edinburgh, EH1 1YZ.

Loans and advances

Loans and advances are held at cost less provisions. Specific provisions are made for advances that are recognised to be bad or doubtful. Specific provisions are assessed on a case by case basis or, where this is not practical, as part of a portfolio of similar advances using loan loss estimation models. A general provision, to cover advances that are latently bad or doubtful, but not yet identified as such, is also maintained based on loan loss estimation models. The models reflect the historical loan loss experience relevant to the particular market segment or product and include adjustments for economic and business climate factors and management experience. Provisions made during the year are charged to the profit and loss account, net of recoveries. If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account. Provisions and suspended interest are written off to the extent that there is no longer any realistic prospect of recovery.

Finance leases, Instalment Credit and Operating Leases

Assets leased to customers which transfer substantially all risks and rewards of ownership to the customer are classified as finance leases and, together with instalment credit agreements, are recorded within loans and advances to customers or loans and advances to banks. The net investment in finance leases and instalment credit agreements represents total minimum payments less gross earnings allocated to future periods. Obligations under leases with third party finance lessors are included in customer accounts.

ACCOUNTING POLICIES (continued)

Finance leases, Instalment Credit and Operating Leases (continued)

All other assets leased to customers are classified as operating leases. These assets are separately disclosed in the balance sheet at cost less aggregate depreciation.

Income from finance leases and instalment credit agreements is credited to interest receivable using an actuarial method to give a constant periodic return on the net cash investment. Operating lease rentals are recognised in other operating income on a straight line basis with depreciation charged using an actuarial method to give a constant periodic rate of return on the net cash investment.

Unguaranteed residual values in respect of both finance lease and operating lease assets are reviewed regularly and any impairments identified are charged to operating expenses.

Debt securities

Debt securities and other fixed interest securities held for the longer term are included at cost less amounts written off and adjusted for the amortisation of premiums or discounts arising on purchase of investments redeemable at fixed dates. Such premiums or discounts are taken to interest receivable on a straight-line basis over the period to redemption. The use of a straight-line basis does not result in a material difference to the amount of amortisation taken to interest receivable compared to the amortisation had a level gross yield basis been used. Gains or losses on realisation are recorded in net operating income as they arise.

Equity shares

Equity shares held for investment are stated at cost less amounts written off. Income from equity shares is credited to dividend income.

Goodwill

Purchased goodwill is recognised as an intangible asset and is amortised by equal instalments over its estimated useful life not exceeding 20 years.

Goodwill carried in the balance sheet is subject to impairment review when events or changes in circumstances indicate that the carrying amount may not be recoverable and is written down by the amount of any impairment loss identified in the year. Impairment charges, if any, are included within goodwill amortisation.

ACCOUNTING POLICIES (continued)

Tangible fixed assets and depreciation

Freehold land is not depreciated. Freehold and leasehold property is stated at cost and depreciated over 50 years or the length of the lease term if shorter. Improvements to leasehold properties with unexpired lease terms of fifty years or less are stated at cost and are depreciated in equal instalments over the lesser of the remaining lives of the leases or eight years. Premiums are amortised over the period of the lease. The cost of equipment, including fixtures and fittings, vehicles and computer hardware, less estimated residual value, is written off in equal instalments over the expected lives of the assets, generally between three and fifteen years. Software development costs, which lead to the creation of a definable software asset, subject to a de minimus limit, are capitalised and depreciated over their expected lives, generally four years. Provision is made for the diminution in value of any tangible fixed asset where impairment is identified. The resulting net book value of the asset is written off over its remaining expected economic life. Impairment charges are included within operating expenses.

Taxation

Deferred tax is recognised at the standard rate of corporation tax, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, (except as otherwise required by Financial Reporting Standard 19 – Deferred Tax) based on the corporation tax rate expected when the timing differences reverse.

Dated and Undated Loan Capital

Dated and Undated Loan capital is included at the nominal value adjusted for premiums, discounts and expenses, all of which are amortised evenly over the period to redemption or reset.

Interest receivable and payable

Interest receivable and payable is recognised in the profit and loss account on an accruals basis. If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account.

Fees and commissions

Arrangement fees and commissions receivable for the continuing service of loans and advances are recognised on the basis of work done. Those receivables in respect of bearing risk, are recognised on a straight line basis over the expected period of the advance or risk exposure. Other fees are recognised when receivable.

Fees and commissions payable to third parties are normally charged to the profit and loss account as incurred. For certain categories of business, fees are amortised over a period not exceeding four years.

ACCOUNTING POLICIES (continued)

Foreign currencies

Assets, liabilities and profit and loss accounts are translated at the rates of exchange ruling on the balance sheet date or at the forward exchange rate, as appropriate.

Derivatives

Derivative financial instruments used for non-trading purposes include interest rate swaps, cross currency swaps, futures, options, forward rate agreements and caps, floors and collars.

Non-trading derivatives, which are used primarily as a risk management tool for hedging interest rate and foreign exchange rate risk arising on on-balance sheet assets and liabilities, are accounted for on the same basis as the underlying items being hedged.

In order to qualify as a hedge, a derivative must effectively reduce any risk inherent in the hedged item from potential movements in interest rates, exchange rates and market values. Changes in the fair value of the derivative must be highly correlated with changes in the fair value of the underlying hedged item over the life of the hedge contract. Gains and losses on instruments used for hedging purposes are not recognised until the exposure that is being hedged is itself recognised. Where a hedge transaction is terminated early, any profit or loss is spread over the remainder of the original life of the hedge contract. In other circumstances, where the underlying item subject to the hedge is extinguished, the hedge transaction is measured at fair value and any profit or loss is recognised immediately.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	*Year ended 31/12/04 £m*	*Year ended 31/12/03 £m*
INTEREST RECEIVABLE			
Interest receivable and similar income arising from debt securities		0.1	0.3
Other interest receivable		1,124.1	919.4
		1,124.2	919.7
Interest payable		(901.0)	(733.2)
NET INTEREST INCOME		**223.2**	**186.5**
Dividend income from subsidiary undertakings		130.7	83.4
Fees and commissions receivable		63.0	61.9
Fees and commissions payable		(83.6)	(78.8)
		110.1	66.5
Other operating income		10.2	(2.9)
NET OPERATING INCOME	1	**343.5**	**250.1**
Administrative expenses		(124.5)	(147.1)
Depreciation and amortisation	13,14,15	(17.7)	(16.5)
Provisions for bad and doubtful debts	9	(47.1)	(50.7)
Amounts written off fixed asset investments		(0.1)	(1.2)
		(189.4)	(215.5)
OPERATING PROFIT		**154.1**	**34.6**
Profit on sale of fixed asset investments		4.0	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (all from continuing activities)	1	**158.1**	**34.6**
Tax (charge)/credit on profit on ordinary activities	4	(24.6)	10.7
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**133.5**	**45.3**
Dividends	5	(132.2)	(52.2)
TRANSFER TO/(FROM) RESERVES	24	**1.3**	**(6.9)**

The company had no gains or losses for the current and prior year other than as stated in the profit and loss account.

The statement of accounting policies on pages 9 to 12 and the notes on pages 15 to 37 form part of these accounts.

BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	31/12/04 £m	31/12/03 £m
Assets			
Cash and balances at central banks		27.0	23.8
Loans and advances to banks	6	956.4	697.1
Loans and advances to customers	7	19,494.0	18,251.6
Debt securities	10	7.0	7.5
Interests in joint ventures	11	5.4	5.9
Interests in subsidiary undertakings	12	49.8	57.6
Intangible fixed assets	13	-	6.4
Tangible fixed assets	14	56.3	62.9
Operating lease assets	15	7.3	-
Other assets	16	173.9	181.4
Prepayments and accrued income		25.6	20.6
Total assets		**20,802.7**	**19,314.8**
Liabilities			
Deposits by banks	17	19,002.3	17,741.1
Customer accounts	18	49.0	44.1
Other liabilities	19	146.8	27.2
Accruals and deferred income	20	291.5	270.6
		19,489.6	18,083.0
Subordinated liabilities			
Dated loan capital	22	478.0	398.0
Undated loan capital	22	165.0	165.0
		643.0	563.0
Capital and Reserves			
Called up share capital	23	200.4	200.4
Share premium account		2.6	2.6
Profit and loss account	24	467.1	465.8
Shareholders' funds	25	670.1	668.8
Total liabilities		**20,802.7**	**19,314.8**
MEMORANDUM ITEM			
Commitments	26	**451.2**	**406.5**

Approved by the Board of Directors on 21 February 2005 and signed on its behalf by

GEORGE MITCHELL *JAMES COYLE*

The statement of accounting policies on pages 9 to 12 and the notes on pages 15 to 37 form part of these accounts.

NOTES ON THE ACCOUNTS

1. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	31/12/04 *£m*	*31/12/03* *£m*
Net operating income includes :		
Operating lease rental income	1.7	-
Hire purchase instalments	408.1	374.5
Profit on disposal of fixed assets	0.9	1.1
Interest receivable from parent, subsidiary and fellow subsidiary undertakings	559.8	389.0
Interest payable to fellow subsidiary undertakings	(859.8)	(702.2)
Interest payable on subordinated liabilities	(34.2)	(21.8)
Administrative expenses includes :		
Auditors' remuneration – audit	0.3	0.6
- other	-	0.1

The company has borne the cost for auditors' remuneration for all of its subsidiary companies.

During the period, Capital Bank charged £2.3m to profit and loss (2003: credit £0.7m) arising from a restructuring which followed the merger of Bank of Scotland Group and Halifax Group.

2. ADMINISTRATIVE EXPENSES

The company has no employees. It uses the services of its immediate parent undertaking for which a management charge, included in administrative expenses, is made.

No directors received emoluments for qualifying services to Capital Bank plc in the year ended 31 December 2004.

NOTES ON THE ACCOUNTS (continued)

3. OPERATING LEASES

There are commitments to make payments in the following year in respect of non-cancellable operating leases for properties which expire:

	31/12/04 *£m*	*31/12/03* *£m*
within 1 year	0.1	0.1
between 1 and 5 years	0.9	0.9
after 5 years	3.2	3.3
	4.2	4.3

The majority of leases of land and buildings are subject to rent reviews.

4. TAXATION

	31/12/04 *£m*	*31/12/03* *£m*
Current tax		
UK corporation tax charge/(credit) at 30% (2003:30%)	15.2	(3.1)
Adjustments in respect of prior years	(2.5)	(0.9)
	12.7	(4.0)
Deferred taxation (note 21)		
Origination/reversal of timing differences	0.9	(6.7)
Adjustment in respect of previous years	11.0	-
	11.9	(6.7)
Tax charge/(credit) on profits on ordinary activities	24.6	(10.7)

The current tax charge/(credit) for the year is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below.

NOTES ON THE ACCOUNTS (continued)

4. TAXATION (continued)

	31/12/04 *£m*	*31/12/03* *£m*
Profit on ordinary activities before taxation	158.1	34.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	47.4	10.4
Effects of:		
UK dividend income	(39.2)	(24.9)
Amounts written off fixed asset investments	(0.1)	0.4
Expenses not deductible for tax purposes	7.9	4.4
Capital allowances in excess of depreciation for the year	(2.0)	(0.3)
Other timing difference	1.2	6.9
Adjustments to tax charge in respect of previous years	(2.5)	(0.9)
Current tax charge/(credit) for the year	12.7	(4.0)

5. DIVIDENDS

		31/12/04 *£m*	*31/12/03* *£m*
Ordinary dividend	: paid	-	40.0
	: payable	120.0	-
		120.0	40.0
Preference dividend	: interim	6.1	6.1
	final	6.1	6.1
		132.2	52.2

NOTES ON THE ACCOUNTS (continued)

6. LOANS AND ADVANCES TO BANKS

	31/12/04 *£m*	*31/12/03* *£m*
Repayable on demand or at short notice	436.6	588.5
Other loans and advances repayable		
in 3 months or less excluding on demand or at short notice	0.2	1.6
1 year or less but over 3 months	131.5	-
5 years or less but over 1 year	388.1	107.0
Loans and advances to banks	956.4	697.1

Included in the above are loans to:

Immediate parent undertaking	435.9	588.3
Fellow subsidiary undertakings	520.3	108.6

7. LOANS AND ADVANCES TO CUSTOMERS

	31/12/04 *£m*	*31/12/03* *£m*
Repayable on demand or at short notice	12,665.0	12,019.7
Other loans and advances repayable		
in 3 months or less excluding on demand or at short notice	676.6	1,521.4
1 year or less but over 3 months	1,739.4	1,523.7
5 years or less but over 1 year	4,306.7	2,983.6
over 5 years	290.5	400.1
	19,678.2	18,448.5
Provisions for bad and doubtful debts (note 9)	(161.9)	(173.7)
Interest in suspense (note 8)	(22.3)	(23.2)
Loans and advances to customers	19,494.0	18,251.6

Included in the above are loans to :

Subsidiary undertakings	12,153.8	11,454.0
Fellow subsidiary undertakings	4.9	112.0
Joint Ventures	2,188.5	1,928.8

NOTES ON THE ACCOUNTS (continued)

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

The company's lending exposure, net of provisions, is analysed below:

	31/12/04 *£m*	*31/12/03* *£m*
Loans and advances to customers:		
Agriculture, forestry and fishing	129.3	123.5
Energy	0.4	12.3
Manufacturing industry	264.2	281.9
Construction and property	283.9	291.9
Hotels, restaurants and wholesale and retail trade	602.6	378.6
Transport, storage and communication	337.8	572.5
Financial	112.3	105.9
Other services	533.9	530.5
Individuals		
Other personal lending	2,706.1	2,459.7
Overseas residents	176.3	-
Joint Ventures (note 11)	2,188.5	1,928.8
Subsidiary undertakings	12,153.8	11,454.0
Fellow subsidiary undertakings	4.9	112.0
	19,494.0	18,251.6

8. NON-PERFORMING ASSETS

Non-performing loans and advances amount to £100.0 million (2003: £104.3 million) including £22.3m (2003: £23.2 million) of advances on which interest is being held in suspense. Net of provisions and interest in suspense, non-performing loans amount to £33.2 million (2003: £41.0 million).

9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Specific *£m*	*General* *£m*	*Total* *£m*
At 1 January 2004	122.8	50.9	173.7
New provisions less releases	47.4	4.7	52.1
Amounts written off	(63.9)	-	(63.9)
Cumulative provisions as at 31 December 2004	106.3	55.6	161.9
New provisions less releases	47.4	4.7	52.1
Recoveries of amounts previously written off	(5.0)	-	(5.0)
Net charge to profit and loss account	42.4	4.7	47.1

NOTES ON THE ACCOUNTS (continued)

10. DEBT SECURITIES

	31/12/04	*31/12/03*
	£m	*£m*
Investment securities issued by others:		
Unlisted:		
Joint ventures (subordinated)	-	0.5
Others	7.0	7.0
At cost, net book value and market value	7.0	7.5
Of which:		
maturing within 1 year	-	0.5
in more than 1 year	7.0	7.0
	7.0	7.5

The movement on debt securities held as investment securities is as follows:

	£m	£m
At 1 January 2004	7.5	9.2
Matured	(0.5)	(1.7)
At 31 December 2004	7.0	7.5

11. INTERESTS IN JOINT VENTURES

	Cost and Book value *£m*
At 1 January 2004	5.9
Disposals	(0.5)
At 31 December 2004	5.4

Advances to joint ventures are included in loans and advances to customers (note 7) and debt securities (note 10).

The main joint ventures of the company are listed in note 34 on page 37.

NOTES ON THE ACCOUNTS (continued)

12. INTERESTS IN SUBSIDIARY UNDERTAKINGS

	Non-banks £m
Cost	
At 1 January 2004	67.6
Additions	-
Disposals	(7.7)
At 31 December 2004	59.9
Amounts written off	
At 1 January 2004	10.0
Amounts written off during the year	0.1
At 31 December 2004	10.1
Net book value at 31 December 2004	49.8
Net book value at 31 December 2003	57.6

The main subsidiary undertakings of the company are listed in note 34 on page 36.

13. INTANGIBLE FIXED ASSETS

	Goodwill £m
Cost	
At 1 January 2004 and 31 December 2004	16.1
Amortisation	
At 1 January 2004	(9.7)
Amortisation charged in year	(6.4)
At 31 December 2004	(16.1)
Net book value At 31 December 2004	-
Net book value At 31 December 2003	6.4

NOTES ON THE ACCOUNTS (continued)

14. TANGIBLE FIXED ASSETS

	Land and buildings			
	Freehold *£m*	Short Leasehold *£m*	Equipment *£m*	Total *£m*
Cost				
At 1 January 2004	33.8	16.2	103.2	153.2
Additions	0.6	1.0	12.5	14.1
Disposals	(3.9)	-	(10.4)	(14.3)
At 31 December 2004	30.5	17.2	105.3	153.0
Depreciation				
At 1 January 2004	(3.1)	(12.2)	(75.0)	(90.3)
Disposals	1.0	-	3.0	4.0
Depreciation for year	(0.7)	(1.1)	(8.6)	(10.4)
At 31 December 2004	(2.8)	(13.3)	(80.6)	(96.7)
Net book value				
At 31 December 2004	27.7	3.9	24.7	56.3
At 31 December 2003	30.7	4.0	28.2	62.9

The land and buildings are occupied by the company for its own activities.
There are no capital commitments.

15. OPERATING LEASE ASSETS

	Cost *£m*	*Depreciation* *£m*	*Total* *£m*
At 1 January 2004	-	-	-
Additions	8.4	(0.9)	7.5
Disposals	-	-	-
Exchange differences	(0.2)	-	(0.2)
As at 31 December 2004	8.2	(0.9)	7.3

NOTES ON THE ACCOUNTS (continued)

15. OPERATING LEASE ASSETS (continued)

The Company's unguaranteed residual value exposure in respect of operating lease assets, assuming disposal at the end of the lease term is as follows:

	31/12/04	*31/12/03*
	£m	*£m*
On operating leased assets where the residual value is expected to be recovered in:		
5 years or less but over 2 years	4.9	-

16. OTHER ASSETS

	31/12/04	*31/12/03*
	£m	*£m*
Dividends receivable from subsidiary undertakings	68.5	42.3
Dividends receivable from Joint Ventures	10.0	3.8
VAT	2.4	1.6
Deferred taxation (note 21)	4.5	16.4
Other debtors	88.5	117.3
	173.9	181.4

NOTES ON THE ACCOUNTS (continued)

17. DEPOSITS BY BANKS

	31/12/04 £m	31/12/03 £m
Repayable on demand	9,898.5	9,844.7
Repayable:		
3 months or less but not repayable on demand	1,734.7	1,256.4
1 year or less but over 3 months	2,761.6	2,640.8
5 years or less but over 1 year	4,228.9	3,997.4
over 5 years	378.6	1.8
	19,002.3	17,741.1
Amounts above include:		
Immediate parent undertaking	-	103.0
Fellow subsidiary undertakings	19,002.3	17,638.1

18. CUSTOMER ACCOUNTS

	31/12/04 £m	31/12/03 £m
Repayable on demand	49.0	44.1

19. OTHER LIABILITIES

	31/12/04 £m	31/12/03 £m
Other creditors	2.8	13.0
Corporation tax due within one year	17.9	8.1
Dividends payable	126.1	6.1
	146.8	27.2

20. ACCRUALS AND DEFERRED INCOME

	31/12/04 £m	31/12/03 £m
Interest payable to fellow subsidiary	232.0	200.9
Other accruals	59.5	69.7
	291.5	270.6

NOTES ON THE ACCOUNTS (*continued*)

21. DEFERRED TAXATION ASSET

	31/12/04 *£m*	*31/12/03* *£m*
At 1 January 2004	16.4	9.7
(Charge)/credit for the year (note 4)	(11.9)	6.7
At 31 December 2004	4.5	16.4
Full provision has been made as follows:		
Short term timing differences	18.5	26.3
Accelerated capital allowances	(14.0)	(9.9)
	4.5	16.4

22. SUBORDINATED LIABILITIES

Dated and undated loan capital comprises floating rate loans held by Bank of Scotland. These are subordinated to the claims of other creditors as follows :

	31/12/04 *£m*	*31/12/03* *£m*
Dated loan capital	478.0	398.0
Undated loan capital	165.0	165.0
	643.0	563.0
Repayable:		
in more than 1 year but not more than 5 years	332.0	164.0
after 5 years	311.0	399.0
	643.0	563.0

Interest is payable on the dated loan capital and the undated loan capital at 66.5 basis points and 91.0 basis points respectively over the three month LIBOR rate.

NOTES ON THE ACCOUNTS (continued)

23. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	31/12/04	*31/12/03*	*31/12/04*	*31/12/03*
	£m	*£m*	*£m*	*£m*
Ordinary shares of £1 each	110.0	110.0	70.4	70.4
Irredeemable preference shares of £1 each	140.0	140.0	130.0	130.0
	250.0	250.0	200.4	200.4

All of the preference shares carry a dividend of 9.375% per annum, payable half yearly in arrears on 31 March and 30 September. The dividend rights are non-cumulative.

The preference shares carry no votes at meetings unless the most recent half-yearly dividend due thereon remains unpaid at the date of the meeting, or the business of the meeting includes a resolution for the winding up of the company, or the varying, altering or abrogating of any of the rights, privileges, limitations or restrictions attaching to the preference shares, in which event each holder will be entitled to one vote on a show of hands or one vote per share on a poll.

On a winding up of the company the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, £1 per share plus any accrued dividend.

24. RESERVES

	31/12/04	*31/12/03*
	£m	*£m*
Profit and loss account		
At 1 January	465.8	472.7
Retained profit/(loss) for the year	1.3	(6.9)
At 31 December	467.1	465.8

25. RECONCILIATION OF SHAREHOLDERS' FUNDS

	31/12/04 *£m*	*31/12/03* *£m*
Shareholders' funds 1 January 2004	668.8	675.7
Profit attributable to shareholders	133.5	45.3
Dividends	(132.2)	(52.2)
Shareholders' funds 31 December 2004	670.1	668.8
Of which:		
Attributable to equity interests	540.1	538.8
Attributable to non-equity interests	130.0	130.0
	670.1	668.8

26. MEMORANDUM ITEMS

Commitments

The contract amounts noted below indicate the volume of business outstanding at the balance sheet date in respect of commitments undertaken for customers. They do not reflect the underlying credit or other risks.

	Contract amount	
	31/12/04	*31/12/03*
Other commitments:	*£m*	*£m*
Undrawn formal standby facilities, credit lines and other commitments to lend		
up to and including 1 year	342.3	361.2
over 1 year	108.9	45.3
	451.2	406.5

27. DERIVATIVES

The Bank uses interest rate swaps, forward foreign exchange contracts and other derivative instruments to hedge and reduce the interest rate and currency exposures that are inherent in any banking business. As part of a group-wide initiative to replace derivatives held by subsidiary companies, the majority of derivatives were replaced during the year with term funding at equivalent rates.

The company has entered into non-trading derivative contracts as noted below. The notional principal amounts and fair values of these derivatives are analysed below. 'Fair value' is the amount at which instruments could be exchanged in an arms length transaction.

NOTES ON THE ACCOUNTS (continued)

27. DERIVATIVES (continued)

	31/12/04 Notional Principal Amount £m	31/12/04 Replacement Cost £m	31/12/04 Risk Weighted Amount £m	31/12/03 Notional Principal Amount £m	31/12/03 Replacement Cost £m	31/12/03 Risk Weighted Amount £m
Exchange rate related contracts						
Contracts maturing:						
In more than one year but not more than 5 years	23.1	5.5	5.5	-	-	-
In more than 5 years	-	-	-	59.8	7.1	5.8
	23.1	5.5	5.5	59.8	7.1	5.8

	31/12/04 Notional Principal Amount £m	31/12/04 Replacement Cost £m	31/12/04 Risk Weighted Amount £m	31/12/03 Notional Principal Amount £m	31/12/03 Replacement Cost £m	31/12/03 Risk Weighted Amount £m
Interest rate related contracts						
Contracts maturing:						
In one year or less	-	-	-	576.7	2.4	0.9
In more than one year but not more than 5 years	-	-	-	1,922.3	9.3	7.1
In more than 5 years	-	-	-	411.1	6.9	0.3
	-	-	-	2,910.1	18.6	8.3
Total derivatives	23.1	5.5	5.5	2,969.9	25.7	14.1

Credit Risk Analysis

An institutional analysis of replacement cost is shown below. All of the business is written within the UK

	31/12/04 £m	31/12/03 £m
Institutional:		
Financial institutions	5.5	8.2
Non-financial institutions	-	17.5
	5.5	25.7

NOTES ON THE ACCOUNTS (continued)

28. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31/12/04			*31/02/03*		
		Year end fair values			Year end fair values	
Derivative financial instruments held off balance sheet to manage the interest rate and currency profile	Carrying Amount	Asset	Liability	Carrying Amount	Asset	Liability
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Interest rate swaps and similar instruments	-	-	-	(2.0)	18.6	(80.5)
Currency swaps	-	5.5	-	-	7.1	-

Derivatives held for non-trading purposes are accounted for in same way as the underlying transaction being hedged. Fair values are based on market prices where available or are estimated using other valuation techniques.

Fair value information is not provided for items that do not meet the definition of a financial instrument or for certain other financial instruments, including loans and advances to banks and customers, tangible and intangible assets, deposits by banks and customer accounts, capital resources and short term debtors and creditors. The fair value information presented does not therefore represent the fair value of the company as a going concern at 31 December 2004.

Where financial assets' and liabilities' fair values are not materially different from their carrying values, they have been omitted from the above table (see balance sheet for carrying values).

29. HEDGES

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/ (losses) £m
Unrecognised gains and losses on hedges at 1 January 2004	17.2	(80.2)	(63.0)
Gains and losses arising in previous years that were recognised in year ended 31 December 2004	(17.2)	80.2	63.0
Gains and losses arising before 1 January 2004 that were not recognised in the year ended 31 December 2004	-	-	-
Gains and losses arising in the year ended 31 December 2004 that were not recognised during the period	0.1	-	0.1
Unrecognised gains and losses on hedges at 31 December 2004	0.1	-	0.1
Of which:			
Gains and losses expected to be recognised during year ended 31 December 2005	-	-	-
Gains and losses expected to be recognised after 31 December 2005	0.1	-	0.1

Financial assets and liabilities held or issued for trading

No financial assets and liabilities were held for trading purposes at the reporting date and there were no trading transactions impacting on the profit and loss account during the year to 31 December 2004.

30. INTEREST RATE RISK AND SENSITIVITY GAP

Interest rate risk is the risk to earnings and capital that arises from mismatches in the characteristics of the company's loans, deposits and derivative products including cashflow and repricing dates. The company assumes interest rate risk from dealings with customers either through fixed term lending and deposit taking or entering into derivative hedging contracts. Sensitivity analysis and other modelling techniques are used to assess the effect on earnings of market price movements and to determine the extent of measures required to mitigate the risk from mismatches in the company's business.

The interest rate risk within the company is managed within a framework of limits laid down by HBOS plc Group Asset & Liability Committee. The key objective of this committee is to reduce the volatility of net interest income caused by fluctuations in interest rates and this is achieved by positioning the structural balance sheet against detrimental movements. Sensitivity to movements in interest rates is shown in the following table, which discloses the interest rate repricing profile of assets and liabilities in the non-trading book for the company at the year end. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. The converse holds true whenever asset (or positive) gaps exist.

The gaps displayed by the following tables recognises the responsibilities of Capital Bank plc for obtaining matched funds for activities of the entire Capital Bank group and contractual obligations for funding individual group companies.

NOTES ON THE ACCOUNTS (continued)

30. INTEREST RATE RISK AND SENSITIVITY GAP (continued)

As at 31 December 2004

	Not more than 3 months £m	Over 3 mths but not over 6 mths £m	Over 6 mths but not over 1 year £m	Over 1 yr but not over 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash & loans & advances to banks	436	-	100	420	-	27	983
Loans & advances to customers	14,739	475	692	3,422	166	-	19,494
Debt securities	-	-	-	-	7	-	7
Other assets	-	-	-	-	-	319	319
Total Assets	15,175	475	792	3,842	173	346	20,803
Liabilities							
Deposits by banks	11,405	1,175	1,786	4,295	341	-	19,002
Customer accounts	49	-	-	-	-	-	49
Other liabilities & accruals & deferred income	-	-	-	-	-	439	439
Loan capital & other subordinated liabilities	643	-	-	-	-	-	643
Shareholders' funds	-	-	-	-	-	670	670
Total Liabilities	12,097	1,175	1,786	4,295	341	1,109	20,803
On-balance sheet gap	3,078	(700)	(994)	(453)	(168)	(763)	
Non-trading derivatives	-	-	-	-	-	-	
Net interest rate sensitivity gap at 31 December 2004	3,078	(700)	(994)	(453)	(168)	(763)	
Cumulative gap at 31 December 2004	3,078	2,378	1,384	931	763	-	

NOTES ON THE ACCOUNTS (continued)

30. INTEREST RATE RISK AND SENSITIVITY GAP (continued)

As at 31 December 2003

	Not more than 3 months £m	Over 3 mths but not over 6 mths £m	Over 6 mths but not over 1 year £m	Over 1 yr but not over 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash & loans & advances to banks	590	-	-	107	-	24	721
Loans & advances to customers	14,809	581	912	1,848	102	-	18,252
Debt securities	-	-	-	-	7	-	7
Other assets	-	-	-	-	-	335	335
Total Assets	15,399	581	912	1,955	109	359	19,315
Liabilities							
Deposits by banks	11,239	884	1,671	3,945	2	-	17,741
Customer accounts	44	-	-	-	-	-	44
Other liabilities & accruals & deferred income	-	-	-	-	-	298	298
Loan capital & other subordinated Liabilities	563	-	-	-	-	-	563
Shareholders' funds	-	-	-	-	-	669	669
Total Liabilities	11,846	884	1,671	3,945	2	967	19,315
On-balance sheet gap	3,553	(303)	(759)	(1,990)	107	(608)	
Non-trading derivatives	(1,046)	175	270	782	(181)	-	
Net interest rate sensitivity gap at 31 December 2003	2,507	(128)	(489)	(1,208)	(74)	(608)	
Cumulative gap at 31 December 2003	2,507	2,379	1,890	682	608	-	

31. NON TRADING CURRENCY EXPOSURE

There is no activity in foreign exchange outside of the non-trading book and the following table illustrates that, with the inclusion of foreign exchange swap derivative instruments the underlying exposure to foreign currency risk is minimal.

Transaction currency exposures

	Net foreign currency monetary assets / (liabilities) in *£m*		
Functional currency of the operation involved	US Dollar	Other	Total
Sterling : At 31 December 2004	23.1	-	23.1
: At 31 December 2003	59.8	-	59.8

The US$ denominated balances receivable are the subject of a currency swap contract, as disclosed in note 27.

Non-trading currency exposures

There were no structural currency exposures as at 31 December 2004 (31 December 2003 : £nil).

32. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The aggregate amounts of assets and liabilities denominated in currencies other than sterling were as follows:

	31/12/04 *£m*	*31/12/03* *£m*
Assets	332.3	445.2
Liabilities	270.9	387.2

The above figures do not reflect the company's exposure to foreign exchange, which is significantly lower as it is hedged by off balance sheet instruments.

33. RELATED PARTY TRANSACTIONS

The company's ultimate parent undertaking is HBOS plc. The consolidated financial statements of this company are publicly available and include all transactions with group members who are related parties of the group. Under the provisions of Financial Reporting Standard No. 8, transactions with related parties of this company have not been disclosed other than as required under Companies Act 1985.

During the year, in addition to those transactions disclosed separately in the accounts, the company had the following transactions with other related parties:

		Subsidiaries where Capital Bank plc holds less than 90% of the voting rights		**Joint Ventures**	
		Year ended 31/12/04 £m	*Year ended 31/12/03 £m*	*Year ended 31/12/04 £m*	*Year ended 31/12/03 £m*
Profit and loss account					
Included within	**Description**				
Other interest receivable	Income from provision of funding	16.8	17.8	113.6	91.3
Administrative Expenses	Charges for service	4.4	4.5	54.2	54.3

At the year end the balance owing from subsidiaries where Capital Bank plc holds less than 90% of the voting rights is £54.2m (at 31 December 2003: £337.9m) and the balance owing from joint ventures is £2,188.5m (at 31 December 2003: £1,928.8m) (note 7).

NOTES ON THE ACCOUNTS (continued)

34. SUBSIDIARY UNDERTAKINGS AND JOINT VENTURES AS AT 31 DECEMBER 2004

MAIN OPERATING SUBSIDIARY UNDERTAKINGS (AND SUBSIDIARIES OF THOSE COMPANIES)	Effective percentage of equity capital and voting rights held by CAPITAL BANK plc	Principal Activity
British Linen Asset Finance Limited*	100	Leasing
British Linen Leasing Limited*	100	Leasing
Bank of Scotland Equipment Finance Limited	100	Leasing
British Linen Shipping Limited*	100	Leasing
Capital Bank Cashflow Finance Limited	100	Debt factoring
Capital Bank Leasing 1 Limited	100	Leasing
Capital Bank Leasing 2 Limited	100	Leasing
Capital Bank Leasing 3 Limited	100	Leasing
Capital Bank Leasing 4 Limited	100	Leasing
Capital Bank Leasing 5 Limited	100	Leasing
Capital Bank Leasing 6 Limited	100	Leasing
Capital Bank Leasing 7 Limited	100	Leasing
Capital Bank Leasing 8 Limited*	100	Leasing
Capital Bank Leasing 9 Limited	100	Leasing
Capital Bank Leasing 10 Limited	100	Leasing
Capital Bank Leasing 11 Limited	100	Leasing
Capital Bank Leasing 12 Limited*	100	Leasing
Capital Bank Property Investments Limited	100	Property investment
Capital Bank Vehicle Management Limited	100	Contract management
Daewoo Direct Finance Limited	100	Finance
Forthright Finance Limited	100	Finance
Godfrey Davis (Contract Hire) Limited	100	Contract hire
Inchcape Financial Services Limited	51	Finance
International Motors Finance Limited	51	Finance
Membership Services Finance plc	51	Finance
MVI Financial Services Limited	80	Finance
NWS Trust Limited	100	Finance
The Mortgage Business plc	100	Mortgage loans

Capital Bank plc and each of the above subsidiary undertakings are incorporated in the United Kingdom. All of the above subsidiary undertakings are registered in England and Wales apart from those marked "*" which are registered in Scotland.

NOTES ON THE ACCOUNTS (continued)

34. SUBSIDIARY UNDERTAKINGS AND JOINT VENTURES AS AT 31 DECEMBER 2004 (continued)

JOINT VENTURES	Percentage of voting rights held by CAPITAL BANK plc	% of equity capital held by CAPITAL BANK plc
Centrica Personal Finance Limited	50	50
NFU Mutual Finance Limited	50	50
RFS Limited	50	50
Cartwright Finance Limited	50	50
Britannia Personal Lending Limited	51	51

All joint venture companies are incorporated in the United Kingdom. The principal activity of all the joint venture companies is the provision of financial services.

The company has a 50% involvement in an unincorporated joint venture, AA Financial Services, which has an accounting reference date of 31 December and whose principal place of business is Premier House, City Road, Chester.

35. TRANSACTIONS WITH DIRECTORS, OFFICERS AND CONNECTED PERSONS

Subsidiaries have granted housing loans to one (31 December 2003: one) Director of the company which has been made in accordance with the terms of the company's staff mortgage scheme and which amounts to £nil (31 December 2003: £183,497).

36. SEGMENTAL ANALYSIS

The Directors are of the opinion that the Company operates, to a material extent, in one class of business being the provision of financial and related services in the United Kingdom, and accordingly a segmental analysis is not provided.

37. ULTIMATE PARENT UNDERTAKING

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated. The accounts of The Governor and Company of the Bank of Scotland may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

HBOS plc is the ultimate parent undertaking of Capital Bank plc and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.