
Company registration number: 875947

SINGER & FRIEDLANDER LIMITED
DIRECTORS' REPORT AND ACCOUNTS
31 DECEMBER 2005





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List of Directors

Chairman

S. Einarsson

Directors

C. J. Burdick	K. Petursdottir
R. Gould	J.M. Spence
W.R. Jones	A. Thorvaldsson
H. Mar Sigurdsson	

Secretary

C.C. Aujard

Registered Office

21 New Street, Bishopsgate, London, EC2M 4HR.

Directors, Banking

P.C. Ashton	A.G. Gent	R.A. Ramsey
B.Brownell	B. Matthews	S.W. Robson
C. Clarke	C.H. Mavor	G. Simkins
A.C. Corfield	D.M. Penston	J.N. Stewart
C.A. Edwards	R.A. Pyman	J.L.A. Szpiro

Assistant Directors

M. Arnott	B. Donnelly	M. Lewis	J. Salisbury
M. Bellamy	K.D.M. Edwards	R. McAdam	C. Sinnot
P. Beament	G. Haslehurst	S. Mellor	D.W. Stevens
P. Bensley	P. Hudgell	R.T.H. Morton	T. Szpiro
A.H. Borrell	B. Jackson	T. Noble	S. Tomkinson
P. Brown	G. Keeler	I. Philpot	D. Wood
J.G. Cannon	C. Kennett	M. Scrivener	K. Wood
J. Crouchman	S. Kingham		



Directors' Report

The directors submit their annual report, together with the audited accounts of the Company and its subsidiaries for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND REVIEW

The Company is an authorised institution for the purposes of the Banking Act 1987 and is engaged in the business of merchant banking and related activities.

The Company undertakes traditional banking activities for a broad spectrum of corporate and private customers, and specific financing in a number of sectors. The principal sectors in which specific financing advances were made continued to include property, trade finance, equipment finance and leasing, consumer finance for the purchase of insurance premiums, trade bills and block discounting.

There has been no significant change in the activities of Singer & Friedlander Limited and its subsidiaries during the year.

ULTIMATE HOLDING COMPANY

The Company is a wholly owned subsidiary of Singer & Friedlander Holdings Limited whose ultimate holding company was Singer & Friedlander Group PLC until its acquisition on 11 July 2005 by Kaupthing Holdings UK Limited. Kaupthing Bank hf (incorporated and registered in Iceland) is now the ultimate parent company.

RESULTS AND DIVIDENDS

The profit after exceptional items and taxation of the Company and its subsidiaries for the year was £12,856,000 (2004: £7,640,000).

No interim dividends were paid in respect of the year ended 31 December 2005 (2004: £Nil). The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2005 (2004: nil).

SHARE CAPITAL

There were no changes to the authorised share capital of £150,000,000 ordinary shares of £1.00 each. During the year the issued share capital was increased to £90,000,000 by the issue of a further 20,000,000 ordinary shares of £1.00 each.

DIRECTORS' AND OFFICERS' INSURANCE

The immediate and ultimate holding companies maintain an insurance policy for the directors and officers against liabilities incurred in the conduct of their duties.

DIRECTORS

The names of the directors of the Company as at the date of this report appear on page 2. Messrs W.R. Jones and J.M. Spence served throughout the year. Other directors were appointed as follows:

	Appointment
A. Thorvaldsson	1 December 2005
C.J. Burdick	1 February 2006
S. Einarsson	1 February 2006
R. Gould	1 February 2006
H. Mar Sigurdsson	15 February 2006
K. Petursdottir	7 March 2006



Directors' Report

Details of those directors who served during the course of the year and who have subsequently resigned from the Board are declared as follows:

	Appointment	Resignation		Appointment	Resignation
P.C. Ashton	10 February 2003	31 January 2006	R.A. Pyman	1 January 2001	31 January 2006
C.C. Aujard	10 February 2005	31 January 2006	R.A. Ramsey	3 May 2005	31 January 2006
C. Clarke	1 January 2005	31 January 2006	J. Rhodes	26 August 2003	30 November 2005
A.C. Corfield	10 February 2003	31 January 2006	S.W. Robson	1 January 2001	31 January 2006
C.A. Edwards	20 July 2005	31 January 2006	A.P. Shearer	1 July 2003	29 November 2005
A.G. Gent	20 July 2005	31 January 2006	G. Simkins	20 July 2005	31 January 2006
B. Matthews	1 January 2005	31 January 2006	J.N. Stewart	9 March 2004	31 January 2006
C.A. Mavor	1 January 1991	31 January 2006	J.L. Szpiro	19 July 2005	31 January 2006
D.M. Penston	9 August 2005	31 January 2006			

Mr S.P. Doherty resigned and Mr C.C. Aujard was appointed as Secretary on 16 December 2005.

DIRECTORS' INTERESTS

Singer & Friedlander Group PLC was acquired by Kaupthing Holdings UK Limited on 11 July 2005. Shares were acquired for a cash consideration of 316p per share and all share option schemes became exercisable. Singer & Friedlander Group PLC was delisted from The London Stock Exchange on 9 August 2005.

The beneficial interests in the share capital of Singer & Friedlander Group PLC held by the Directors as at 31 December 2005 and 31 December 2004 are declared as follows:

	Options to acquire shares under the Singer & Friedlander Approved Option Scheme		Options to acquire shares under the Singer & Friedlander Unapproved Option Scheme		Options to acquire shares under the Singer & Friedlander Executive Option Scheme		Ordinary shares of 13.5p each	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
P. C. Ashton	-	13,600	-	36,400	-	10,000	-	3,233
A. C. Corfield	-	12,480	-	7,520	-	-	-	-
C. H. Mavor	-	-	-	-	-	-	-	24,339
R. A. Pyman	-	9,800	-	65,069	-	9000	-	15,423
J. R. Rhodes	-	16,200	-	13,800	-	-	-	-
S. W. Robson	-	9,800	-	40,200	-	-	-	16,522
J. N. Stewart	-	13,118	-	14,504	-	-	-	-

The option prices of the three option schemes above ranged between 81.5p and 305.7p per share.

Share Save Options

The table below shows the movement in the year of options to acquire shares under the terms of the Singer & Friedlander Group Plc sharesave scheme.

	Total as at 31.12.04	Sharesave Option Scheme 2002 115.4p		Sharesave Option Scheme 2003 142.6p		Sharesave Option Scheme 2004 224.5p		Total as at 31.12.05
		Exercised	Lapsed	Exercised	Lapsed	Exercised	Lapsed	
P. C. Ashton	8,602	2,205	2,064	743	1,480	501	1,609	-
A. C. Corfield	11,606	4,410	4,129	743	1,480	200	644	-
C. H. Mavor	12,362	2,940	2,753	2,229	4,440	-	-	-
R. A. Pyman	6,622	1,764	1,651	-	-	761	2,446	-
J. R. Rhodes	11,115	-	-	3,715	7,400	-	-	-



Directors' Report

	<u>Total as at 31.12.04</u>	<u>Sharesave Option Scheme 2001 196.5p</u>		<u>Sharesave Option Scheme 2002 115.4p</u>		<u>Total as at 31.12.05</u>
		<u>Exercised</u>	<u>Lapsed</u>	<u>Exercised</u>	<u>Lapsed</u>	
J. N. Stewart	11,974	2,421	1,014	4,410	4,129	-

The directors had no other interests, other than those shown above, in the share capital of Singer & Friedlander Group PLC at 31 December 2005.

At 31 December 2005 Messrs. W.R. Jones, J.M. Spence and A. Thorvaldsson were directors of Singer & Friedlander Holdings Limited. Accordingly their interests in the share capital of Singer & Friedlander Group PLC and its subsidiary undertakings are not required to be recorded in this Company's register of directors' interests.

The mid market price of an ordinary share in Singer & Friedlander Group Plc at 8 August 2005, immediately prior to the delisting, was 318.13p and the range between 1 January 2005 and 8th August 2005 was 265.63p to 327p.

FIXED ASSETS

Details of fixed assets are shown in note 22.

CHARITABLE AND OTHER DONATIONS

The Group donated the sum of £52,445 (2004: £75,000) for charitable purposes during the year. The Group made no political donations during the year (2004: Nil).

EMPLOYEES

The average number of persons, including directors, employed by the Group during the year was 535 (2004: 625).

Kaupthing Group endeavours to keep employees informed about the progress of the business and encourages them to make known their views. The text of public announcements is made available to employees simultaneously with its release to the press and shareholders. The interest of the staff in the Group's performance is achieved through stock options in which staff at all levels are able to participate.

It is the Group's policy not to discriminate against the disabled in recruitment, career development and promotion.



Statement of Directors' Responsibilities

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the *financial position of the group and the parent company and the performance for that period*; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

BY ORDER OF THE BOARD

C.C. Aujard
Secretary

23 March 2006



Auditor's Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SINGER & FRIEDLANDER LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Singer & Friedlander Limited for the year ended 31 December 2005 which comprise the primary statements such as the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Cash Flow Statement, the Group and Parent Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 6.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 other transactions is not disclosed.

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 group's and 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 EU, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended;
- and the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

23 March 2006



Consolidated Income Statement

Consolidated income statement for the year ended 31 December 2005

	Notes	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Continuing operations			
Interest income	2	175,712	146,365
Interest expense	3	(112,708)	(89,093)
Net interest income		63,004	57,272
Fees and commissions income	4	9,350	18,055
Fees and commissions expense	4	(5,336)	(6,675)
Net fee and commission income		4,014	11,380
Net trading income	5	755	593
Other operating income	6	37,549	25,452
Operating income		105,322	94,697
Administrative expenses	7	(54,243)	(43,073)
Impairment losses on loans and advances	15	(6,526)	(12,676)
Impairment on other assets	22	(3,375)	(570)
Other operating expenses	8	(23,978)	(29,130)
Profit before taxation		17,200	9,248
Income tax	10	(4,344)	(1,608)
Profit for the year		12,856	7,640
Attributable to:			
Equity holders of the parent		13,094	7,685
Minority interest		(238)	(45)
		12,856	7,640

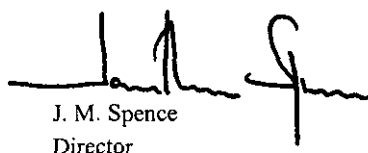


Consolidated Balance Sheet

Consolidated Balance Sheet at 31 December 2005

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
		£000	£000
Assets			
Derivative financial instruments	25	6,371	-
Cash and balances held at central banks	11	539	563
Financial assets held for trading	16	8,362	-
Financial assets held at fair value to profit and loss	17	35	-
Financial assets available for sale	18	1,096,474	-
Loans and advances to credit institutions	12	169,496	132,251
Loans and advances to customers	13	1,620,440	1,570,512
Investment securities	19	-	815,662
Equity shares	20	-	125
Settlement balances		-	4,540
Intangible fixed assets - goodwill	21	1,429	1,340
Property, plant and equipment	22	147,416	132,653
Investment properties	23	75	75
Current tax assets		6,014	-
Deferred tax assets	32	4,408	212
Other assets	24	11,059	27,519
Total assets		3,072,118	2,685,452
Liabilities			
Derivative financial instruments	25	4,178	-
Deposits by credit institutions	26	478,705	530,317
Deposits by customers	27	1,853,741	1,577,251
Certificates of Deposits Issued	28	85,306	191,750
Borrowings	29	281,150	29,971
Subordinated loans	30	61,867	59,393
Current tax liabilities		6,874	2,411
Deferred tax liabilities	32	-	789
Other liabilities	33	37,060	59,056
Pension Scheme Liabilities	34	23,595	10,849
Total liabilities		2,832,476	2,461,787
Equity minority interests	37	256	354
Shareholders' equity			
Called up share capital	36	90,000	70,000
Other reserves	37	26,010	31,635
Available for sale reserve	37	(12)	-
Retained earnings	37	123,388	121,676
Total shareholders' equity		239,386	223,311
Total liabilities, minority interests and shareholders' equity		3,072,118	2,685,452

These financial statements were approved by the board of directors on 23 March 2006 and were signed on its behalf by:


 J. M. Spence
 Director

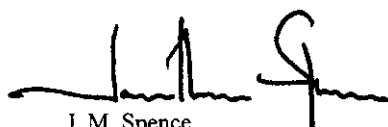


Balance Sheet

Balance Sheet at 31 December 2005

	Notes	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Assets			
Derivative financial instruments	25	8,497	-
Cash and balances held at central banks	11	539	563
Financial assets held for trading	16	8,362	-
Other financial assets held at fair value to profit and loss	17	35	-
Financial assets available for sale	18	1,090,439	-
Loans and advances to credit institutions	12	105,792	102,324
Loans and advances to customers	13	1,569,207	1,397,164
Investment securities	19	-	800,563
Settlement balances		-	3,756
Investment in subsidiaries	43	45,401	51,693
Property, plant and equipment	22	2,475	2,496
Current tax assets		-	-
Deferred tax assets	32	12,701	6,439
Other assets	24	3,470	13,130
Total assets		2,846,918	2,378,128
Liabilities			
Derivative financial instruments	25	4,362	-
Deposits by credit institutions	26	617,883	565,153
Deposits by customers	27	1,859,063	1,371,380
Certificates of Deposits Issued	28	85,306	191,750
Subordinated loans	30	66,867	59,393
Provisions	31	10,000	-
Current tax liabilities		3,979	3,616
Deferred tax liabilities	32	-	-
Other liabilities	33	10,665	26,104
Pension Scheme Liabilities	34	22,589	10,193
Total liabilities		2,680,714	2,227,589
Shareholders' equity			
Called up share capital	36	90,000	70,000
Other reserves	37	2,913	2,913
Available for sale reserve	37	(12)	-
Retained earnings	37	73,303	77,626
Total shareholders' equity		166,204	150,539
Total liabilities, minority interests and shareholders' equity		2,846,918	2,378,128

These financial statements were approved by the board of directors on 23 March 2006 and were signed on its behalf by:


 J. M. Spence
 Director



Consolidated Statement of Recognised Income and Expense

Consolidated statement of recognised income and expense for the year ended 31 December 2005

	Group		Company	
	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000	£000	£000
Gains/(losses) on revaluation and impairment of properties	(6,625)	690	-	-
Gains/(losses) on revaluation of available for sale securities	(14)	-	(14)	-
Exchange differences on translation of foreign currencies	110	24	-	-
Actuarial gains(losses) on defined benefit pension schemes	(9,379)	(7,739)	(8,906)	(7,091)
Share based costs	(1,261)	(20)	(640)	(14)
Tax on items taken directly to equity	4,049	2,144	2,864	2,070
Total income and expense recognised in equity	(13,120)	(4,901)	(6,696)	(5,035)
Profit for the year	12,856	7,640	6,758	17,649
Total recognised income and expense	(264)	2,739	62	12,614
Effect of change in accounting policy				
Effect of adoption of IAS 32 and 39 on 1 January 2005				
Retained earnings	(3,901)	-	(4,399)	-
Available for sale reserve	2	-	2	-
	<u>(4,163)</u>	<u>2,739</u>	<u>(4,335)</u>	<u>12,614</u>
Total recognised income and expense for the period is attributable to:				
Equity holders of the parent	(3,925)	2,784	(4,335)	12,614
Minority interest	(238)	(45)	-	-
	<u>(4,163)</u>	<u>2,739</u>	<u>(4,335)</u>	<u>12,614</u>



Consolidated Cashflow Statement

Consolidated cashflow statement for the year ended 31 December 2005

	Group		Company	
	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000	£000	£000
Cash flow from operating activities				
Net profit before income tax	17,200	9,248	11,204	22,044
Adjustments to reconcile net profit to cash flow from operating activities	32,811	38,644	17,365	10,990
Net (increase)/decrease in operating assets	(92,107)	(313,476)	(189,517)	(323,850)
Net increase/(decrease) in operating liabilities	103,982	465,757	426,726	480,468
Income tax (paid)/refunded	(5,096)	3,939	(5,890)	(363)
Net cash flow from operating activities	56,790	204,112	259,888	189,289
Cash flow from investing activities				
Purchase of financial assets (AFS)	(2,437,379)	(2,430,225)	(2,446,577)	(2,386,430)
Proceeds from the sale and redemption of investment securities	2,156,681	2,218,612	2,156,681	2,163,704
Additional investments in subsidiaries under common control	-	-	(1,300)	(105)
Proceeds from the sale of investments in subsidiaries	-	-	7,592	4,521
Purchase of tangible fixed assets	(49,615)	(29,602)	(1,823)	(1,445)
Disposal of tangible fixed assets	2,590	7,160	515	488
Acquisition of minority interest	(250)	-	-	-
Net cash flow from investing activities	(327,973)	(234,055)	(284,912)	(219,267)
Cash flow from financing activities				
Proceeds from issuance of ordinary share capital	20,000	20,000	20,000	20,000
Dividends paid to minorities	(20)	(35)	-	-
Subordinated loans obtained	-	10,000	5,000	10,000
Increase in borrowings	251,179	-	-	-
Net cash flow from financing activities	271,159	29,965	25,000	30,000
Increase/(decrease) in cash and cash equivalents	(24)	22	(24)	22
Cash and cash equivalents at the beginning of the year	563	541	563	541
Cash and cash equivalents at the end of the year	539	563	539	563



Consolidated Cashflow Statement

Consolidated cash flow statement for the year ended 31 December 2005

	Group		Company	
	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2004
	£000	£000	£000	£000
Adjustments to reconcile net profit to cash flow from operating activities				
Depreciation of property and equipment	22,261	23,062	1,329	1,296
Provisions for bad and doubtful debts	6,526	12,676	4,220	9,646
Other impairment losses	1,375	2,554	-	-
Share options	(931)	-	(448)	(14)
Onerous lease provision	-	-	10,000	-
Hedge accounting adjustments	2,474	-	2,474	-
Other non cash items	1,106	352	(210)	62
	<u>32,811</u>	<u>38,644</u>	<u>17,365</u>	<u>10,990</u>
Net (increase)/decrease in operating assets				
- financial assets held for trading and derivatives	(14,755)	-	(15,976)	-
- financial assets held at fair value through p&l	(35)	-	(35)	-
- loans and advances to credit institutions	(37,245)	17,659	(3,468)	(9,721)
- loans and advances to customers	(61,072)	(325,876)	(183,453)	(321,811)
- settlement balances	4,540	(1,661)	3,756	(877)
- prepayments and accrued income	16,460	(3,598)	9,659	8,559
	<u>(92,107)</u>	<u>(313,476)</u>	<u>(189,517)</u>	<u>(323,850)</u>
Net increase/(decrease) in operating liabilities				
- trading liabilities and derivatives	4,178	-	4,362	-
- deposits by banks	(51,613)	197,159	52,991	228,503
- deposits by customers	276,490	137,854	487,686	119,803
- debt securities in issue (CD's)	(106,444)	127,709	(106,444)	127,587
- pension scheme	3,367	(693)	3,570	(606)
- accruals and deferred income	(21,996)	3,728	(15,439)	5,181
	<u>103,982</u>	<u>465,757</u>	<u>426,726</u>	<u>480,468</u>
Cash inflow from operating activities includes:				
Interest received	176,180	141,069	155,534	52,322
Interest paid	(77,968)	(84,882)	(102,156)	(74,779)



Notes to the accounts

Accounting Policies

Singer & Friedlander Limited is a company incorporated and domiciled in England. The consolidated financial statements of the Group for the year ended 31 December 2005 comprise the Bank and its subsidiaries (together referred to as "the Group").

The financial statements were authorised for issue by the board of directors of Singer & Friedlander Limited on 15 March 2006.

1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) as adopted by the EU. These are the Group's first IFRS consolidated annual financial statements and IFRS 1 - First-time Adoption of International Financial Reporting Standards, has been applied. The financial statements are drawn up in accordance with the Companies Act 1985 and specifically with the special provisions of Part VII relating to banking groups. Applicable accounting standards have been consistently applied by group companies. The accounts are prepared on a going concern basis.

The Company has taken advantage of the exemption in section 230 of the Companies Act 1985 not to present its individual Income Statement and related notes that form a part of these financial statements.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Group is provided in note 44. This note includes reconciliations of equity and profit or loss for comparative periods reported under UK GAAP (previous GAAP to those reported under IFRS).

2. Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments designated at fair value through profit and loss, financial instruments classified as available-for-sale and Group occupied and investment properties designated at fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell unless IFRS 5 requires that another measurement basis be used.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the financial statements presented. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimation is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates are analysed in policy note 42.

Transition to IFRS

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under UK GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for IAS 32 and IAS 39. They have also been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of transition to IFRS, as required by IFRS 1, except for IAS 32 and IAS 39 as explained below.

The Bank has decided to make use of the exemption provided in IFRS 1 First time adoption of International Financial Reporting Standards and did not restate comparative information for 2004 in relation to IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. Instead the Group applied UK GAAP in the comparative information to financial instruments within the scope of IAS 32 and IAS 39.

The accounting policies relating to financial instruments differ from 2004 to 2005. The prior year accounting policies are set out below in policy note 30.



3. Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Group holds more than 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are currently exercisable or convertible, if any, are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business 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 Bank's share 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.

b) Transactions eliminated on consolidation

Intercompany balances, and any unrealised gains and losses or income and expenses arising from intercompany transactions, are eliminated in full in preparing the consolidated financial statements.

4. Foreign currency

a) Functional and presentation currency and foreign operations

The Consolidated financial statements are presented in Pounds sterling, which is the Bank's functional and the Group's presentation currency.

b) Foreign currency translations

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Pounds at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Pounds at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Income Statement if changes in fair value are recognised in the Income Statement and in equity if changes in fair value are recognised in equity.

5. Derivatives

A derivative is a financial instrument or other contract within the scope of IAS 39, the value of which changes in response to a change in an underlying variable (such as share, commodity or bond prices, an index value or an exchange or interest rate) which requires no initial net investment or initial net investment that is smaller than would be required for other types of contracts that would be expected to have similar response to changes in market factors and which is settled at a future date.

The Group uses derivative financial instruments to hedge its exposure to market price risk, foreign exchange and interest rate risk arising from operational, financing and investment activities.

Derivatives are recognised at fair value. Fair value changes are recognised in the Income Statement, except in the case of derivatives that are designated and are effective hedging instruments, whose fair value changes are recognised in accordance with the accounting policies in note 6 below. Interest income is recognised on an accruals basis. Derivatives with positive fair values are recognised as trading assets and derivatives with negative fair values are recognised as trading liabilities.

Derivatives embedded in host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Income Statement. They are presented in the same line on the Balance Sheet as the host contract.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 10.



6. Hedging

Due to the Group's risk positions and funding structure, its risk management policies require that the Group should minimise its exposure to changes in foreign currency exchange rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. The Group uses derivative financial instruments to manage the potential earnings impact of these risks.

Several types of derivatives are used for this purpose, including interest rate swaps, options, financial futures, forward contracts and other derivatives. The purpose of the Group's hedging activities is to protect the Bank from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Group enters into transactions to ensure that it is economically hedged in accordance with risk management policies. For qualifying hedge relationships the Group uses hedge accounting.

Each qualifying hedge relationship is evidenced and driven by management's approach to risk management and the decision to hedge a particular risk. Where hedge accounting is applied the Group assesses, both at the inception of the hedge and each time the Group prepares its annual financial statements, whether the derivatives used as hedges are highly effective in offsetting the changes in value associated with the hedged items. A hedge is regarded as highly effective if the changes in fair value of the hedged item are expected to almost fully offset the changes in fair value of the hedging instrument. Actual effectiveness must be within the range of 80 to 125 per cent on a cumulative basis. The designation and effectiveness measurement follows the methodologies that management has in place for risk identification and measurement. The ineffective portion of any gain or loss on a hedging instrument is recognised in the income statement.

The Group only has fair value hedges for hedge accounting purposes.

Accounting for fair value hedges

Fair value hedges seek to eliminate risk of changes in the fair value of a recognised asset or liability or firm commitment that will give rise to a gain or loss that will be recognised in the Income Statement.

When a derivative hedges the changes in fair value of recognised assets or liabilities or an identified portion of such assets or liabilities, any gain or loss on the hedging instrument is recognised in the income statement. The hedged items are also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the Income Statement. The gains and losses on the hedging instruments and hedged items are presented together in the Income Statement as net gain on financial assets at fair value.

7. Loans and advances

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and advances include loans provided by the Group to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and which the Group has no intention of selling immediately or in the near future.

Loans and advances are initially reported at disbursement of the loan. They are initially recognised at fair value, which is the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

8. Financial assets and financial liabilities measured at fair value through profit and loss

a) Trading assets and trading liabilities

Trading financial assets and financial liabilities are financial instruments acquired principally for the purpose of generating profits from short term price fluctuations or from a dealer's margin. Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities. Hedging derivatives such as those used for internal risk control but not qualifying for hedge accounting under IAS 39 are also classified under this item.

Trading financial assets and financial liabilities are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are reported as net gain on financial assets/liabilities at fair value. Interest expenses are included in interest expenses using the effective interest rate.

b) Financial assets designated at fair value through profit or loss

The Group classifies certain financial instruments upon their initial recognition as financial assets held at fair value with fair value changes recognised in the income statement if doing so results in more relevant information because:

- i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on different bases, or
- ii) financial assets and/or financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with the Group's risk management or investment strategy, and information about it is provided internally on that basis to the Group's key management personnel, or
- iii) it includes instruments containing embedded derivatives that would otherwise have had to be separated from the host contract.

Interest income that arises from these assets is included in interest income and accounted for using the effective interest method.

Transaction costs related to financial assets and financial liabilities designated at fair value through profit and loss are recognised in the Income Statement.

9. Financial assets available-for-sale

Financial assets available-for-sale are primarily certificates of deposit held for liquidity purposes and also include equity investments.

Financial assets available-for-sale are carried at fair value. Unrealised gains or losses on available-for-sale investments are reported in Shareholders' equity, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. On disposal of an available-for-sale investment, the accumulated unrealised gain or loss included in Shareholders' equity is transferred to net profit or loss for the period and reported in other operating net income.

Interest and dividend income on available-for-sale financial assets is included in net interest income (using the effective interest methodology) and dividend income.

10. Determination of fair value

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arms length basis. Further information on determination of fair value on financial instruments is contained in note 38.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e without modifications or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists the Group recognises profits on day one.

11. Recognition and derecognition of financial assets and liabilities

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date the Group commits to purchase or sell the asset, except for loans which are recognised when cash is advanced to the borrower.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Group transferred substantially all risks and rewards of ownership. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the liability of instrument. Financial liabilities are derecognised when the obligation of the Group specified in the contract is discharged or cancelled or expires.

12. Offsetting financial assets and financial liabilities

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 to realise the asset and settle the liability simultaneously.



13. Impairment of financial assets

The carrying amount of the Group's financial assets, other than financial assets measured at fair value with changes recognised in the Income Statement, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

a) Impairment of loans and advances

The Group reviews its loan and advance portfolio to assess impairment regularly, at least every three months, to ascertain whether there is objective evidence of impairment. If the objective indication of impairment affects the cash flows from the loan, the loan will be written down to the present value of expected future cash flows, discounted at the original effective interest rate.

Loans and advances that are not considered to be impaired on an individual basis become a part of a portfolio with similar risk characteristics which will be assessed for impairment. Objective evidence of impairment of a group of loans exists if data indicates a decrease in expected future cash flows from a portfolio of loans and the decrease can be measured reliably but cannot be identified with the individual loans in the portfolio.

Interest income related to impaired loans is recognised in the Income Statement, calculated at the original effective interest rate.

b) Impairment of financial assets classified as available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial strength of the invested industry and sector performance, changes in technology, and operational and financing cash flows. The amount of impairment loss is recognised in the income statement.

c) Reversals of impairment

An impairment loss in respect of financial assets carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the Income Statement.

14. Leases

The Group classifies leases based on the extent of the transfer of risks and rewards incidental to ownership of leased assets. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership.

a) Finance leases

The Group's receivables from leases classified as finance leases are included in the Balance Sheet within loans and advances. Finance leases are initially recognised at an amount equal to the net investment in the lease and subsequent lease payments are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Group recognises its finance income based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable and therefore the initial direct costs are recognised over the lease term.

b) Operating leases

Lease payments under operating leases where the Group is the lessee are recognised as an expense on a straight-line basis over the lease term. Property and equipment which the Bank leases to other entities under operating leases are classified in the Balance Sheet as investment property or property and equipment.

The accounting treatment for leases where the Group is the lessor is set out in note 17b below.

15. Intangible assets

a) Goodwill

All business combinations after 1 January 2004 are accounted for by applying the purchase method. Goodwill has been recognised on the acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under the previous UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Bank's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment, see note 27.

b) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see policy note 27).

c) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

d) Amortisation

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software	4-5 years
Capitalised development costs	3-5 years
Customer lists	4-5 years

16. Investment property

Investment properties are properties which are held to earn rental income, for capital appreciation, or both. Investment properties are stated at fair value. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the Income Statement. Rental income is recognised on a straight-line basis over the life of the lease.

When an item of property and equipment is transferred to investment property following a change in use, any differences arising at the date of transfer between the carrying amount of the time immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. A loss arising on reclassification is recognised immediately in profit or loss.

If an investment property becomes owner-occupied, then it is reclassified as property and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.



Notes to the accounts

17. Property and equipment*a) Owned assets*

Land and buildings are carried at revalued amounts, less accumulated depreciation and impairment losses. All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property and equipment have different useful lives, those components are accounted for as separate items of property and equipment.

b) Leased assets

Assets held for leasing under operating lease are recorded as property, plant and equipment. Operating lease rentals receivable are recognised on a straight-line basis over the period of the lease. Operating lease assets are depreciated over their useful life on a straight-line basis to their anticipated residual value.

c) Subsequent costs

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

d) Depreciation

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives to the anticipated residual value of each part of an item of property and equipment. The estimated useful lives are as follows:

Buildings	25-50 years
Fixtures	5 years
Machinery and equipment	3-5 years
Vehicles	4 years

The residual value is reassessed annually.

18. Non-current assets and disposal groups held for sale

Immediately before classification as held for sale, the measurement of the assets and all assets and liabilities in a disposal group is accounted for in accordance with applicable IFRS. On initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the Income Statement, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

19. Borrowings

The borrowings of the Group are classified as financial liabilities and are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

20. Subordinated loans

Subordinated loans consist of liabilities in the form of subordinated loan capital which, in the event of the Group's voluntary or compulsory winding up will not be repaid until after the claims of the ordinary creditors have been met.

Subordinated loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, subordinated loans are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

21. Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

22. Stock option contracts

Stock option contracts enable the Group's employees to acquire shares in Kaupthing Bank hf, the Group's ultimate parent company. The purchase price equals the market value of the shares at the grant date. The Group's cost is evaluated at the grant date according to the Black-Scholes model.

23. Share Capital

Dividends on shares

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

24. Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, demand deposits with the central banks and demand deposits with other credit institutions.

25. Income

a) Interest income and expense

Interest income and expense is recognised in the Income Statement using the effective interest rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity.

b) Fee and commission income

Commission income includes income from corporate banking and asset management. Commission income is entered into the Bank's Income Statement when it is derived.

c) Dividend income

Dividend income is recognised in the Income Statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues.

d) Net gain on trading portfolio

Net gain on trading portfolio includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

26. Expenses

Costs relating to the issuance of long-term debt

Costs relating to the issuance of long-term debt, such as fees relating to placement, underwriting commitments, subscription, management, or syndication, are included in the carrying value of the debt and included in the effective yield of the instrument.

27. Impairment

The carrying amount of the Group's assets (other than deferred tax assets and financial instruments, see policy note 13) is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

The Bank assesses whether there is any indication of impairment of goodwill on an annual basis, with expert analysis being commissioned if necessary.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

28. Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is based on the difference between Balance Sheet items as presented in the tax return on the one hand, and in the financial statements on the other, taking into consideration a carry-forward tax loss. This difference is due to the fact that tax assessments are based on premises that differ from those governing the financial statements.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

29. Employee benefits

a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

b) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualifying actuary using the projected unit credit method.

All actuarial gains and losses as at 1 January 2004, the date of transition to IFRSs, were recognised. All actuarial gains and losses that arose subsequent to 1 January 2004 in calculating the Group's obligation in respect of a plan are recognised in the Statement of Recognised Income and Expense.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any past service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan.

30. Accounting policies for financial instruments for 2004

a) Interest receivable and payable

Interest receivable and interest payable includes all income arising out of banking activities, namely lending and deposit taking business and interest on related hedging transactions, which are all recognised on an accruals basis.

b) Provision for bad and doubtful debts

Collective provisions are made in relation to losses which, although not specifically identified, are likely to exist in the banking portfolio at the balance sheet date.

Specific provisions against bad debts are made on the basis of regular reviews of exposures and are designed to reduce the carrying value of the advance to its expected net realisable value. For smaller balance exposures, such as are held by certain of the Group's leasing subsidiaries, a formula driven approach is adopted, taking into account factors such as the length of time that payments from customers are overdue and the level of past and expected losses in order to derive an appropriate provision.

Provisions are charged directly to the profit and loss account. Interest and fees of doubtful collectability are excluded from the profit and loss account and credited to a suspense account. Recovery expenses are written off as incurred unless there is reasonable chance of their recovery.



c) Debt securities and equity shares

Debt securities and equity shares may be held for both trading and investment purposes. Listed equity shares held for investment purposes are stated at cost less any provision for permanent diminution in value. Unlisted equity shares held for investment purposes are stated at the lower of cost and directors' valuation. Investment securities are intended for use on a continuing basis by the Group and have been identified as such. The cost of debt securities held for investment purposes is adjusted for the amortisation of premiums or accretion of discounts over the period to maturity.

The amortisation of premiums or accretion of discounts is included in interest income in the profit and loss account.

d) Derivative transactions

Derivative transactions, entered into for the purpose of hedging, are accounted for in the same way as the items being hedged. Derivative instruments traded on the Group's own account are valued at market prices and the resultant profits and losses are included in "Dealing profits". All other derivative transactions are entered into on behalf of clients and the resultant profits are also included in "Dealing profits".

31. Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

Fair value of profit scheme arrangements: The Group recognises profits earned on profit scheme arrangements on a fair value basis within fees and commission income. Fair value is determined by reference to a number of factors including external valuations where available, and the completion status and latest project estimates on such arrangements.

32. Standards and Interpretations issued but not yet effective

The following Standards, amendments to Standards and Interpretations have been issued but are not yet effective in the EU:

a) Financial Guarantee Contracts - Amendment to IAS 39 and IFRS 4

Under the revisions, financial guarantee contracts are accounted for at fair value on initial recognition. Subsequent to initial recognition, such financial guarantee contracts are accounted for at the higher of amounts as determined under IAS 37 and cumulative amortisation under IAS 18. Moreover, if such contracts are considered to be insurance contracts, accounting for such contracts are determined by IFRS 4. This election is on a contract by contract basis. The effective date is 1 January 2006.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

The company does not expect the amendments to have any material impact on the financial statements commencing 1 January 2006.

b) Capital disclosures - Amendment to IAS 1

This amendment to IAS 1 requires disclosures in respect of the Group's objectives, policies and processes for managing capital. This disclosure requirement would both be of a qualitative and quantitative nature. The effective date is 1 January 2006.

c) Financial instrument disclosures - amendment of IAS 32, withdrawal of IAS 39 and new standard IFRS 7

These amendments would require the Group to disclose information about the significance of financial instruments for the financial position and performance of the Group, as well as the nature and extent of risks arising from financial instruments. The effective date is 1 January 2007.

d) Determining whether an arrangement contains a lease - IFRIC 4

This interpretation specifies that arrangements that meet certain criteria would be considered to contain a lease and would be accounted for under IAS 17. The effective date is 1 January 2006.



Notes to the accounts

Note 1 Segmental Information**Primary segment information**

The Group considers Banking and Asset Finance as its primary business segments

31 December 2005	Banking	Asset Finance	Inter segment	Unallocated	Total
	£000	£000	£000	£000	£000
Segmental Income					
- third party	66,605	38,655	-	-	105,260
- inter-segment	3,135	-	(3,135)	-	-
	<u>69,740</u>	<u>38,655</u>	<u>(3,135)</u>	<u>-</u>	<u>105,260</u>
Profit before Taxation	<u>15,311</u>	<u>1,889</u>	<u>-</u>	<u>-</u>	<u>17,200</u>
Segmental Assets	<u>2,596,955</u>	<u>464,742</u>	<u>-</u>	<u>10,422</u>	<u>3,072,119</u>
Segmental Liabilities	<u>2,385,596</u>	<u>440,006</u>	<u>-</u>	<u>6,875</u>	<u>2,832,477</u>
Net Segmental Assets	<u>211,359</u>	<u>24,736</u>	<u>-</u>	<u>3,547</u>	<u>239,642</u>
Capital expenditure	<u>1,852</u>	<u>47,763</u>	<u>-</u>	<u>-</u>	<u>49,615</u>
Depreciation and impairment	<u>11,441</u>	<u>20,820</u>	<u>-</u>	<u>-</u>	<u>32,261</u>
31 December 2004	Banking	Asset Finance	Inter segment	Unallocated	Total
	£000	£000	£000	£000	£000
Segmental Income					
- third party	48,151	46,546	-	-	94,697
- inter-segment	3,892	-	(3,892)	-	-
	<u>52,043</u>	<u>46,546</u>	<u>(3,892)</u>	<u>-</u>	<u>94,697</u>
Profit before Taxation	<u>15,015</u>	<u>(5,767)</u>	<u>-</u>	<u>-</u>	<u>9,248</u>
Segmental Assets	<u>2,077,512</u>	<u>607,728</u>	<u>-</u>	<u>212</u>	<u>2,685,452</u>
Segmental Liabilities	<u>1,879,427</u>	<u>579,160</u>	<u>-</u>	<u>3,200</u>	<u>2,461,787</u>
Net Segmental Assets	<u>198,085</u>	<u>28,568</u>	<u>-</u>	<u>(2,988)</u>	<u>223,665</u>
Capital expenditure	<u>1,524</u>	<u>28,078</u>	<u>-</u>	<u>-</u>	<u>29,602</u>
Depreciation and impairment	<u>1,669</u>	<u>20,768</u>	<u>-</u>	<u>-</u>	<u>22,437</u>

Secondary segment information

Substantially all of the Group's activity is conducted within the United Kingdom and the Isle of Man.



Notes to the accounts

	Group 2005 £000	Group 2004 £000		
Note 2 Interest income				
<i>Interest income from:</i>				
Loans and advances	109,858	91,404		
Assets designated at fair value through profit/(loss)	327	-		
Assets designated as available for sale	47,273	-		
Investment Securities	-	30,404		
Finance leases	17,503	24,150		
Other	751	407		
Total interest income	175,712	146,365		
Note 3 Interest expense				
<i>Interest expense on:</i>				
Deposits and balances	86,205	73,327		
Borrowings	21,771	11,964		
Subordinated loans	4,525	3,802		
Other	207	-		
	112,708	89,093		
Note 4 Fees and commissions - income and expense				
Fair value of profit share arrangements	6,221	-		
Other commissions receivable	3,129	18,055		
Total commission income	9,350	18,055		
Other commissions expense	(5,336)	(6,675)		
	4,014	11,380		
Note 5 Net Trading Income				
Securities dealing	(782)	(1,095)		
Foreign exchange profits	1,537	1,340		
Trading in non-financial assets	-	348		
	755	593		
Note 6 Other operating income				
Operating lease income	26,776	23,600		
Rental income	645	21		
Disposal of investments	-	188		
Sundry income	447	1,643		
Recharges to related companies	9,681	-		
	37,549	25,452		
Note 7 Administrative expenses				
	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
(i) Auditor's remuneration				
Amounts receivable by Auditors and their associates in respect of:				
Audit of financial statements of subsidiaries pursuant to legislation	232	297	77	110
Other services pursuant to such legislation	33	50	26	50
Other services related to taxation	14	69	-	25
	279	416	103	185



Notes to the accounts

(ii) Staff costs

The average monthly number of employees (including executive directors) was:

	<u>2005</u>	<u>2004</u>
	Number	Number
Management	221	254
Support staff	308	321
Others	6	50
	<u>535</u>	<u>625</u>

	<u>2005</u>	<u>2004</u>
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	25,794	20,880
Redundancy costs	408	-
Social security costs	3,081	1,951
Share based costs	828	185
Defined benefit schemes	4,727	2,256
Defined contribution schemes	1,254	928
Other	194	504
	<u>36,286</u>	<u>26,704</u>

Note 8 Other operating expenses

Included in the profit/loss are the following:

	<u>2005</u>	<u>2004</u>
	£000	£000
Depreciation	22,261	25,817
Loss on sale of investment securities	-	722
Asset write down in respect of business sold	680	2,491
Other	1,037	100
	<u>23,978</u>	<u>29,130</u>



Notes to the accounts

Note 9 Directors' emoluments

	2005	2004
	£000	£000
Directors' emoluments	5,793	4,200
Amounts receivable under long term incentive plans	1,519	-
Company contributions to defined benefit pension schemes	94	-
Company contributions to defined contribution schemes	132	-
Compensation for loss of office	968	48
	<u>8,506</u>	<u>4,248</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £1,551,452. No Company pension contributions were made to money purchase schemes on his behalf. During the year, the highest paid director exercised share options under a long term incentive scheme.

	Number of directors	
	2005	2004
Retirement benefits are accruing for the following number of directors under:		
Money purchase schemes	18	3
Defined benefit schemes	<u>-</u>	<u>12</u>
 The number of directors who exercised share options was	14	3
The numbers of directors in respect of whose services shares were received or receivable under long term incentive schemes was	<u>14</u>	<u>3</u>

Information about the directors' right to subscribe for shares of the Company and its subsidiaries, as well as directors' qualification for third party indemnities, are included in the Directors' Report.

Note 10 Income tax expenses

	2005	2004
	£000	£000
Current tax	3,318	1,130
Deferred tax	1,026	478
	<u>4,344</u>	<u>1,608</u>
Current tax		
Domestic income tax on profits for the period	3,733	4,590
Foreign tax	297	915
Double tax relief	-	(4,363)
Adjustment in respect of previous periods	(712)	(12)
Total current tax	<u>3,318</u>	<u>1,130</u>
Deferred tax		
Accelerated tax depreciation	1,856	1,050
Pensions and other post retirement benefits	(1,168)	(117)
Provision for impairment losses on loans	(162)	142
Other temporary differences	(381)	(597)
Adjustments to previous years	881	-
Total deferred tax	<u>1,026</u>	<u>478</u>
 Total income tax expenses in the income statement	<u>4,344</u>	<u>1,608</u>

Further information on deferred tax is shown in Note 32.



Notes to the accounts

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2005 £000	2004 £000
Profit before taxation	17,200	9,248
Tax at the domestic income tax rate of 30% (2004 - 30%)	5,160	2,774
(Under)/over provided in previous years	(399)	855
Overseas earnings taxed at lower rates	(707)	(516)
Other permanent differences	290	(1,505)
Total tax expense for the year	<u>4,344</u>	<u>1,608</u>

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Deferred tax recognised in equity				
Relating to:				
Impairment of property	1,000	-	-	-
Actuarial gains and losses	2,522	2,120	2,592	2,070
Available for sale securities	9	-	9	-
Other	209	(14)	-	-
	<u>3,740</u>	<u>2,106</u>	<u>2,601</u>	<u>2,070</u>
Current tax recognised in equity	309	38	263	-
Total tax recognised in equity	<u>4,049</u>	<u>2,144</u>	<u>2,864</u>	<u>2,070</u>

Note 11 Cash and cash balances with central banks

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Cash and cash balances	<u>539</u>	<u>563</u>	<u>539</u>	<u>563</u>

At 31 December 2005 the balances with the central banks were kept to a minimum reserve requirement and these balances are not available for the Group's daily business.

Note 12 Loans and advances to credit institutions

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Repayable on demand	<u>169,496</u>	<u>132,251</u>	<u>105,792</u>	<u>102,324</u>

Maturity information is set out in note 38.



Notes to the accounts

Note 13 Loans and advances to customers

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Loans to individuals	443,454	347,369	257,206	162,677
Loans to corporates	1,196,734	1,249,177	1,327,761	1,250,738
Total of loans and advances to customers	1,640,188	1,596,546	1,584,967	1,413,415
Collective and individual impairment provisions	(19,748)	-	(15,760)	-
General and specific bad and doubtful debt provisions	-	(26,034)	-	(16,251)
	<u>1,620,440</u>	<u>1,570,512</u>	<u>1,569,207</u>	<u>1,397,164</u>

Maturity information is set out in note 38.

Loans and advances to customers include:

	Group 2005	Group 2004
	£000	£000
Finance leases	83,316	73,414
Hire purchase agreements	180,599	307,164
	<u>263,915</u>	<u>380,578</u>
Cost of assets acquired for letting under finance leases	47,920	44,470
Costs of assets acquired for letting under hire purchase agreements	123,884	246,958
	<u>171,804</u>	<u>291,428</u>

Maturity information is set out in note 38.

Note 14 Finance lease receivables

	Group 2005	Group 2004
	£000	£000
Amounts receivable under finance leases		
Within one year	120,630	170,236
In the second to fifth years inclusive	169,903	244,859
After five years	17,096	20,660
	307,629	435,755
Less: unearned finance income	(42,252)	(53,343)
Present value of minimum lease payments receivable	<u>265,377</u>	<u>382,412</u>
Allowance for impairment	(1,462)	(1,834)
	<u>263,915</u>	<u>380,578</u>

All leases are denominated in sterling.

The fair value of the Company's finance lease receivables at 31 December 2005 is estimated at £265.8 million, based on discounting the estimated cash flows at the market rate.

Finance lease receivables by the Company were immaterial.



Notes to the accounts

Note 15 Impairment losses on loans and advances

	Individual assessment 2005 £000	Collective assessment 2005 £000	Total 2005 £000	Individual assessment 2004 £000	Collective assessment 2004 £000	Total 2004 £000
Group						
At 1 January	15,990	10,044	26,034	17,514	5,937	23,451
Adjustment for IAS39	(117)	(992)	(1,109)	-	-	-
At 1 January after IAS 39 adjustments	15,873	9,052	24,925	17,514	5,937	23,451
Doubtful debts expense	6,405	449	6,854	8,569	231	8,800
Bad debts written off	(5,524)	(42)	(5,566)	(10,093)	-	(10,093)
Provisions Released	(328)	-	(328)	-	-	-
Provisions re closure of business	-	-	-	-	3,876	3,876
Acquisition/disposal of subsidiaries	(2,245)	(2,475)	(4,720)	-	-	-
Transfer to other liabilities	-	(1,600)	(1,600)	-	-	-
Other	-	183	183	-	-	-
At 31 December	14,181	5,567	19,748	15,990	10,044	26,034
	Individual assessment 2005 £000	Collective assessment 2005 £000	Total 2005 £000	Individual assessment 2004 £000	Collective assessment 2004 £000	Total 2004 £000
Company						
At 1 January	11,501	4,750	16,251	11,838	4,250	16,088
Adjustment for IAS39	(117)	(643)	(760)	-	-	-
At 1 January after IAS 39 adjustments	11,384	4,107	15,491	11,838	4,250	16,088
Doubtful debts expense	4,046	433	4,479	9,146	500	9,646
Bad debts written off	(3,951)	-	(3,951)	(9,483)	-	(9,483)
Provisions Released	(259)	-	(259)	-	-	-
At 31 December	11,220	4,540	15,760	11,501	4,750	16,251

Note 16 Financial assets held for trading

	Group 2005 £000	Company 2005 £000
Certificates of deposit	8,362	8,362



Notes to the accounts

Note 17 Financial instruments designated at fair value through profit and loss**(i) Criteria for designation and carrying values**

The following financial instruments have been designated at fair value through profit and loss, with their carrying values at 31 December 2005:

	Group 2005	Company 2005
	£000	£000
Equity instrument	35	35

The equity shares are part of a financing transaction and are managed on a fair value basis, in terms of the Group's risk management policy. The Group considers that it provides more relevant information to designate it at fair value through profit and loss.

(ii) Gains and losses

The following gains/losses have been recognised in profit and loss for the year ended 31 December 2005

	Group 2005	Company 2005
	£000	£000
Equity shares	35	35

Note 18 Financial assets available for sale

	Group 2005	Company 2005
	£000	£000
Bond	563	563
Certificates of deposit	1,095,911	1,089,876
	<u>1,096,474</u>	<u>1,090,439</u>

Note 19 Investment securities

On adoption of IAS 39 in 2005 all debt securities previously held at cost in investment securities were transferred to the "financial assets held for sale" or "financial assets held for trading" categories.

	Group 2004	Group 2004	Company 2004	Company 2004
	Balance Sheet £000	Market value £000	Balance Sheet £000	Market value £000
Debt securities				
Bank & Building society certificates of deposit	815,099	815,099	800,000	800,000
Other debt securities	563	563	563	563
Due within one year	<u>815,662</u>	<u>815,662</u>	<u>800,563</u>	<u>800,563</u>
Investment securities				
- Unlisted	<u>815,662</u>		<u>800,563</u>	

None of the debt securities are subordinated



Notes to the accounts

	Cost 2004 £000	Discounts and premiums 2004 £000	Provisions 2004 £000	Carrying value 2004 £000
Group				
Investment securities:				
1 January	596,219	(264)	(3,791)	592,164
Exchange adjustments	-	5	-	5
Acquisitions	2,442,155	-	-	2,442,155
Disposals	(2,219,607)	323	672	(2,218,612)
Provisions made	-	-	(50)	(50)
31 December	<u>818,767</u>	<u>64</u>	<u>(3,169)</u>	<u>815,662</u>
Company				
Investment securities:				
1 January	568,981	(60)	(2,159)	566,762
Exchange adjustments	-	5	-	5
Acquisitions	2,397,500	-	-	2,397,500
Disposals	(2,164,295)	119	472	(2,163,704)
31 December	<u>802,186</u>	<u>64</u>	<u>(1,687)</u>	<u>800,563</u>

Note 20 Equity shares

	Group 2004 Balance Sheet £000	Group 2004 Market value £000	Company 2004 Balance Sheet £000	Company 2004 Market value £000
Investment securities				
Unlisted	<u>125</u>	<u>125</u>	<u>-</u>	<u>-</u>
	Cost 2004 £000	Provisions 2004 £000	Carrying value 2004 £000	
Investment securities				
At 1 January	4,731	(3,608)	1,123	
Provisions made	-	(520)	(520)	
Disposals	(1,478)	1,000	(478)	
At 31 December	<u>3,253</u>	<u>(3,128)</u>	<u>125</u>	



Notes to the accounts

Note 21 Goodwill

Group	2005	2004
	£000	£000
Cost		
Balance at 1 January	3,702	3,702
Additions through purchase of minority interest	89	-
Balance at 31 December	3,791	3,702
Cumulative impairment losses		
Balance at 1 January	(2,362)	-
Impairment losses recognised	-	(2,362)
Balance at 31 December	(2,362)	(2,362)
Net at 31 December	1,429	1,340

The impairment losses are recognised in other operating costs in the income statement.

Acquisition of minority interest.

In December 2005 the Group acquired the 25% minority interest in Singer & Friedlander Insurance Finance Limited, for £250,000 satisfied in cash. Net assets acquired amounted to £161,000 resulting in goodwill arising of £89,000.

There are no goodwill and intangible assets in the Company



Notes to the accounts

Note 22 Property, Plant and Equipment

Group

	Freehold Property	Long leasehold property	Short leasehold property	Plant & equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000
COST OR VALUATION						
At 1 January 2004	30,985	3,396	627	143,955	7,487	186,450
Additions	-	518	25	28,477	582	29,602
Disposals	(15)	(201)	(4)	(16,516)	(338)	(17,074)
Revaluation increase/(decrease)	550	-	-	-	-	550
At 1 January 2005	31,520	3,713	648	155,916	7,731	199,528
Additions	-	899	3	48,239	474	49,615
Disposals	-	(286)	-	(12,843)	(263)	(13,392)
At 31 December 2005	31,520	4,326	651	191,312	7,942	235,751
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2004	25	2,748	362	45,713	4,578	53,426
Charge for the year	140	501	138	19,283	3,280	23,342
Impairment loss	-	-	103	-	89	192
Disposals	(25)	(140)	(4)	(9,529)	(271)	(9,969)
Revaluation	(140)	-	-	24	-	(116)
At 1 January 2005	-	3,109	599	55,491	7,676	66,875
Charge for the year	-	483	46	21,447	285	22,261
Impairment loss	10,000	-	-	-	-	10,000
Disposals	-	-	-	(10,582)	(219)	(10,801)
At 31 December 2005	10,000	3,592	645	66,356	7,742	88,335
CARRYING AMOUNT						
At 31 December 2005	21,520	734	6	124,956	200	147,416
At 31 December 2004	31,520	604	49	100,425	55	132,653

The carrying amount of the Group's plant and machinery include an amount of £122.345 million (2004 - £106.561 million) in respect of assets that the Group acts as lessor.

The Group has pledged freehold property having a carrying amount of £21 million (2004 - £31 million) to secure a debenture granted to the Company

During 2005 the decision was taken to relocate the Group's principal operating activities from 21 New Street to an alternative office. The carrying value of 21 New Street has therefore been written down to £21 million to reflect the reduction in the economic benefit to the Group. Impairment losses of £10 million were recognised, £1.375 million was recognised in profit and loss after tax, and £5.625 million was recognised directly in reserves after tax.

At 31 December 2005, had the land and buildings been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £21 million (2004 - £27 million).



Notes to the accounts

Operating leases where the Group is the lessor

Income from operating leases in respect of plant and machinery during the year was £26.8 million (2004 - £28.8 million)
The operating leases are expected to generate rental yield of Libor plus 2.25% on an ongoing basis.

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments:

	<u>2005</u>	<u>2004</u>
	<u>£000</u>	<u>£000</u>
Within one year	25,346	18,952
In the second to fifth years inclusive	75,930	60,883
after five years	<u>12,942</u>	<u>12,150</u>
	<u>114,218</u>	<u>91,985</u>

Exposure to residual value on leased assets

The Group's leasing business is split between the provision of finance leases (including hire purchase) and operating leases. The Group has negligible residual value risk in respect of its finance leases and hire purchase business. A considerable amount of the residual value risk arising from the provision of operating leases is mitigated through insurance. The uninsured element of residual risk can be analysed as follows:

	Medical equipment	Other	Total	Medical equipment	Other	Total
	2005	2005	2005	2004	2004	2004
	£000	£000	£000	£000	£000	£000
Year in which residual value will be recovered						
Less than 1 year	801	449	1,250	2,371	365	2,736
1-2 years	2,100	1,788	3,888	5,366	793	6,159
2-5 years	10,710	964	11,674	10,228	3,455	13,683
More than 5 years	6,663	-	6,663	4,842	-	4,842
Total exposure	<u>20,274</u>	<u>3,201</u>	<u>23,475</u>	<u>22,807</u>	<u>4,613</u>	<u>27,420</u>

Property, Plant and Equipment**Company**

Long leasehold property	Plant & equipment	Furniture & Fittings	Total
£000	£000	£000	£000

COST OR VALUATION

At 1 January 2004	3,381	10,566	2,756	16,703
Additions	518	802	125	1,445
Disposals	<u>(186)</u>	<u>(1,254)</u>	<u>(186)</u>	<u>(1,626)</u>
At 1 January 2005	3,713	10,114	2,695	16,522
Additions	899	839	85	1,823
Disposals	<u>(286)</u>	<u>(231)</u>	<u>(43)</u>	<u>(560)</u>
At 31 December 2005	<u>4,326</u>	<u>10,722</u>	<u>2,737</u>	<u>17,785</u>



Notes to the accounts

ACCUMULATED DEPRECIATION AND IMPAIRMENT

	Long leasehold property	Plant & equipment	Furniture & Fittings	Total
	£000	£000	£000	£000
At 1 January 2004	2,748	8,548	2,572	13,868
Charge for the year	501	696	99	1,296
Disposals	(135)	(876)	(127)	(1,138)
At 1 January 2005	3,114	8,368	2,544	14,026
Charge for the year	483	761	85	1,329
Eliminated on disposals	-	(45)	-	(45)
At 31 December 2005	3,597	9,084	2,629	15,310

CARRYING AMOUNT

At 31 December 2005	729	1,638	108	2,475
At 31 December 2004	599	1,746	151	2,496

Note 23 Investment property

	2005	2004
	£000	£000
At 1 January	75	105
Disposals	-	(30)
At 31 December	75	75

The fair value of the Company's investment properties at 31 December 2005 have been arrived at on the basis of an external valuation carried out at that date by Atisreal Ltd. The valuation was arrived at by reference to rental yields for similar properties.

The property rental income earned by the Company from its investment properties, of which are leased out under operating leases, amounted to £4,250k (2004 - £6,093k). Direct operating expenses arising on the investment properties in the year was £1,115k (2004 - £1,729k).

Note 24 Other assets

Trade and other receivables at the balance sheet date comprise as follows:

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Prepayments and accrued income	3,659	15,343	932	11,603
Trade debtors	3,059	8,685	1,067	-
Other assets	3,751	1,051	-	-
Other debtors	590	2,440	1,471	1,527
	11,059	27,519	3,470	13,130

Due to their short term nature, the directors consider that the carrying amount of trade and other receivables approximates their fair value.



Notes to the accounts

Note 25 Derivative transactions

In the normal course of business the Group enters into a low volume of derivative financial transactions in the foreign exchange and interest rate markets largely for the purposes of hedging Group exposures. The counterparties in the Group's derivatives transactions are largely banks and other financial institutions.

Ultimate responsibility for the control of risks rests with the directors of the Group. However, the day to day operational management of risks is delegated to the operating entities within the Group, which operate within prescribed limits. The methodology of managing risk varies across the Group, reflecting the complexity of the relevant businesses.

The notional principal amounts and fair values for derivatives (apart from derivatives for which hedge accounting is applied under IAS 39) as at 31 December 2005 and 31 December 2004 were:

Group

	Notional amount 2005	Positive fair value 2005	Negative fair value 2005	Notional amount Trading 2004	Notional amount Non-trading 2004
	£000	£000	£000	£000	£000
<i>Interest rate contracts</i>					
Forward rate agreements	-	-	-	-	3,000
Future contracts	598,000	161	-	-	318,500
Interest rate swaps	640,103	2,969	2,065	26,900	494,228
Options	45,432	84	3	19,650	36,518
		<u>3,214</u>	<u>2,068</u>		
<i>Foreign exchange contracts</i>					
Forward agreements	648,171	3,157	2,085	88,532	230,598
Options	759	-	25	1,374	-
		<u>3,157</u>	<u>2,110</u>		
		<u>6,371</u>	<u>4,178</u>		

Company

	Notional amount 2005	Positive fair value 2005	Negative fair value 2005
	£000	£000	£000
<i>Interest rate contracts</i>			
Forward rate agreements	-	-	-
Future contracts	598,000	161	-
Interest rate swaps	1,010,103	4,880	2,082
Options	72,432	84	84
		<u>5,125</u>	<u>2,166</u>
<i>Foreign exchange contracts</i>			
Forward agreements	648,171	3,372	2,171
Options	759	-	25
		<u>3,372</u>	<u>2,196</u>
		<u>8,497</u>	<u>4,362</u>



Notes to the accounts

At 31 December 2004 the notional principal and replacement cost, by maturity, from over the counter (OTC) and non-margined exchange traded contracts was:

Group	Notional principal	Replacement cost	Notional principal	Replacement cost
	2005	2005	2004	2004
	£000	£000	£000	£000
Remaining maturity				
Over 5 years	76,500	1,936	60,500	965
Between one and five years	413,516	1,048	348,673	1,441
Less than one year	195,519	69	171,122	197

Note 26 Deposits by credit institutions

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Current and demand deposits	159	6,293	139,337	15,068
Time deposits	478,546	524,024	478,546	550,085
	<u>478,705</u>	<u>530,317</u>	<u>617,883</u>	<u>565,153</u>

Note 27 Deposits by customers

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Current and demand deposits	256,067	260,779	488,838	189,755
Time deposits	1,597,674	1,316,472	1,370,225	1,181,625
	<u>1,853,741</u>	<u>1,577,251</u>	<u>1,859,063</u>	<u>1,371,380</u>

Note 28 Certificates of deposit issued

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Three months or less but not repayable on demand	58,856	191,750	58,856	162,250
One year or less but over three months	26,450	-	26,450	29,500
Over five years	-	-	-	-
	<u>85,306</u>	<u>191,750</u>	<u>85,306</u>	<u>191,750</u>

Note 29 Borrowings

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Debenture stock	29,973	29,971	-	-
Floating rate note	251,177	-	-	-
	<u>281,150</u>	<u>29,971</u>	<u>-</u>	<u>-</u>

In order to secure long term funding for property investments, £29.949 million was raised on 10 March 1994 by the issue of £30 million 8.8% debenture stock maturing 2019. Interest is due in equal half yearly instalments in arrears on 30 September and 31 March each year until redemption. The redemption date of the original stock is 31 March 2019 at par. If the stock is redeemed prior to this date the redemption price will be determined with reference to the Gross Redemption Yield on the Benchmark Gilt, being 8.75% Treasury Stock 2017. The debenture was previously secured against a number of properties held by the Group.

On 6 February 2002 a variation to the security arrangements was completed. The security provided was also amended to include one property, 21 New Street, London EC2M 4HR together with a cash deposit of £10 million and interest earned thereon.

On 9 February 2005 the Group entered into a floating rate note arrangement with a number of credit institutions to provide liquidity funding of £250 million. The floating rate guaranteed notes are due in 2010, and carry an interest rate of 3 month Libor + 25 bps. The borrowing is unsecured.



Notes to the accounts

Note 30 Subordinated loans

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Subordinated loan stock	61,867	59,393	66,867	59,393

On 13 November 2003 Singer & Friedlander Limited issued £50 million nominal of subordinated bonds at an issue price of 99.83%. The bonds, which are listed on the Luxembourg stock exchange, mature on 13 November 2019 with a first call on 13 November 2014. The bonds carry a coupon rate of 7.50%, payable semi annually.

In December 2004 Singer & Friedlander Limited issued £10 million nominal of subordinated bonds at par to a related party. The bonds mature on 31 December 2012. The bonds carry a coupon rate of LIBOR + 3%, payable semi annually.

In December 2005 Singer & Friedlander Limited issued £5 million nominal of subordinated loans at par to a subsidiary. The bonds mature on 31 December 2012. The bonds carry a coupon rate of LIBOR + 3%, payable semi annually.

Note 31 Provisions

Company

	Onerous lease £000
At 1 January 2004 and 31 December 2004	-
At 1 January 2005	-
Additional provision in year	10,000
At 31 December 2005	10,000

The company made a provision for an onerous lease in relation to the building at 21 New Street currently leased from a subsidiary, following a decision to relocate the Group's principal operating activities to an alternative office.

The amount was estimated based on anticipated sub-letting rates, taking into account a two year rent free period and then reverting to market rents.



Notes to the accounts

Note 32 Deferred tax – Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation	Collective and specific impairment	Retirement benefit obligations	Revaluation and impairment of property	Other	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2004 under UK GAAP	(3,733)	1,297	138	-	1,174	(1,124)
IFRS adjustment	1,384	-	1,112	(4,459)	(74)	(2,037)
At 1 January 2004 under IFRS	(2,349)	1,297	1,250	(4,459)	1,100	(3,161)
Charge to income	1,050	142	(117)	-	(597)	478
Charge to equity	-	-	2,120	(14)	-	2,106
At 1 January 2005	(1,299)	1,439	3,253	(4,473)	503	(577)
IAS 39 Adjustments	-	(228)	-	-	2,499	2,271
At 1 January 2005 adjusted for IAS 39	(1,299)	1,211	3,253	(4,473)	3,002	1,694
Charge/(credit) to income	(1,856)	162	1,168	2,117	(2,617)	(1,026)
Charge to equity	-	-	2,522	1,000	218	3,740
At 31 December 2005	(3,155)	1,373	6,943	(1,356)	603	4,408

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset for financial reporting purposes.)

	2005 £000	2004 £000
UK		
Deferred tax asset / (liability)	4,232	(789)
IOM		
Deferred tax asset	176	212
	4,408	(577)

Unrecognised deferred tax liabilities amounting to £9,620,000 (2004: £8,825,000) were not recognised in relation to subsidiaries.



Notes to the accounts

Deferred tax - Company

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation	Collective and specific impairment	Retirement benefit obligations	Onerous lease	Other	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2004 under UK GAAP	1,765	1,275	-	-	1,204	4,244
IFRS adjustment	-	-	1,112	-	-	1,112
At 1 January 2004	1,765	1,275	1,112	-	1,204	5,356
(Charge)/credit to income	(459)	150	(124)	-	(554)	(987)
Charge to equity	-	-	2,070	-	-	2,070
At 1 January 2005	1,306	1,425	3,058	-	650	6,439
IAS 39 Adjustments	-	(228)	-	-	2,082	1,854
At 1 January 2005 adjusted for IAS 39	1,306	1,197	3,058	-	2,732	8,293
(Charge)/credit to income	(263)	165	1,127	3,000	(2,222)	1,807
Charge to equity	-	-	2,592	-	9	2,601
At 31 December 2005	1,043	1,362	6,777	3,000	519	12,701

All items qualifying as deferred tax assets have been recognised.

Note 33 Other liabilities

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Trade creditors	4,913	21,214	3,108	144
Other liabilities	22,050	9,822	1,355	5,247
Accruals and deferred income	9,297	26,420	6,202	20,713
Other	800	1,600	-	-
	37,060	59,056	10,665	26,104

Note 34 Pension costs and other post retirement benefits**a) Defined benefit scheme**

The Group operates two defined benefit schemes.

The Singer & Friedlander Limited Pension & Assurance Scheme is a funded benefit scheme ("UK Scheme") for employees in the UK.

The Singer & Friedlander (Isle of Man) Limited Retirement Benefit Scheme ("Isle of Man Scheme") is a funded benefit scheme for employees of its wholly-owned subsidiary in the Isle of Man.

Both schemes were previously accounted for under UK GAAP on defined benefit basis in these financial statements under the multi-employer arrangements of FRS17. In accordance with IAS 19, both schemes are now required to be accounted for as defined benefit schemes in the financial statements of the Group.

Future accrual of benefits in the UK Scheme ceased on 31 August 2005 and at this date all active members' benefits became deferred. These members' benefits ceased to be linked to pensionable salary and now receive a combination of fixed and inflationary increases before retirement.

As the assumption used for future pensionable increases under IAS 19 is lower than the assumption for the revaluation of benefits in deferment, this has resulted in an increase in the value of the obligations of £3.437 million, which has been accounted for as a curtailment.

The UK Scheme will not receive any further new members.



Notes to the accounts

Contributions to both schemes are assessed in accordance with the advice of independent actuaries on the basis of valuations using the attained age method. The most recent full actuarial valuations were carried out for both schemes at 31 December 2003. Both valuations have been updated by the actuaries as at 31 December 2005 to take account of the requirements of IAS 19.

The Isle of Man Scheme is closed to new members and as such, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement. Accruals of benefits continue to be made under the Isle of Man scheme.

The assumptions used by the actuaries of both schemes, as agreed by the Board, are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice.

The information disclosed below is in respect of the whole of both schemes in which the Group is the sponsoring employer.

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Present value of defined benefit obligations	(132,515)	(109,819)	(126,271)	(104,921)
Fair value of plan assets	108,920	98,970	103,682	94,728
Liability in the balance sheet	<u>(23,595)</u>	<u>(10,849)</u>	<u>(22,589)</u>	<u>(10,193)</u>
Movements in present value of defined benefit obligation				
At 1 January	109,819	93,658	104,921	89,954
Current service cost	905	1,253	798	1,174
Past service cost	527	1,584	527	1,584
Interest cost	5,943	5,263	5,675	5,048
Curtailment	3,437	-	3,437	-
Actuarial losses	17,556	9,957	16,567	9,040
Benefits paid	(5,905)	(2,281)	(5,843)	(2,217)
Contributions by members	233	385	189	338
At 31 December	<u>132,515</u>	<u>109,819</u>	<u>126,271</u>	<u>104,921</u>
Movements in fair value of plan assets				
At 1 January	98,970	89,614	94,728	86,005
Expected return on plan assets	6,085	5,844	5,810	5,615
Actuarial gains	8,178	2,334	7,662	2,124
Contributions by employer	1,359	3,074	1,136	2,863
Contributions by members	233	385	189	338
Benefits paid	(5,905)	(2,281)	(5,843)	(2,217)
At 31 December	<u>108,920</u>	<u>98,970</u>	<u>103,682</u>	<u>94,728</u>

The amounts recognised in the income statement are as follows:

Current service costs	905	1,253
Past service costs	527	1,799
Curtailment	3,437	-
Interest costs	5,943	5,048
Expected return on plan assets	<u>(6,085)</u>	<u>(5,844)</u>
Total included in staff costs	<u>4,727</u>	<u>2,256</u>

Cumulative actuarial losses reported in the statement of recognised income and expenses since 1 January 2004, the transition date to adopt IFRSs are £17.1 million (2004 - £7.7 million), Company £16.0 million (2004 - £7.1 million)



Notes to the accounts

The fair value of the plan assets and the return on those assets were as follows:

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Equities	39,729	39,886	36,774	37,600
Corporate bonds	68,860	57,182	66,602	55,340
Other	331	1,902	306	1,788
	<u>108,920</u>	<u>98,970</u>	<u>103,682</u>	<u>94,728</u>
Actual return on plan assets	<u>14,263</u>	<u>8,178</u>	<u>13,472</u>	<u>7,739</u>

The expected return on plan assets is set by reference to historical returns on each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of the Scheme.

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plans investment portfolio.

The principal actuarial assumptions used to calculate liabilities for the Scheme are set out below.

	Group		Company	
	2005	2004	2005	2004
	%	%	%	%
Pensionable salary increases (Isle of Man scheme)	2.5	2.5	n/a	n/a
Discount rate	4.75	5.50	4.75	5.50
Inflation	3	3	3	3
Pension increases	3	3	3	3

Pensions accrued in the Isle of Man prior to 1 May 2000 increase at 5% per annum.

Pre-retirement mortality	80% of table PA92 series
Post retirement mortality (future pensioners)	80% of table PA92 series projected to calendar year 2030
Post retirement mortality (current pensioners)	80% of table PA92 series projected to calendar year 2020

The expected rates of return assumed on the assets held in the Scheme are as follows:

Equities	7.1	7.5	7.1	7.5
Bonds	4.75	5.5	4.75	5.5
Gilts	4.1	4.5	4.1	4.5
Cash	4.5	4.75	4.5	4.75

Notes to the accounts

The Group expects to contribute approximately £804,000 to its defined benefit plans in the next financial year.

Amounts for the current and previous four years are as follows

	2005	2004	2003	2002	2001
	£000	£000	£000	£000	£000
Group					
Defined benefit obligation	(132,515)	(111,433)	(93,658)	(83,842)	(91,138)
Plan assets	108,920	101,125	89,854	79,062	56,730
Surplus/deficit	(23,595)	(10,308)	(3,804)	(4,780)	(34,408)
Experience adjustments on plan liabilities	(16,567)	251	(97)	(228)	(1,056)
Experience adjustments on plan assets	8,178	2,350	6,749	(14,155)	(13,525)
Company					
Defined benefit obligation	(126,271)	(106,535)	(89,954)	(80,138)	(87,652)
Plan assets	103,682	96,883	86,245	75,453	54,386
Surplus/deficit	(22,589)	(9,652)	(3,709)	(4,685)	(33,266)
Experience adjustments on plan liabilities	(16,567)	425	(97)	2,491	(1,129)
Experience adjustments on plan assets	7,662	2,140	6,651	(13,624)	(13,104)

b) Defined contribution scheme

The total contributions made to the defined contribution scheme operated by the Group were £1,254,000 (2004 £928,000).

There were no outstanding or prepaid contributions at 31 December 2005.

Note 35 Share based payments

Singer & Friedlander Group PLC share option schemes.

Certain of the Company's employees participated in the Singer & Friedlander Group PLC ("Group") share option schemes, which, until 11 July 2005, was the Company's ultimate holding company.

The Group operated two share option schemes: The Singer & Friedlander Sharesave Scheme, for the benefit of employees, and The Singer & Friedlander Group Executive Share Option Scheme.

The Group also operated two share option plans: The Approved Share Option Plan and The Unapproved Share Option Plan.

All benefits in respect of these schemes or plans were crystallised consequent to the acquisition by Kaupthing Holdings UK Limited of the whole of the ordinary share capital of the Group on 11 July 2005.

No grants were made during the year.

These schemes are now closed.



Notes to the accounts

	Group		Company	
	2005	2004	2005	2004
	Number	Number	Number	Number
Savings Related Share Options				
Outstanding at 1 January	2,614,187	2,954,412	1,237,279	1,419,480
Granted in the year	-	403,063	-	302,725
Exercised during the year	(1,004,471)	(557,214)	(416,791)	(374,336)
Expired/cancelled	(1,609,716)	(186,074)	(820,488)	(110,590)
At 31 December	-	2,614,187	-	1,237,279
Executive Share Options				
Outstanding at 1 January	111,600	206,600	111,600	206,600
Exercised during the year	(111,600)	(95,000)	(111,600)	(95,000)
At 31 December	-	111,600	-	111,600
Approved Share Option Plan				
Outstanding at 1 January	978,518	596,202	412,418	434,698
Granted in the year	-	455,276	-	-
Exercised during the year	(953,558)	(13,600)	(387,458)	-
Expired/cancelled	(24,960)	(59,360)	(24,960)	(22,280)
At 31 December	-	978,518	-	412,418
Unapproved/Approved Share Option Plan				
Outstanding at 1 January	1,929,322	1,267,062	556,573	584,093
Granted in the year	-	(8,920)	-	-
Exercised during the year	(1,914,482)	786,420	(541,733)	-
Expired/cancelled	(14,840)	(115,240)	(14,840)	(27,520)
At 31 December	-	1,929,322	-	556,573

The weighted average share price at the date of exercise of share options exercised during the year was £3.16.



Notes to the accounts

Kaupthing Bank hf stock options.

The board of directors of Kaupthing Bank hf, the Group's ultimate parent company has decided on the basis of their stock option scheme to grant 466 employees in the group stock options to buy shares in Kaupthing Bank hf. Stock option holders are entitled to exercise one third of their total stock option every year for three years between 20 January and 25 February, and the first period in which options can be exercised is from 20 January 2007 to 25 February 2007. The option has an exercise price of Icelandic Kroner (ISK) 600 per share.

At the same time as granting stock options to all employees, the board of directors of Kaupthing Bank hf has also granted stock options to 69 employees over a three year period, during which they can exercise one third of the options each year. The period in which options can be exercised is also from 20 January to 25 February each year, with the first exercise in 2007. The option has an exercise price of ISK 600 per share in the first exercise period, ISK 630 per share during the 2008 exercise period and ISK 660 per share during the 2009 exercise period. The exercise of the options can be postponed each time until last exercise date but the strike price will increase to the price indicated by the relevant exercise date.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares.

	Group 2005	Group 2004	Company 2005	Company 2004
	Number	Number	Number	Number
Options granted to all employees at 16 November 2005	365	-	198	-
Options granted to designated employees at 16 November 2005	1,875	-	1,305	-
	2,240	-	1,503	-

	Contractual life	Exercise price ISK
Vesting conditions:		
Three years of service - One third of total stock option is exercisable every year for three years.	3 years	600
Three years of service - One third of total stock option is exercisable every year for three years.	3 years	600/630/660

The options outstanding at 31 December 2005 have an exercise price in the range of ISK 600 to ISK 660 and a weighted average contractual life of 1.5 years.

	Group 2005	Company 2005
	Number of options contracts	Number of options contracts
Outstanding at beginning of the year	-	-
Granted during the year	2,240	1,503
Outstanding at end of the year	2,240	1,503

The fair value of services received in return for share options is measured by reference to the fair value of options granted.

The estimate of the fair value of the options is measured based on the Black-Scholes model.

The contractual life of the options is used as an input into this model. Expectations of early exercise are not incorporated into the Black-Scholes model.



Notes to the accounts

The fair value of options granted during the period determined using the Black-Scholes model was £2.302m which will be amortised over the contractual life of the options.

The significant inputs to the model was as follows:

Share prices	ISK 600
Share price - key management	ISK 600,630, 660
Expected volatility	15%
Annual risk free interest rate	7.40%
Expected dividend yield	2.30%

The expected volatility is based on the historic volatility over the last twelve months from the grant date.

Summary

The total expenses recognised for the year arising from share based payments are as follows:

	Group 2005	Group 2004	Company 2005	Company 2004
	£000	£000	£000	£000
Equity settled share based payment expense:				
- Singer & Friedlander Group Plc Scheme	1,639	388	661	127
- Kaupthing Bank hf Scheme	128	-	59	-
	<u>1,767</u>	<u>388</u>	<u>720</u>	<u>127</u>

Note 36 Called Up Share Capital

	2005	2004
	£000	£000
Authorised:		
150,000,000 ordinary shares of £1 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
90,000,000 ordinary shares of £1 each	<u>90,000</u>	<u>70,000</u>

Foreign exchange translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Available-for-sale reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments until the investment is derecognised.

Other reserves

Where property, plant and equipment is re-valued or reclassified as investment property, the cumulative increase in the fair value of the property at the date of reclassification in excess of any previous impairment losses is included in this reserve.

During 2004 the authorised share capital was increased to £150,000,000 by the creation of 100,000,000 shares of £1 each. In 2004 the issued share capital was increased by £20,000,000 through the issue of 20,000,000 ordinary shares of £1 each, and in 2005 the share capital was increased by a further £20,000,000 through the issue of 20,000,000 ordinary shares of £1 each.

Notes to the accounts

Note 37 Consolidated statement of equity for the year ended 31 December 2005

	Attributable to equity holders of the parent							Total shareholders' equity
	Issued share capital	Other reserves	Available for sale reserve	Foreign exchange translation reserve	Retained earnings	Total	Minority interests	
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2004 on adoption of IFRS	50,000	34,940	-	-	115,587	200,527	314	200,841
Recognised gains and losses – 2004								
Foreign exchange translation differences	-	-	-	24	-	24	-	24
Property revaluation	-	690	-	-	-	690	-	690
Reclassification of reserves following Liquidation of overseas subsidiary	-	(3,995)	-	-	3,995	-	-	-
Acquisition - Benfield	-	-	-	-	-	-	120	120
Actuarial movements in pension scheme (net)	-	-	-	-	(5,587)	(5,587)	-	(5,587)
Deferred tax on property revaluation	-	-	-	-	(14)	(14)	-	(14)
Contribution to employee share trust	-	-	-	-	(14)	(14)	-	(14)
Net profit/(loss) for the period	-	-	-	-	7,685	7,685	(45)	7,640
Total recognised gains and losses	-	(3,305)	-	24	6,065	2,784	75	2,859
Transactions with owners								
Issue of ordinary shares	20,000	-	-	-	-	20,000	-	20,000
Dividends	-	-	-	-	-	-	(35)	(35)
Balance at 31 December 2004	70,000	31,635	-	24	121,652	223,311	354	223,665
IFRS Adjustments at 1 January 2005	-	-	2	-	(3,901)	(3,899)	-	(3,899)
Adjusted balance at 1 January 2005	70,000	31,635	2	24	117,751	219,412	354	219,766
Recognised gains and losses – 2005								
Foreign exchange translation differences	-	-	-	110	-	110	-	110
Property revaluation	-	(5,625)	-	-	-	(5,625)	-	(5,625)
Acquisition of minority interest	-	-	-	-	-	-	160	160
Actuarial movement in pension scheme	-	-	-	-	(6,660)	(6,660)	-	(6,660)
Equity settled share based payment transactions, net of tax	-	-	-	-	(931)	(931)	-	(931)
Net gains/losses on available for sale assets	-	-	(14)	-	-	(14)	-	(14)
Net profit for the period	-	-	-	-	13,094	13,094	(238)	12,856
Total recognised gains and losses	-	(5,625)	(14)	110	5,503	(26)	(78)	(104)
Transactions with owners								
Issue of ordinary shares	20,000	-	-	-	-	20,000	-	20,000
Dividends	-	-	-	-	-	-	(20)	(20)
Balance at 31 December 2005	90,000	26,010	(12)	134	123,254	239,386	256	239,642



Notes to the accounts

Company statement of equity for the year ended 31 December 2005

Attributable to equity holders of the parent

	Issued share capital	Other reserves	Available for sale reserve	Foreign exchange translation reserve	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2004 on adoption of IFRS	50,000	2,913	-	-	65,012	117,925
Recognised gains and losses - 2004						
Actuarial movements in pension scheme (net)	-	-	-	-	(5,021)	(5,021)
Contribution to employee share trust	-	-	-	-	(14)	(14)
Net profit/(loss) for the period	-	-	-	-	17,649	17,649
Total recognised gains and losses	-	-	-	-	12,614	12,614
Transactions with owners						
Issue of ordinary shares	20,000	-	-	-	-	20,000
Balance at 31 December 2004	70,000	2,913	-	-	77,626	150,539
IFRS Adjustments at 1 January 2005	-	-	2	-	(4,399)	(4,397)
Adjusted balance at 1 January 2005	70,000	2,913	2	-	73,227	146,142
Recognised gains and losses - 2005						
Actuarial movements in pension scheme (net)	-	-	-	-	(6,234)	(6,234)
Equity settled share based payment transactions, net of tax	-	-	-	-	(448)	(448)
Net gains/losses on available for sale assets	-	-	(14)	-	-	(14)
Net profit for the period	-	-	-	-	6,758	6,758
Total recognised gains and losses	-	-	(14)	-	76	62
Transactions with owners						
Issue of ordinary shares	20,000	-	-	-	-	20,000
Dividends	-	-	-	-	-	-
Balance at 31 December 2005	90,000	2,913	(12)	-	73,303	166,204

Group profit dealt with in the accounts of Singer & Friedlander Limited

Group profit after taxation includes £6,758,000 (2004 - £17,649,000 after IFRS adjustments of £266,000) which is dealt with in the accounts of Singer & Friedlander Limited. A separate profit and loss account dealing with the results of the Company only has not been included, as permitted by Section 230 of the Companies Act.

Note 38 Use of financial instruments and financial risk management**a. Strategy in using financial instruments**

The Group enters into contracts involving financial instruments during the normal course of its business. Such contracts may be entered into in order to facilitate customer requirements, to take trading positions on the Group's own book or to hedge exposures arising either as a result of customer business or proprietary positions. The Group primarily enters into financial instrument contracts involving deposits, loans, bonds, shares (including equity shares and preference shares), contingent liabilities and derivative financial instruments (including forward contracts, futures, swaps and options). In addition, certain financial instruments such as trade debtors and trade creditors arise directly from the Group's operations.

Derivative contracts are used primarily for non-trading purposes. However, the Group does occasionally enter into derivative transactions for trading purposes. The risk management disclosures made below apply to both the trading and non-trading elements of derivative contracts.

The use by business units of financial instruments (other than those which arise directly from the Group's operations) must be approved in advance by senior management. Approval will either be considered on a case by case basis or by the setting of limits within which financial instruments must be managed. These limits are split between financial instruments held for trading purposes and financial instruments held for non-trading purposes. The exposures which result from holding such financial instruments are managed in order that the cumulative interest rate mismatch and the maturity and currency profiles of the financial instruments are maintained within approved limits.

The Group's trading activities include providing financial instruments to clients, taking proprietary positions and their related hedges. The Group's non-trading activities include traditional lending and deposit-taking, asset/liability and liquidity management, investment activity and related hedges.

Risk exposures arising from financial instruments are monitored against the approved limits on a regular basis either by local management or by central risk management. Further, there is at least a monthly review of the exposures by central risk management.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The exposure to and management of these risks is summarised below.

The year-end figures reported in these financial statements for financial instruments are reflective of the position held throughout the year and are consistent with the objectives, policies and strategies approved by the Board. With the exception of the currency risk disclosures, the numerical disclosures provided in these notes for financial instruments have not included the effect of short-term debtors and creditors that relate to non-banking activities.

b. Fair value hedges

The Group uses interest rate swaps, forward rate agreements and futures contracts to manage its exposure against changes in the fair value of fixed-rate long and short term financial instruments due to movements in market benchmark interest rates.

All of these instruments are carried at fair value at the balance sheet date and any fair value changes are recognised in the Income Statement.

The fair value of swaps and hedging adjustments at 1 January 2005 was adjusted against opening retained earnings.

The following table summarises the contract amounts and fair values of derivatives held for hedging purposes by product type.

Group and company

	Notional principal	Positive fair value	Negative fair value
	£000	£000	£000
Derivatives designated as fair value hedges			
Interest rate swap (receive fixed and pay variable)	49,500	1,919	-
Total derivative assets held for hedging	49,500	1,919	-



Notes to the accounts

c. Credit risk

The Group manages credit risk by setting procedures for the establishment of credit exposures as well as setting limits for credit risk, split between *direct credit exposure*, *credit equivalent exposure* and *settlement exposure*. Further, limits are set for the country and currency of exposure as well as for total exposures to certain categories of business.

The credit limits are monitored by the Risk Management Department with significant excesses reported to the Executive Committee and the Board of Directors.

Industry concentration of assets, liabilities and off balance sheet items**Group**

Year ended 31 December 2005

	Asset finance	Corporate banking	Private banking	Property finance	Total
	£000	£000	£000	£000	£000
Loans and advances to credit institutions	-	169,496	-	-	169,496
Loans and advances to customers	336,629	697,635	282,334	323,590	1,640,188
Financial assets held for trading and derivatives	-	14,733	-	-	14,733
Financial assets held at fair value through profit and loss	-	35	-	-	35
Financial assets available for sale	-	1,096,474	-	-	1,096,474
Undrawn irrevocable commitments	15,542	259,544	87,144	49,350	411,580
Financial guarantees and acceptances	-	73,736	2,367	-	76,103
	352,171	2,311,653	371,845	372,940	3,408,609
Less: Allowances and provisions	(3,314)	(13,011)	(3,186)	(237)	(19,748)
Total credit exposure net of allowances and provisions	348,857	2,298,642	368,659	372,703	3,388,861

Company

Year ended 31 December 2005

	Asset finance	Corporate banking	Private banking	Property finance	Total
	£000	£000	£000	£000	£000
Loans and advances to credit institutions	-	105,792	-	-	105,792
Loans and advances to customers	-	979,044	282,334	323,590	1,584,968
Financial assets held for trading and derivatives	-	16,859	-	-	16,859
Financial assets held at fair value through profit and loss	-	35	-	-	35
Financial assets available for sale	-	1,090,439	-	-	1,090,439
Undrawn irrevocable commitments	-	249,277	87,144	49,350	385,771
Financial guarantees and acceptances	-	70,879	2,367	-	73,246
	-	2,512,325	371,845	372,940	3,257,110
Less: Allowances and provisions	-	(12,338)	(3,186)	(237)	(15,761)
Total credit exposure net of allowances and provisions	-	2,499,987	368,659	372,703	3,241,349

d. Market risk**i. Currency risk**

Concentration of assets and liabilities

	Group 2005	Company 2005	Group 2004	Company 2004
	£000	£000	£000	£000
Net position - Sterling equivalent				
Denominated in Euro	22,121	22,304	21,809	57,692
Denominated in US Dollar	(54,878)	(55,078)	(56,513)	(59,112)
Denominated in Swiss Francs	10,003	10,084	10,460	37,791
Other	264	(244)	273	(12,019)
Effect of hedging instruments	24,638	24,638	24,638	(22,925)
Net foreign currency exposure	2,148	1,704	667	1,427

The Group's overall currency risk exposure is managed by the Group's central treasury department. All significant foreign exchange transactions are sourced by this department and they manage the overall currency risk within pre-defined limits which are independently monitored on a daily basis. As a result of the limits established and the ongoing monitoring of the currency risk the Group's trading book exposure to currency risk was not material during the year or at the year end.

ii. Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits is primarily managed by limiting interest rate mismatches and through using derivative instruments. The limits for exposure to interest rate risk are set centrally. The interest rate risk profiles of the Group as at 31 December 2005 and 31 December 2004 are summarised below.

Part of the Group's return on financial instruments is obtained from running a mis-match between the maturity or the next interest rate fixing date of assets compared to the maturity of liabilities. The tables below summarises these re-pricing mismatches on the Group's non-trading book as at 31 December 2005 and 31 December 2004. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date. The Group accepts a degree of interest rate risk as long as the interest rate mismatch between the Group's assets and liabilities does not breach pre-defined limits.

The Group manages its interest rate mismatch (both trading and non-trading) by using mis-match tables which plot the maturities of the various assets and liabilities held by the Group and which enable the overall exposure to interest rate movements to be monitored. Such mismatch tables are used by each of the Group's primary subsidiaries where interest rate risk could arise. However, trading exposures are only permitted in the Group's authorised Banking entities, being Singer and Friedlander Limited and Singer and Friedlander (Isle of Man) Limited. The mis-match tables are monitored on an ongoing basis by local management and are reviewed on a monthly basis by senior independent management.

The interest rate mismatch of the Banking entities are considered on a monthly basis by the Asset and Liability Committee.

As a result of the limits established and the ongoing monitoring of the interest rate mismatch position the Group's trading book exposure to interest rate risk was not material during the year or at year end.



Notes to the accounts

Group

Interest rate sensitivity gap as at 31 December 2005

	Effective interest rate	Not more than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non interest bearing	Total
		£000	£000	£000	£000	£000	£000	£000
Assets								
Derivative financial instruments		3,502	97	18	835	1,919	-	6,371
Cash and bank at central banks	0.10%	-	539	-	-	-	-	539
Financial assets held for trading	4.60%	8,362	-	-	-	-	-	8,362
Financial assets held available for sale	4.50%	1,095,912	-	-	-	-	562	1,096,474
Financial assets held at fair value		-	-	-	-	-	35	35
Loans and advances to credit institutions	4.04%	169,496	-	-	-	-	-	169,496
Loans and advances to customers	6.06%	1,266,991	125,779	80,857	144,673	2,140	-	1,620,440
Settlement balances		-	-	-	-	-	-	-
Other assets		-	-	-	-	-	170,401	170,401
Total assets		2,544,263	126,415	80,875	145,508	4,059	170,998	3,072,118
Liabilities								
Derivative financial instruments		3,024	575	151	407	21	-	4,178
Deposits by credit institutions	4.43%	398,366	53,524	26,815	-	-	-	478,705
Deposits by customers	4.18%	1,576,247	107,282	137,462	32,750	-	-	1,853,741
Certificates of deposit	4.60%	59,306	9,000	14,000	3,000	-	-	85,306
Borrowings	4.97%	251,177	-	-	-	29,973	-	281,150
Subordinated loans	7.50%	-	-	-	-	61,867	-	61,867
Other liabilities		-	-	-	-	-	67,529	67,529
Minority interest		-	-	-	-	-	256	256
Shareholders funds		-	-	-	-	-	239,386	239,386
Total liabilities and equity		2,288,120	170,381	178,428	36,157	91,861	307,171	3,072,118
Effect of hedging instruments		122,519	(81,302)	(15,344)	(70,373)	44,500	-	-
Total interest sensitivity gap		378,662	(125,268)	(112,897)	38,978	(43,302)	(136,173)	-
Cumulative interest sensitivity gap								
		378,662	253,394	140,497	179,475	136,173	-	-



Notes to the accounts

Group

Interest rate sensitivity gap as at 31 December 2004

	Not more than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Cash and bank at central banks	19	544	-	-	-	-	563
Loans and advances to credit institutions	121,220	-	-	-	11,031	-	132,251
Loans and advances to customers	1,021,873	113,289	107,460	317,347	8,090	-	1,568,059
Settlement balances	-	-	-	-	-	4,540	4,540
Debt securities	765,099	50,000	-	-	-	563	815,662
Equity shares	-	-	-	-	-	174	174
Other assets	-	-	-	-	-	169,115	169,115
Total assets	1,908,211	163,833	107,460	317,347	19,121	174,392	2,690,364
Liabilities							
Deposits by credit institutions	467,052	49,079	12,169	2,017	-	-	530,317
Deposits by customers	1,385,928	65,171	119,083	7,068	-	-	1,577,250
Subordinated loans	-	10,000	-	-	49,393	-	59,393
Debt securities in issue	162,250	1,000	28,500	-	29,971	-	221,721
Other liabilities	-	-	-	-	-	61,719	61,719
Minority interest	-	-	-	-	-	354	354
Shareholders funds	-	-	-	-	-	239,610	239,610
Total liabilities and equity	2,015,230	125,250	159,752	9,085	79,364	301,683	2,690,364
Off balance sheet items	255,911	(117,250)	(30,000)	(139,161)	30,500	-	-
Total interest sensitivity gap	148,892	(78,667)	(82,292)	169,101	(29,743)	(127,291)	-
Cumulative interest sensitivity gap	148,892	70,225	(12,067)	157,034	127,291	-	-



Notes to the accounts

Company

Interest rate sensitivity gap as at 31 December 2005

	Effective interest rate	Not more than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non interest bearing	Total
		£000	£000	£000	£000	£000	£000	£000
Assets								
Derivative financial instruments		4,010	-	137	2,241	2,109	-	8,497
Cash and bank at central banks	0.10%	-	539	-	-	-	-	539
Financial assets held for trading	4.60%	8,362	-	-	-	-	-	8,362
Financial assets held available for sale	4.50%	1,090,439	-	-	-	-	-	1,090,439
Financial assets held at fair value	0.00%	-	-	-	-	-	35	35
Loans and advances to credit institutions	4.26%	105,792	-	-	-	-	-	105,792
Loans and advances to customers	5.61%	1,438,485	96,416	16,615	17,691	-	-	1,569,207
Settlement balances		-	-	-	-	-	-	-
Other assets		-	-	-	-	-	64,047	64,047
Total assets		2,647,088	96,955	16,752	19,932	2,109	64,082	2,846,918
Liabilities								
Derivative financial instruments		3,109	314	148	719	72	-	4,362
Deposits by credit institutions	4.32%	507,285	73,511	33,114	3,972	-	-	617,882
Deposits by customers	4.38%	1,594,825	77,554	133,031	28,927	-	24,727	1,859,064
Certificates of deposit	7.50%	59,306	9,000	14,000	3,000	-	-	85,306
Subordinated loans	7.59%	5,000	10,000	-	-	51,867	-	66,867
Other liabilities		-	-	-	-	-	47,233	47,233
Shareholders funds		-	-	-	-	-	166,204	166,204
Total liabilities		2,169,525	170,379	180,293	36,618	51,939	238,164	2,846,918
Effect of hedging instruments		130,731	(111,544)	(13,832)	(53,855)	48,500	-	-
Total interest sensitivity gap		608,294	(184,968)	(177,373)	(70,541)	(1,330)	(174,082)	-
Cumulative interest sensitivity gap		608,294	423,326	245,953	175,412	174,082	-	-



Notes to the accounts

Company

Interest rate sensitivity gap as at 31 December 2004

	Not more than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Cash and bank at central banks	19	544	-	-	-	-	563
Loans and advances to credit institutions	102,324	-	-	-	-	-	102,324
Loans and advances to customers	730,446	561,138	17,457	83,407	4,716	-	1,397,164
Settlement balances	-	-	-	-	-	3,756	3,756
Debt securities	750,000	50,000	-	-	-	563	800,563
Equity shares	-	-	-	-	-	51,693	51,693
Other assets	-	-	-	-	-	19,007	19,007
Total assets	1,582,789	611,682	17,457	83,407	4,716	75,019	2,375,070
Liabilities							
Deposits by credit institutions	401,956	156,021	7,176	-	-	-	565,153
Deposits by customers	1,186,687	65,775	112,011	6,907	-	-	1,371,380
Subordinated loans	-	10,000	-	-	49,393	-	59,393
Debt securities in issue	162,250	1,000	28,500	-	-	-	191,750
Other liabilities	-	-	-	-	-	29,494	29,494
Shareholders funds	-	-	-	-	-	157,900	157,900
Total liabilities and equity	1,750,893	232,796	147,687	6,907	49,393	187,394	2,375,070
Off balance sheet items	193,911	(108,250)	(19,000)	(97,161)	30,500	-	-
Total interest sensitivity gap	25,807	270,636	(149,230)	(20,661)	(14,177)	(112,375)	-
Cumulative interest sensitivity gap	25,807	296,443	147,213	126,552	112,375	-	-

iii. Liquidity risk

The Group's objective is to maintain flexible funding with a range of maturities for its diverse customer base. Liquidity risk is primarily managed by the Group's central treasury operations with reference to liquidity limits set internally by senior management and by external regulators. The Group has reference to regular reports which summarise the current liquidity position, thus helping to ensure that the Group has sufficient liquid assets to be able to meet its future expected cash outflows.

The tables below summarises the remaining contractual maturities of the Group's and Bank's financial assets and financial liabilities.



Notes to the accounts

Group

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Derivative financial instruments	4,452	-	-	-	1,919	6,371
Cash and bank at central banks	-	-	539	-	-	539
Financial assets held for trading	8,362	-	-	-	-	8,362
Financial assets held available for sale	586,474	510,000	-	-	-	1,096,474
Financial assets held at fair value	35	-	-	-	-	35
Loans and advances to credit institutions	157,972	11,524	-	-	-	169,496
Loans and advances to customers	638,277	123,867	213,117	465,704	179,475	1,620,440
Total assets	1,395,572	645,391	213,656	465,704	181,394	2,901,717
Liabilities						
Derivative financial instruments	4,178	-	-	-	-	4,178
Deposits by credit institutions	176,001	222,365	80,339	-	-	478,705
Deposits by customers	956,775	628,472	246,494	22,000	-	1,853,741
Certificates of deposit	59,306	9,000	14,000	3,000	-	85,306
Borrowings	-	-	-	251,177	29,973	281,150
Subordinated loans	-	-	-	-	61,867	61,867
Total liabilities	1,196,260	859,837	340,833	276,177	91,840	2,764,947
Net liquidity gap	199,312	(214,446)	(127,177)	189,527	89,554	136,770

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Cash and bank at central banks	-	563	-	-	-	563
Settlement balances	4,540	-	-	-	-	4,540
Loans and advances to banks	70,770	48,950	1,500	-	11,031	132,251
Loans and advances to customers	219,759	282,037	264,691	680,245	121,327	1,568,059
Debt securities	765,662	50,000	-	-	-	815,662
Total assets	1,060,731	381,550	266,191	680,245	132,358	2,521,075
Liabilities						
Deposits by banks	6,293	459,117	62,890	2,017	-	530,317
Deposits by customers	260,779	1,125,150	184,254	7,068	-	1,577,251
Certificates of deposit	-	162,250	29,500	-	29,971	221,721
Subordinated loans	-	-	-	-	59,393	59,393
Total liabilities	267,072	1,746,517	276,644	9,085	89,364	2,388,682
Net liquidity gap	793,659	(1,364,967)	(10,453)	671,160	42,994	132,393



Notes to the accounts

Company

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Derivative financial instruments	6,578	-	-	-	1,919	8,497
Cash and bank at central banks	-	-	539	-	-	539
Financial assets held for trading	8,362	-	-	-	-	8,362
Financial assets held available for sale	580,439	510,000	-	-	-	1,090,439
Financial assets held at fair value	35	-	-	-	-	35
Loans and advances to credit institutions	105,792	-	-	-	-	105,792
Loans and advances to customers	981,302	67,491	109,665	250,811	159,938	1,569,207
Total liquid assets	1,682,508	577,491	110,204	250,811	161,857	2,782,871
Liabilities						
Derivative financial instruments	4,362	-	-	-	-	4,362
Deposits by credit institutions	268,936	242,322	106,625	-	-	617,883
Deposits by customers	801,458	827,094	212,335	18,177	-	1,859,064
Certificates of deposit	59,306	9,000	14,000	3,000	-	85,306
Subordinated loans	-	-	-	15,000	51,867	66,867
Total liabilities	1,134,062	1,078,416	332,960	36,177	51,867	2,633,482
Net liquidity gap	548,446	(500,925)	(222,756)	214,634	109,990	149,389

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Cash and bank at central banks	-	563	-	-	-	563
Settlement balances	3,756	-	-	-	-	3,756
Loans and advances to credit institutions	51,874	48,950	1,500	-	-	102,324
Loans and advances to customers	193,420	614,773	118,127	352,893	117,951	1,397,164
Debt securities	-	750,563	50,000	-	-	800,563
Total liquid assets	249,050	1,414,849	169,627	352,893	117,951	2,304,370
Liabilities						
Deposits by banks	15,068	490,535	53,813	5,437	300	565,153
Deposits by customers	189,755	1,006,932	167,786	6,907	-	1,371,380
Certificates of deposit	-	162,250	29,500	-	-	191,750
Subordinated loans	-	-	-	-	59,393	59,393
Total liquid liabilities	204,823	1,659,717	251,099	12,344	59,693	2,187,676
Net liquidity gap	44,227	(244,868)	(81,472)	340,549	58,258	116,694



Notes to the accounts

e. Fair values of financial assets and liabilities

i. Comparison of fair values with carrying values

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

Fair values as at 31 December 2005

	Group Carrying value	Group Fair value	Company Carrying value	Company Fair value
	£000	£000	£000	£000
Financial assets				
Loans and advances to banks	169,496	169,496	106,331	106,331
Loans and advances to customers	1,620,440	1,622,421	1,569,227	1,569,227
	1,789,936	1,791,917	1,675,558	1,675,558
Liabilities				
Deposits by banks	478,705	478,657	617,722	617,834
Deposits by customers	1,853,741	1,853,628	1,858,903	1,858,951
Borrowings	282,470	297,065	-	-
Subordinated loans	61,867	61,867	66,867	66,867
	2,676,783	2,691,217	2,543,492	2,543,652

Fair values as at 31 December 2004

	Group Net book value	Group Net fair value	Group Positive fair value	Group Negative fair value
	£000	£000	£000	£000
Held on the trading book				
Interest rate swaps and options	17	17	95	(78)
Forward foreign currency contracts and exchange rate options	(57)	(57)	1,798	(1,855)
	(40)	(40)	1,893	(1,933)
Non-trading book				
Interest rate swaps and forward rate agreements	27	574	2,327	(1,753)
Interest rate caps, collars and floors	244	180	181	(1)
Forward currency agreements	(413)	(413)	299	(712)
Interest rate futures	243	243	272	(29)
Bank/building society certificates of deposit	815,099	815,099	815,099	-
Certificates of deposit issued	(191,750)	(191,750)	-	(191,750)
Subordinated liabilities	(49,393)	(53,840)	-	(53,840)
Debenture issued	(29,971)	(46,500)	-	(46,500)
	544,086	523,593	818,178	(294,585)
Net amount	544,046	523,553	820,071	(296,518)



Notes to the accounts

ii. Methods and assumptions in determining fair values

Derivative financial instruments	Discounted cash flow
Cash and balances held at central banks	Carrying value
Financial assets held for trading	Discounted cash flow
Financial assets held at fair value to profit and loss	Market value
Financial assets available for sale	Discounted cash flow
Loans and advances to credit institutions	Carrying value
Loans and advances to customers	Carrying value
Debt securities	Market value
Equity shares	Market value
Settlement balances	Carrying value
Derivative financial instruments	Discounted cash flow
Deposits by credit institutions	Combination of carrying value and market value
Deposits by customers	Combination of carrying value and market value
Borrowings	Combination of carrying value and market value
Subordinated loans	Combination of carrying value and market value

All material fair value assumptions are supported by observable market factors.

Note 39 Operating lease arrangements

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
The Group/Company as lessee				
Lease payments under operating leases recognised during the year	1,139	1,921	2,822	2,822
At the balance sheet date, outstanding commitments for future minimum lease payments under non-cancellable operating leases, fall due as follows:				
Within one year	26	139	26	-
In the second to fifth years inclusive	174	174	-	26
after five years	939	1608	2,796	2,796
	1,139	1,921	2,822	2,822

Operating lease payments primarily represent rentals payable by the Group for certain of its office properties and fixtures and fittings.



Notes to the accounts

Note 40 Commitments

	Group 2005	Group 2004	Company 2005	Company 2004
	Notional Principal	Notional Principal	Notional Principal	Notional Principal
	£000	£000	£000	£000
Commitments				
Documentary credits and short-term trade related transactions	76,103	32,737	73,246	32,737
Undrawn formal standby facilities, credit lines and other commitments to lend:				
- 1 year and over	217,728	245,951	206,405	234,254
- Less than 1 year	193,852	189,093	179,366	183,710
	<u>487,683</u>	<u>467,781</u>	<u>459,017</u>	<u>450,701</u>

Concentrations of off balance sheet exposure:

At 31 December 2005 and 2004, the vast majority of the Group's commitments were in respect of Corporate Banking clients.

Note 41 Related parties**Group***a) Identity of related parties*

The company's ultimate parent company is Kaupthing Bank hf, a company resident and incorporated in Iceland. The results of the Company are consolidated in the financial statements of Kaupthing Bank hf. No other group financial statements include the results of the Company.

The consolidated financial statements of Kaupthing Bank hf are available to the public and may be obtained from:

Kaupthing Limited
89 New Bond Street
London W1S 1DA

The previous ultimate holding company was Singer and Friedlander Group plc, a listed entity. During 2005 a UK subsidiary of Kaupthing Bank hf acquired Singer and Friedlander Group plc, upon which Singer and Friedlander Group plc became an intermediate holding company of Singer and Friedlander Ltd.

b) Transactions with related parties

- (i) The Group has amounts of £717,161 (2004: £46,014,000) outstanding from fellow subsidiaries, and interest received during the year was £962,171 (2004: £613,000).
- (ii) The Group has amounts of £51,339,000 (2004: £46,775,000) outstanding to fellow subsidiaries, and interest paid during the year was £1,871,000 (2004: £4,476,000).
- (iii) Recharges to related companies are disclosed in note 6.

c) Transactions with key management personnel

- (i) The Group and Company advanced loans to the directors of the Company for £869,623 (2004: £nil), and the Group and Company received interest of £21,538 for 2005 (2004: £nil). The terms of these loans are market related.
- (ii) Directors emoluments are disclosed in note 9, pensions are disclosed in note 34 and share based payment transactions are disclosed in note 35.



Notes to the accounts

Company*a) Transactions with related parties*

- (i) Management fees of £5,307,000 (2004: £nil) were received from a fellow subsidiary and £4,374,000 (2004:£nil) was received from an intermediate holding company.
- (ii) The Company has intercompany balances outstanding to its subsidiaries and fellow subsidiaries for £423,274,000 (2004:£499,234,000) and interest amounting to £20,529,000 (2004: £26,950,000) was received from the subsidiaries and fellow subsidiaries during the year.
- (iii) The Company has intercompany balances outstanding from its subsidiaries and fellow subsidiaries for £499,448,000 (2004: £225,904,000) and interest amounting to £18,720,000 (2004: £5,473,000) was received from the subsidiaries and fellow subsidiaries during the year.
- (iv) The Company has an intercompany balance of £28,883,000 (2004: £31,968,000) with an intermediate parent company and interest amounting to £1,504,000 (2004: 3,602,000) was paid during the year.
- (v) The Company paid rent of £2,353,000 to a subsidiary for use of office space.

b) Bad and doubtful debts

There were no provisions made for doubtful debts in respect of amounts due from related parties in 2005 (2004 - £3.8 million).

Note 42 Key Sources of estimation uncertainty

Key sources of estimation uncertainty at the balance sheet date that may cause material adjustments to the carrying amounts of assets or liabilities within the next financial year are as follows:

(i) Pension assumptions

The Group has decided on a discount rate of 4.75% representing the yield of long dated AAA corporate bonds to estimate the present value of future obligations. If the discount rate were to either reduce or increase then the Group's actuarial losses would increase or decrease accordingly.

(ii) Property

Following a decision to relocate offices, a provision has been made to reflect the Group's best estimate of the future economic benefit of the property.

(iii) Impairment calculations

Accounting policies 13 and 27 contain information about the recognition of impairment of financial and other assets. Impairment provisions are based on financial data and estimates available at the balance sheet date. If the estimates change as a result of a change in circumstances after the balance sheet date, then the resulting impact on impairment is recognised in future periods.

Note 43 Investment in Group undertakings

	Company 2005	Company 2004
	£000	£000
At 1 January	51,693	56,109
Increased investment in subsidiaries	1,300	105
Movement in foreign exchange	(6)	-
Disposals	(7,586)	(4,521)
At 31 December	<u>45,401</u>	<u>51,693</u>



Notes to the accounts

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership	
		2005	2004
<i>Banking companies</i>			
Singer & Friedlander Isle of Man Limited	Isle of Man	100%	100%
Singer & Friedlander Funding Plc	Great Britain	100%	100%
Singer & Friedlander Trade Finance Limited	Great Britain	75%	75%
<i>Asset Finance companies</i>			
Singer & Friedlander Leasing Limited	Great Britain	100%	100%
Singer & Friedlander Finance Limited	Great Britain	100%	100%
Singer & Friedlander Insurance Finance Limited	Great Britain	100%	75%
Singer & Friedlander Commercial Finance Limited	Great Britain	100%	100%
Hermes Group Limited	Great Britain	100%	100%
Coachlease Limited	Great Britain	100%	100%
<i>Other activities</i>			
Singer & Friedlander (Isle of Man) Holdings Limited	Isle of Man	100%	100%
Singer & Friedlander Trust Company (IOM) Limited	Isle of Man	100%	100%
Sinjul Investments Limited	Great Britain	100%	100%
Singer & Friedlander Investment Properties Limited	Great Britain	100%	100%

Note 44 First time adoption of International Financial Reporting Standards

These are the Group's first set of consolidated financial statements under IFRSs. The accounting policies have been applied in preparing the consolidated financial statements for the year ended 31 December 2005, the comparative information for the year ended 31 December 2004 and the opening balance sheet as at 1 January 2004.

In preparing the opening balance sheet, the Group has adjusted amounts reported previously under UK GAAP to IFRS, and IFRS 1 has been applied. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and profit is set out in the following tables and the accompanying notes.



Notes to the accounts

a) Reconciliation of equity as at 1 January 2004 and 31 December 2004 from UK GAAP to IFRS

Group

	UK GAAP	1 January 2004 Effect of transition to IFRS	Reclass- ification for IFRS	Adopted IFRSs	UK GAAP	31 December 2004 Effect of transition to IFRS	Reclass- ification for IFRS	Adopted IFRSs
	£000	£000	£000	£000	£000	£000	£000	£000
Assets								
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash and balances held at central banks	541	-	-	541	563	-	-	563
Financial assets held for trading	-	-	-	-	-	-	-	-
Financial assets held at fair value to profit and loss	-	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	149,910	-	-	149,910	132,251	-	-	132,251
Loans and advances to customers (i)	-	-	-	-	-	-	-	-
(ii)	1,258,632	(419)	-	1,258,213	1,568,059	2,453	-	1,570,512
Settlement balances	2,879	-	-	2,879	4,540	-	-	4,540
Investment securities	-	-	-	-	-	-	-	-
- debt securities	603,051	-	-	603,051	815,662	-	-	815,662
- equity shares	1,123	-	-	1,123	125	-	-	125
Other participating interests	269	-	-	269	49	-	-	49
Intangible fixed assets - goodwill (iii)	2,343	1,359	-	3,702	582	758	-	1,340
Tangible fixed assets (ii)	137,487	(4,333)	(105)	133,049	141,850	(9,122)	(75)	132,653
Investment properties	-	-	105	105	-	-	75	75
Current tax assets	-	-	2,456	2,456	-	-	-	-
Deferred tax assets	-	1,145	160	1,305	-	3,189	(2,977)	212
Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Other assets (i)	-	-	-	-	-	-	-	-
(ii)	11,836	(148)	(2,616)	9,072	11,340	(653)	1,440	12,127
Prepayments and accrued income	14,580	-	-	14,580	15,343	-	-	15,343
Total assets	2,182,651	(2,396)	-	2,180,255	2,690,364	(3,375)	(1,537)	2,685,452



Notes to the accounts

		1 January 2004				31 December 2004			
		UK GAAP	Effect of transition to IFRS	Reclassification for IFRS	Adopted IFRSs	UK GAAP	Effect of transition to IFRS	Reclassification for IFRS	Adopted IFRSs
		£000	£000	£000	£000	£000	£000	£000	£000
Liabilities									
Derivative financial instruments		-	-	-	-	-	-	-	-
Deposits by credit institutions		333,158	-	-	333,158	530,317	-	-	530,317
Deposits by customers		1,439,397	-	-	1,439,397	1,577,251	-	-	1,577,251
Debt securities in issue		94,132	-	-	94,132	221,721	-	-	221,721
Borrowings		-	-	-	-	-	-	-	-
Subordinated loans		49,331	-	-	49,331	59,393	-	-	59,393
Provisions	(iv)	-	3,803	-	3,803	100	10,849	(100)	10,849
	(i)								
	(ii)								
Current tax liabilities	(vi)	-	(202)	-	(202)	-	(69)	2,480	2,411
	(i)								
	(ii)								
Deferred tax liabilities	(v)	1,285	3,182	-	4,467	859	3,067	(3,137)	789
Liabilities included disposal groups held for sale		-	-	-	-	-	-	-	-
	(i)								
	(ii)								
Other liabilities	(vi)	29,202	1,928	-	31,130	34,444	(923)	(880)	32,641
Accruals and deferred income		24,198	-	-	24,198	26,315	-	100	26,415
Total liabilities		1,970,703	8,711	-	1,979,414	2,450,400	12,924	(1,537)	2,461,787
Equity minority interests									
		314	-	-	314	354	-	-	354
Shareholders' equity									
Called up share capital		50,000	-	-	50,000	70,000	-	-	70,000
Other reserves	(v)	35,940	(1,000)	-	34,940	32,635	(1,000)	-	31,635
Hedging and translation reserves		-	-	-	-	-	-	-	-
	(vi)								
Retained earnings	ii)	125,694	(10,107)	-	115,587	136,975	(15,299)	-	121,676
Total shareholders' equity		211,634	(11,107)	-	200,527	239,610	(16,299)	-	223,311
Total liabilities, minority interests and shareholders' equity		2,182,651	(2,396)	-	2,180,255	2,690,364	(3,375)	(1,537)	2,685,452



Notes to the accounts

Company

	1 January 2004				31 December 2004			
	UK GAAP	Effect of transition to IFRS	Reclassification for IFRS	Adopted IFRSs	UK GAAP	Effect of transition to IFRS	Reclassification for IFRS	Adopted IFRSs
	£000	£000	£000	£000	£000	£000	£000	£000
Assets								
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash and balances held at central banks	541	-	-	541	563	-	-	563
Financial assets held for trading	-	-	-	-	-	-	-	-
Financial assets held at fair value to profit and loss	-	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	92,603	-	-	92,603	102,324	-	-	102,324
Loans and advances to customers	1,084,999	-	-	1,084,999	1,397,164	-	-	1,397,164
Settlement balances	2,879	-	-	2,879	3,756	-	-	3,756
Investment securities	-	-	-	-	-	-	-	-
- debt securities	577,649	-	-	577,649	800,563	-	-	800,563
- equity shares	188	-	-	188	-	-	-	-
Investments in Group undertakings	56,109	-	-	56,109	51,693	-	-	51,693
Other participating interests	-	-	-	-	-	-	-	-
Intangible fixed assets - goodwill	-	-	-	-	-	-	-	-
Tangible fixed assets	2,835	-	-	2,835	2,496	-	-	2,496
Investment properties	-	-	-	-	-	-	-	-
Current tax assets	-	-	-	-	-	-	-	-
Deferred tax assets	-	1,112	4,244	5,356	-	3,058	3,381	6,439
Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Other assets	14,087	-	(6,915)	7,172	4,908	-	(3,381)	1,527
Prepayments and accrued income	14,517	-	-	14,517	11,603	-	-	11,603
Total assets	1,846,407	1,112	(2,671)	1,844,848	2,375,070	3,058	-	2,378,128



Notes to the accounts

	UK GAAP	1 January 2004 Effect of trans- ition to IFRS	Reclass- ification for IFRS	Adopted IFRSs	UK GAAP	31 December 2004 Effect of trans- ition to IFRS	Reclass- ification for IFRS	Adopted IFRSs
	£000	£000	£000	£000	£000	£000	£000	£000
Liabilities								
Derivative financial instruments	-	-	-	-	-	-	-	-
Deposits by credit institutions	336,650	-	-	336,650	565,153	-	-	565,153
Deposits by customers	1,251,577	-	-	1,251,577	1,371,380	-	-	1,371,380
Debt securities in issue	64,163	-	-	64,163	191,750	-	-	191,750
Borrowings	-	-	-	-	-	-	-	-
Subordinated loans	49,331	-	-	49,331	59,393	-	-	59,393
Provisions (iv)	-	3,708	-	3,708	-	10,193	-	10,193
Current tax liabilities (vii)	-	(4)	575	571	-	(42)	3,658	3,616
Deferred tax liabilities	-	-	-	-	-	-	-	-
Liabilities included disposal groups held for sale	-	-	-	-	-	-	-	-
	(v)							
	(vi)							
Other liabilities (vii)	5,964	14	(3,246)	2,732	8,781	268	(3,658)	5,391
Accruals and deferred income	18,191	-	-	18,191	20,713	-	-	20,713
Total liabilities	1,725,876	3,718	(2,671)	1,726,923	2,217,170	10,419	-	2,227,589
Equity minority interests	-	-	-	-	-	-	-	-
Shareholders' equity								
Called up share capital	50,000	-	-	50,000	70,000	-	-	70,000
Other reserves	2,913	-	-	2,913	2,913	-	-	2,913
Hedging and translation reserves	-	-	-	-	-	-	-	-
Retained earnings (vii)	67,618	(2,606)	-	65,012	84,987	(7,361)	-	77,626
Total shareholders' equity	120,531	(2,606)	-	117,925	157,900	(7,361)	-	150,539
Total liabilities, minority interests and shareholders' equity	1,846,407	1,112	(2,671)	1,844,848	2,375,070	3,058	-	2,378,128



Notes to the accounts

b) Reconciliation of profit for the year ended 31 December 2004 under UK GAAP to IFRS

Group

		UK GAAP	Effect of transition to IFRS	Reclassification for IFRS	Adopted IFRSs
		£000	£000	£000	£000
Continuing operations					
Interest income	(i) (ii)	168,219	1,746	(28,819)	141,146
Interest expense		(89,093)	-	-	(89,093)
Net interest income		79,126	1,746	-	52,053
Fees and commissions income	(i) (ii)	18,189	(134)	-	18,055
Fees and commissions expense		(6,675)	-	-	(6,675)
Net fee and commission income		11,514	(134)	-	11,380
Net trading income		593	-	-	593
Other operating income		1,852	-	28,819	30,671
Net operating income		93,085	1,612	-	94,697
Administrative expenses	(ii) (iv) (v)	(43,701)	628	-	(43,073)
Impairment losses on loans and advances		(8,800)	-	(3,876)	(12,676)
Impairment on other assets		(570)	-	-	(570)
Other operating expenses	(ii) (iv)	(31,619)	(1,387)	3,876	(29,130)
Profit before taxation		8,395	853	-	9,248
Income tax	(i) (ii) (iv) (v)	(1,164)	(444)	-	(1,608)
Profit for the year		7,231	409	-	7,640
Attributable to:					
Equity holders of the parent		7,276	409	-	7,685
Minority interest		(45)	-	-	(45)
		7,231	409	-	7,640

(c) Explanation of the transition from UK GAAP to IFRS

- (i) Finance leases and instalment credit balances have been adjusted to comply with the income recognition requirements of IAS 17. This led to an adjustment to the finance leases and instalment credit balances of £760,000 at 1 January 2004 (£944,000 at 31 December 2004), an increase in opening retained earnings after tax of £673,000 at 1 January 2004 (£814,000 for 31 December 2004) and a decrease in deferred tax of £87,000 for 1 January 2004 (£91,000 for 31 December 2004). Interest income was adjusted by £183,000 for 2004.
- (ii) Operating lease receivables have been increased to reflect a change in the method of income recognition to an amount of £3,532,000 at 31 December 2004 (1 January 2004: £446,000). Additionally depreciation on assets leased to customers under operating leases has been restated to reflect a straight line basis of calculation as required by IAS 16. This had the effect of reducing the carrying amount of fixed assets by £9,122,000 at 31 December 2004 (1 January 2004: £4,333,000).
- (iii) The Group has applied IFRS 3 to all business combinations that have occurred since 1 January 2004 (the date of transition to IFRS). From this date goodwill is no longer amortised under IFRS, but is tested annually for impairment. The effect of this change is to increase the carrying value of goodwill by £758,000 at 31 December 2004. Additionally negative goodwill is no longer permitted under IFRS and the carrying value of goodwill has been increased by £1.359m at 1 January 2004 to reflect this change.
- (iv) The defined benefit contribution pension schemes operated by the Group were previously accounted for under the multi employer arrangements of FRS 17 and were reported in the financial statements of the parent company Singer & Friedlander Group plc. To comply with IAS 19 each pension scheme is required to be reported by the principal employer. Accordingly the Company's Pension and Assurance Scheme and the scheme of a subsidiary located in the Isle of Man, the Singer & Friedlander (Isle of Man) Limited Retirement Benefit Scheme are now recorded in the financial statements of the Group. The effect of this change is to increase provisions by £3.803m on adoption of IFRS and by £10.849m on 31 December 2004.



Notes to the accounts

- (v) To comply with IAS 12 the deferred tax liability of £4.459m on the fair value of Group occupied properties was recognised on adoption of IFRS on 1 January 2004 (£4.473m for 31 December 2004). Retained earnings have been reduced by £3.459m and £3.473m respectively, with the remaining £1m recognised in other reserves.
- (vi) Under IFRS 2 share based costs have been recognised in respect of the parent company's share option schemes for £207,000 (tax effect £53,000) for 31 December 2004, and with £19,000 (tax effect £6,000) for 1 January 2004.
- (vii) To comply with IAS 10 an accrued dividend of £128,000 was reversed as at 31 December 2004 and accounted for in the year of payment.

The effect of the above adjustments on retained earnings of the group is as follows:

1 January 2004 - Group

		Attributable to equity holders of the parent					
		Issued share capital	Other reserves	Retained earnings	Total	Minority interests	Total shareholders ' equity
		£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2004 under UK GAAP		50,000	35,940	125,694	211,634	314	211,948
IFRS Adjustments on 1 January 2004:							
Share based payments	(vii)	-	-	(14)	(14)	-	(14)
Goodwill	(iv)	-	-	1,359	1,359	-	1,359
Deferred tax	(vi)	-	(1,000)	(3,459)	(4,459)	-	(4,459)
Leases	(i) (ii)	-	-	(4,695)	(4,695)	-	(4,695)
Pensions	(v)	-	-	(3,298)	(3,298)	-	(3,298)
Total IFRS adjustments		-	(1,000)	(10,107)	(11,107)	-	(11,107)
Balance at 1 January 2004 in accordance with IFRS		50,000	34,940	115,587	200,527	314	200,841

31 December 2004 - Group

		Attributable to equity holders of the parent					
		Issued share capital	Other reserves	Retained earnings	Total	Minority interests	Total shareholders ' equity
		£000	£000	£000	£000	£000	£000
Balance at 31 December 2004 under UK GAAP		70,000	32,635	136,975	239,610	354	239,964
IFRS Adjustments for 2004							
Share based payments	(vii)	-	-	(154)	(154)	-	(154)
Goodwill	(iv)	-	-	758	758	-	758
Deferred tax	(vi)	-	(1,000)	(3,473)	(4,473)	-	(4,473)
Leases	(i)	-	-	(4,130)	(4,130)	-	(4,130)
Pensions	(v)	-	-	(8,300)	(8,300)	-	(8,300)
Total IFRS adjustments		-	(1,000)	(15,299)	(16,299)	-	(16,299)
Balance at 31 December 2004 under IFRS		70,000	31,635	121,676	223,311	354	223,665



Notes to the accounts

(ix) The effect of the above adjustments on retained earnings of the Company is as follows:

1 January 2004 - Company

Attributable to equity holders of the parent						
	Issued share capital	Other reserves	Retained earnings	Total	Minority interests	Total shareholders' equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2004 under UK GAAP	50,000	2,913	67,618	120,531	-	120,531
IFRS Adjustments on 1 January 2004:						
Share based payments (vii)	-	-	(10)	(10)	-	(10)
Pensions (v)	-	-	(2,596)	(2,596)	-	(2,596)
Total IFRS adjustments	-	-	(2,606)	(2,606)	-	(2,606)
Balance at 1 January 2004 in accordance with IFRS	50,000	2,913	65,012	117,925	-	117,925

31 December 2004 - Company

Attributable to equity holders of the parent						
	Issued share capital	Capital reserves	Retained earnings	Total	Minority interests	Total shareholders' equity
	£000	£000	£000	£000	£000	£000
Balance at 31 December 2004 under UK GAAP	70,000	2,913	84,987	157,900	-	157,900
IFRS Adjustments for 2004						
Share based payments (vii)	-	-	(98)	(98)	-	(98)
Dividends (viii)	-	-	(128)	(128)	-	(128)
Pensions (v)	-	-	(7,135)	(7,135)	-	(7,135)
Total IFRS adjustments	-	-	(7,361)	(7,361)	-	(7,361)
Balance at 31 December 2004 under IFRS	70,000	2,913	77,626	150,539	-	150,539



Notes to the accounts

Group

		Attributable to equity holders of the parent						Total shareholders' equity
		Issued share capital	Other reserves	Retained earnings	Available for sale reserve	Total	Minority interests	
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2005 before the effect of IAS 32 and IAS 39		70,000	31,635	121,676	-	223,311	354	223,665
Derivative financial instruments held at fair value	(x)	-	-	241	-	241	-	241
Fair value hedges	(xi)	-	-	22	-	22	-	22
Financial assets available for sale	(xii)	-	-	-	2	2	-	2
Derivative financial instruments - transition adjustment	(xiii)	-	-	496	-	496	-	496
Impairment of financial assets	(xiv)	-	-	881	-	881	-	881
Effective yield adjustments on fee income	(xv)	-	-	(5,541)	-	(5,541)	-	(5,541)
Total adjustments for IAS 32 and IAS 39		-	-	(3,901)	2	(3,899)	-	(3,899)
Balance as at 1 January 2005 adjusted for the effect of IAS 32 and IAS 39		70,000	31,635	117,775	2	219,412	354	219,766

Company

		Attributable to equity holders of the parent						Total shareholders' equity
		Issued share capital	Other reserves	Retained earnings	Available for sale reserve	Total	Minority interests	
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2005 before the effect of IAS 32 and IAS 39		70,000	2,913	77,626	-	150,539	-	150,539
Derivative financial instruments held at fair value	(x)	-	-	497	-	497	-	497
Fair value hedges	(xi)	-	-	22	-	22	-	22
Financial assets available for sale	(xii)	-	-	-	2	2	-	2
Derivative financial instruments - transition adjustment	(xiii)	-	-	(45)	-	(45)	-	(45)
Impairment of financial assets	(xiv)	-	-	532	-	532	-	532
Effective yield adjustments on fee income	(xv)	-	-	(5,405)	-	(5,405)	-	(5,405)
Total adjustments for IAS 32 and IAS 39		-	-	(4,399)	2	(4,397)	-	(4,397)
Balance as at 1 January 2005 adjusted for the effect of IAS 32 and IAS 39		70,000	2,913	73,227	2	146,142	-	146,142

(e) Explanation of the effect of the adoption of IAS 32 and IAS 39

- (x) Derivative financial instruments at fair value represent interest rate swaps held for hedging purposes for which hedge accounting under IAS 39 has not been achieved. The swaps have been recognised on the balance sheet as assets to a value of £710,000, and retained earnings have been increased by £497,000, after tax. Deferred tax has been increased by £213,000.
- (xi) The fair value hedge adjustment represents the difference in the fair value of the interest rate swap and the fair value of the underlying hedged instrument. This is in respect of a swap held for hedging purposes which qualifies for hedge accounting under IAS 39.
- (xii) This adjustment is to recognise certificates of deposit classified as available for sale at fair value, with an increase to the available for sale reserve of £2,000 after tax, an increase of £2,000 to the certificates carrying value, and an increase in deferred tax of £1,000.
- (xiii) Under IFRS 1 paragraph IG60A a transition hedge accounting adjustment has been made to reflect changes in value of underlying hedged items on the disapplication of UK GAAP to IFRS. This led to an adjustment to retained earnings of £177,000 after tax, an adjustment to the hedged item of £252,000 (increase of assets) and an increase in deferred tax of £75,000.
- (xiv) To comply with IAS 39 provisions for the impairment of loans and advances to customers have been restated to reflect a change in the basis of the calculation. The effect is to reduce the provisions by £760,000 before tax for 1 January 2004 and 31 December 2004.
- (xv) To reflect the effect of the effective interest rate methodology, an adjustment was made to retained earnings of £5.405m net of tax, and an increase to the loans and receivables of £7.872m, with a decrease of £2.331m to deferred tax.