

KAUPTHING GROUP UK LIMITED  
(FORMERLY KAUPHING SINGER & FRIEDLANDER GROUP PLC)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009



---

## Contents

---

	Page
List of Directors	2
Directors' Report	3-4
Statement of Directors' Responsibilities	5
Independent Auditor's Report	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11- 19

---

## List of Directors

---

### **Directors**

J Johannsson  
S Gudgeirsson

### **Registered Office**

43-44 New Bond Street London, W1S 2SA

### **Auditors**

Haines Watts  
Chartered Accountants  
Registered Auditor  
London

## Directors' Report

---

The directors present their annual report together with the audited Financial Statements of Kaupthing Group UK Limited (the "Company") for the year ended 31 December 2009

### PRINCIPAL ACTIVITY

The Company is an investment holding company

### BUSINESS REVIEW

During the year the company changed its name from Kaupthing Singer & Friedlander Group plc to Kaupthing Group UK Limited. The principal risks and uncertainties affecting an investment holding company are that the value of its investments may be adversely affected by a variety of factors. An event occurred when the Company's principal subsidiary, Kaupthing Singer & Friedlander Limited, was put into administration on 08 October 2008 following a prolonged period of turbulence in the banking sector. Not only has this significantly affected the value of the Company's investments (the effect on the balance sheet is shown in Note 10 to the Financial Statements), but it has also affected the Company's liquidity as most of the Company's cash, as well as the cash of its other subsidiaries, was held in accounts with Kaupthing Singer & Friedlander Limited. The administrators of Kaupthing Singer & Friedlander Limited have indicated in their progress report to 7 April 2010 there should be a minimum recovery of 65p in the £1 although the final amount could be higher or lower. For the purposes of these financial statements, the directors have applied a 65% recovery of cash held on deposit with Kaupthing Singer & Friedlander Limited. Given that the directors do not believe that the Company will have significant imminent liabilities, the directors believe that the Company will remain a going concern for the 12 months from the date of this report.

### IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The Company's immediate parent undertaking is Kaupthing Holdings UK Limited, a company incorporated and registered in England and Wales. The Company's ultimate parent undertaking is Kaupthing Bank Hf, a company incorporated and registered in Iceland.

### DIRECTORS

The names of the directors of the Company as at the date of this report appear on page 2. Each of Mr Johannsson and Mr Gudgerisson served as directors throughout the year. Messrs Burdick and Gould resigned on 31 January 2009 and Mrs Willoughby resigned 10 December 2009.

Mr Youngs resigned as secretary of the Company on 24 October 2009.

### DIRECTORS' AND OFFICERS' INSURANCE

The Company's ultimate holding company maintained an insurance policy on behalf of the Directors and officers against any liabilities incurred in the conduct of their duties for the periods from 1st May 2009 to 31st December 2009 (in each case inclusive). Investigations are currently being made by the Company with the insurers as to the form of insurance in respect of coverage and notification rights that it believes exists during the period from 1st January 2009 till 30th April 2009 (inclusive) for its Directors and officers.

### RESULTS AND DIVIDENDS

The profit after taxation for the year ended 31 December 2009 was £2,551,000 (year ended 31 December 2008: loss of £339,453,000), as set out on page 7. During 2009 no interim dividends were paid (2008: Nil). The directors do not recommend the payment of a final dividend in respect of 2009 (2008: £nil).

### FINANCIAL INSTRUMENTS / RISK MANAGEMENT

A risk assessment for the period to 31 December 2009 has been completed. Please see note 13 to the Financial Statements.

### POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations or incurred any political expenditure during the year (2008: £nil).

### DIRECTORS' INTERESTS

The directors held no beneficial interests in the capital of the Company throughout the year ended 31 December 2009.

The Company made no provision for qualifying third party indemnities during the year.

## Directors' Report (continued)

### STATEMENT OF DISCLOSURE TO THE AUDITORS

The directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

### AUDITORS

Haines Watts are deemed to be re-appointed under Section 487(2) of the Companies Act 2006

### CREDITOR PAYMENTS

For all creditors, it is Kaupthing Group UK Limited's policy to

- Agree payment terms at the commencement of business with each supplier
- Pay in accordance with contractual and other legal obligations
- Continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationships

Trade creditors days of the company at 31 December 2009 was nil (2008 nil) based on the ratio of trade creditors at the end of the year to amounts invoiced during the year by trade creditors

### BY ORDER OF THE BOARD

Director

30 September 2010

Registered Office  
43-44 New Bond Street  
London, W1S 2SA

## 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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent, and
- state that the financial statements comply with IFRSs as adopted by the European Union

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor's Report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

We have audited the financial statements of Kaupthing Group UK Limited for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income the Statement of Financial Position, the Statement of Changes in Equity and the Statement of Cash Flows the and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members as a body in accordance with Chapter 3 of Section 16 of the Companies Act 2006. 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 auditors' report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the 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

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### Qualified opinion arising from non-consolidation of group companies

The company has not produced consolidated accounts reflecting the results of its main subsidiary Kaupthing Singer & Friedlander Limited and other group companies despite the requirement for large groups to prepare them in accordance with the Companies Act 2006. Kaupthing Singer & Friedlander Limited went into administration on 8 October 2008 and no financial statements are available for that company for the year ended 31 December 2009.

Except for the necessary adjustments that would have been introduced in the financial statements to reflect the financial performance and position of the subsidiary companies of Kaupthing Group UK Limited, in our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matter prescribed by the Companies Act 2006

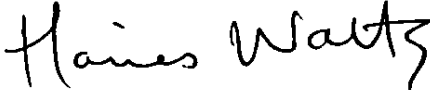
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us or
- the financial statements are not in agreement with the accounting records and returns or
- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Egmont House  
25 – 31 Tavistock Place  
London  
WC1H 9SF



Matthew Perry (Senior Statutory Auditor)  
For and behalf of  
Haines Watts  
Chartered Accountants  
& Statutory Auditors

30 September 2010

## Statement of Comprehensive Income

### Statement of Comprehensive Income for the year ended 31 December 2009

Continuing operations	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Interest income	3	–	299
Other income		–	5
<b>Operating income</b>		<b>–</b>	<b>304</b>
Administration expenses	4	(6)	(433)
Movement in Provisions	5	2,075	(6,339)
<b>Profit/(Loss) before taxation</b>		<b>2 069</b>	<b>(6,468)</b>
Income tax (expense)/credit	6	(167)	6
<b>Profit/(Loss) for the year</b>		<b>1 902</b>	<b>(6,462)</b>
<b>Other comprehensive income</b>			
Impairment of investments	8	649	(332 991)
<b>Other comprehensive income for the year, net of tax</b>		<b>649</b>	<b>(332 991)</b>
<b>Total comprehensive income for the year</b>		<b>2,551</b>	<b>(339,453)</b>

The notes on pages 11 to 19 form part of these Financial Statements



## Statement of Financial Position

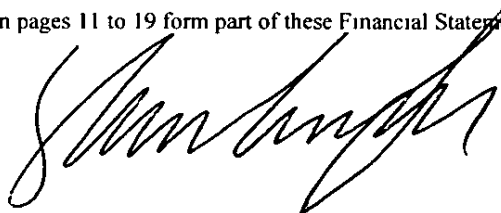
### Statement of Financial Position as at 31 December 2009

	Notes	As at 31 December 2009 £'000	As at 31 December 2008 £'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Deferred tax assets	7	–	–
Investment in subsidiaries	8	10,889	10,240
Other financial assets	9	3,329	3,698
		<u>14,218</u>	<u>13,938</u>
<b>Current assets</b>			
Cash and cash equivalents	10	1,487	50
Current tax assets		3,474	2,676
		<u>4,961</u>	<u>2,726</u>
<b>Total assets</b>		<u>19,179</u>	<u>16,664</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	8,956	8,992
<b>Total liabilities</b>		<u>8,956</u>	<u>8,992</u>
<b>NET ASSETS</b>		<u>10,223</u>	<u>7,672</u>
<b>EQUITY</b>			
Share capital	12	79,390	79,390
Share premium		144,903	144,903
Other reserves		36,201	36,201
Capital redemption reserve		4,240	4,240
Retained earnings		(254,511)	(257,062)
<b>Total equity</b>		<u>10,223</u>	<u>7,672</u>

These Financial Statements were approved by the Board of Directors on 30 September 2010 and were signed on its behalf by

DIRECTOR

The notes on pages 11 to 19 form part of these Financial Statements



## Statement of changes in equity

### Statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2008	79,390	144,903	36,201	4,240	82,391	347,125
Recognised gains and losses – 2008						
<b>Total comprehensive income for the year</b>	–	–	–	–	(339,453)	(339,453)
Total recognised gains and losses	–	–	–	–	(339,453)	(339,453)
Balance at 1 January 2009	79,390	144,903	36,201	4,240	(257,062)	7,672
Recognised gains and losses – 2009						
<b>Total comprehensive income for the year</b>	–	–	–	–	2,551	2,551
Total recognised gains and losses	–	–	–	–	2,551	2,551
Balance at 31 December 2009	79,390	144,903	36,201	4,240	(254,511)	10,223

The notes on pages 11 to 19 form part of these Financial Statements

## Statement of Cash Flows

### Statement Cash Flows for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
<b>Total comprehensive income for the year before tax</b>		2,718	(339,459)
Adjustments to reconcile total comprehensive income before income tax to cash flow (used in)/from operating activities			
Non cash movements			
- Impairments	8	(649)	332,991
Net (increase)/decrease in operating assets			
- Other assets		(596)	(1,058)
Net(decrease)/increase in operating liabilities			
- Other liabilities	11	(36)	429
<b>Net cash flow (used in)/from operating activities</b>		<u>1,437</u>	<u>(7,097)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<u>1,437</u>	<u>(7,097)</u>
Cash and cash equivalents at the beginning of year		50	7 147
<b>Cash and cash equivalents at the end of the year</b>	10	<u>1,487</u>	<u>50</u>
Cash flow from operating activities includes			
Interest received	3	-	299
Interest paid		-	-

The notes on pages 11 to 19 form part of these Financial Statements .

## Notes to Financial Statements

---

### **Note 1 Reporting entity**

Kaupthing Group UK Limited (the "Company") is a company incorporated and domiciled in England. The address of the Company's registered office is 43-44 New Bond Street, London W1S 2SA. The principal activity of the Company is to act as an investment holding company.

### **Note 2 Accounting policies**

#### **2.1 Basis of preparation**

##### **Statement of compliance**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU. EU endorsed IFRSs may differ temporarily from IFRSs as published by the International Accounting Standards Board (IASB) if new or amended IFRSs have not been endorsed by the EU. At 31 December 2009 there were no unendorsed standards effective for 31 December 2009 affecting these Financial Statements and there was no difference in application to the Company between IFRSs endorsed by the EU and IFRSs issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

The Financial Statements are drawn up in accordance with the Companies Act 2006. The Financial Statements are prepared on a going concern basis. The directors do not believe that the Company will have significant imminent liabilities and the Company will remain a going concern for the 12 months from the date of signing these Financial Statements. In this regard the directors believe that a portion of the cash of the Company which was deposited will be recovered in the administration of Kaupthing Singer & Friedlander Limited. The administrators of Kaupthing Singer & Friedlander Limited have made a public statement that the likely amount recoverable in the administration will be at least 65% recovery of cash held on deposit with Kaupthing Singer & Friedlander Limited (in administration). An initial distribution of 20p in the pound was made in July 2009, followed by second distribution of 10p in the pound was made in December 2009. The directors believe that the Company will be in a position to meet such liabilities as fall due given that the Company does not have any significant imminent liabilities.

As a result of the administration of its direct subsidiary Kaupthing Singer & Friedlander Limited the Company has not provided consolidated results.

The Financial Statements were authorised for issue by the Board of Directors of the Company on September 2010.

##### **Basis of measurement**

The Financial Statements are prepared on the historical cost basis.

##### **Functional and presentation currency**

The Financial Statements are presented in Pounds sterling, rounded to the nearest pound, which is the Company's functional currency.

#### **2.2 Significant accounting judgements and estimates**

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.

#### **2.3 Change in accounting policies**

The accounting policies adopted are consistent with those used in the previous financial year.

## Notes to Financial Statements (continued)

---

### Note 2 Accounting policies (continued)

#### 2.4 Summary of significant accounting policies

##### (1) Income

###### *a) Interest income*

Interest income is recognised in the Income Statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate

###### *b) Net financial income*

Net financial income is comprised of Dividend income. Dividend income is recognised when the right to receive payment is established

##### (2) Income tax

Income tax 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*

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

###### *Deferred tax*

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes

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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

##### (3) Investment in subsidiaries

The Company's investment in its subsidiaries is stated at the directors' valuation. At the Statement of Financial Position date an impairment review was undertaken as the recoverable amount was less than its carrying value

##### (4) Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flow consists of cash, demand deposits with the central banks and demand deposits with other credit institutions

##### (5) Defined contribution plans

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

##### (6) Dividends on shares

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

## Notes to Financial Statements (continued)

### Note 2 Accounting policies (continued)

#### (7) New standards and interpretations adopted

Certain new standards, amendments to existing standards or interpretations are mandatory for accounting periods beginning after 1 January 2009 but the Group has chosen not to adopt them early. The new standards that have been adopted by the Company are as follows:

IAS 1 (revised) 'Presentation of financial statements' a revised presentation, effective for annual periods beginning on or after 1 January 2009. These financial statements have been prepared under the revised disclosure requirements.

#### (8) New standards and interpretations not yet adopted

The following new standards, amendments to existing standards or interpretations are mandatory for the first time for the financial year ending 31 December 2009, but are not currently relevant for the Company:

IFRS 2 amendment, 'Share based payment – vesting conditions and cancellations' effective for periods beginning on or after 1 January 2009.

IFRS 7 amendment, 'Improving disclosures about financial instruments', effective for periods beginning on or after 1 January 2009, subject to EU endorsement,

IAS 23, 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009.

IAS 32, 'Puttable financial instruments and obligations arising on liquidation' effective for annual periods beginning on or after 1 January 2009,

IFRIC 9 and IAS 39, 'Embedded derivatives', effective for annual periods ending on or after 30 June 2009 subject to EU endorsement.

IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. This new standard requires a management approach to be taken to segmental reporting where information is presented on the same basis as that used for internal reporting purposes. The directors deem that there is no significant difference in the risk and reward on a geographical and business basis. The entity has reported its results on a UK basis and consequently there is no geographical or business segmental information provided.

IFRIC 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008.

IFRIC 15, 'Agreements for the construction of real estate', effective for annual periods beginning on or after 1 January 2009 and

IFRIC 16 'Hedges of a net investment in a foreign operation', effective for annual periods beginning on or after 1 October 2008.

IAS 36 'Impairment of assets – allocating goodwill to cash-generating units', effective for annual periods beginning on or after 1 January 2009.

The following new standards, amendments to existing standards or interpretations have been issued but are not effective for the financial year ending 31 December 2009 and have not been adopted early:

IFRS 2 amendment 'Share-based payment – Group cash-settled share-based payment transactions', effective for annual periods beginning on or after 1 January 2010, subject to EU endorsement.

IFRS 3 (revised), 'Business combinations' and related amendments to IAS 27 'Consolidated and separate financial statements', effective for annual periods beginning on or after 1 July 2009,

IAS 39 amendment 'Eligible hedged items', effective for annual periods beginning on or after 1 July 2009,

IFRIC 17 'Distribution of non-cash assets to owners' effective for annual periods beginning on or after 1 July 2009, subject to EU endorsement, and

IFRIC 18, 'Transfers of assets from customers' effective from 1 July 2009 subject to EU endorsement.

IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

## Notes to Financial Statements (continued)

### Note 2 Accounting policies (continued)

#### (8) New standards and interpretations not yet adopted (continued)

Revised IAS 24, 'Related party disclosures' issued in November 2009. It supersedes IAS 24 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.

It is not expected that the new standards will have a significant impact on the Company's financial statements when they are adopted.

### Note 3 Interest income

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Interest income from		
Cash balances with group companies	—	299
<b>Interest income</b>	<b>—</b>	<b>299</b>

### Note 4 Administration expenses

#### (i) Auditor's remuneration

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Auditor's remuneration is specified as follows		
Audit of company financial statements pursuant to legislation	15	15
<b>Auditor's remuneration</b>	<b>15</b>	<b>15</b>

#### (ii) Staff costs

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Salaries and related expenses are specified as follows		
Wages and salaries	4	15
Social security costs	4	12
Salary related costs	—	383
<b>Salaries and related expenses</b>	<b>8</b>	<b>410</b>

#### (iii) Directors' emoluments

On 1 January 2007, the employment contracts of all but one of the directors were transferred to Kaupthing Singer & Friedlander Limited, a subsidiary of the Company. Following the placing of Kaupthing Singer & Friedlander Limited into administration on 8 October 2008, payments to directors whose contracts were transferred on 1 January 2007 were paid out of Kaupthing Group UK Limited.

The above salaries and related expenses for the year ended 31 December 2009 were all paid to directors of the Company. The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £nil (2008: Nil). No Company pension contributions were made to money purchase schemes on their behalf (2008: £nil).

## Notes to Financial Statements (continued)

### Note 5 Movement in Provisions

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Provisions against cash and other balances with group companies	(2 075)	6 339
<b>Total Provisions</b>	<b>(2 075)</b>	<b>6,339</b>

The extent to which amounts due from Kaupthing Singer & Friedlander Limited (in administration) are recoverable is uncertain at the date of signing of these financial statements and to reflect this uncertainty the Directors have applied a recovery rate of 65% (2008 50%)

### Note 6 Income tax (expense)/credit

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Income tax credit/(expense) is specified as follows		
Current tax	(167)	36
Deferred tax	–	(30)
<b>Income tax (expense)/credit</b>	<b>(167)</b>	<b>6</b>

### Note 6 Income tax (expense)/credit (continued)

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Current tax is specified as follows		
Domestic income tax on profits for the period	2	36
Adjustment in respect of previous periods	(169)	–
<b>Current tax</b>	<b>(167)</b>	<b>36</b>

Deferred tax is specified as follows

Other temporary differences	–	(30)
<b>Deferred tax</b>	<b>–</b>	<b>(30)</b>
<b>Income tax (expense)/credit</b>	<b>(167)</b>	<b>6</b>

The tax charge for the year can be reconciled to the loss per the Income Statement as follows

Profit/(Loss) before taxation	2 069	(6,468)
Tax at the domestic income tax rate of 28% (2008 – 28%)	(579)	1 811
Under provided in previous years	(169)	–
Other permanent differences	581	(1 775)
<b>Income tax (expense)/ credit</b>	<b>(167)</b>	<b>36</b>

### Note 7 Deferred taxation

	31 December 2009 £'000	31 December 2008 £'000
At 1 January	–	30
Debit to income	–	(30)
<b>At 31 December</b>	<b>–</b>	<b>–</b>



## Notes to Financial Statements (continued)

### Note 8 Investment in subsidiaries

	31 December 2009 £'000	31 December 2008 £'000
At 1 January	343 231	343,231
Impairment against Investment in subsidiaries b/wd	(332 991)	(332,991)
Impairment reversal	649	-
<b>At 31 December</b>	<b>10 889</b>	<b>10,240</b>

The administrators of Kaupthing Singer & Friedlander Limited have made a public statement that the likely amount recoverable in the administration will be at least 65% (2008 50%). To reflect the improved recovery rate a partial reversal of the 2008 impairment has been reported in the current year.

On 8 October 2008, Kaupthing Singer & Friedlander Limited was taken into administration and Maggie Mills, Tom Burton, Alan Bloom and Patrick Brazzill of Ernst & Young, UK, were appointed as administrators. Kaupthing EDGE UK was transferred by the UK Treasury to ING Group and later the same day, the entity was put into administration on the application of the FSA. The impairment (£332m) reflects the Directors estimate of the loss to Kaupthing Group UK Limited as a result of the placing into administration of Kaupthing Singer & Friedlander Limited.

Details of the Company's main subsidiary undertakings (direct\* and indirect) at 31 December 2009 are as follows:

Name of subsidiary	Country of incorporation	Proportion of ownership 2009	2008
<i>Banking companies</i>			
Wintrust Limited *	Great Britain	100%	100%
<i>Subsidiaries placed into liquidation in 2007</i>			
Ancomass Limited *	Great Britain	100%	100%
Singer & Friedlander Holdings Limited	Great Britain	100%	100%

### Note 9 Other financial assets

	31 December 2009 £'000	31 December 2008 £'000
Other financial assets are as follows		
Amounts due from group undertakings	3 329	3,698

The amounts due from group undertakings comprises cash balances which were "frozen" following the placing of Kaupthing Singer & Friedlander Limited into administration on 08 October 2008. These balances have been reclassified from cash and cash equivalents. The amounts due represent an estimated recovery rate of 65p (2008 50p) for each £.

### Note 10 Cash and cash equivalents

	31 December 2009 £'000	31 December 2008 £'000
Cash and cash equivalents are as follows		
Other cash balances	1 487	50
<b>Cash and cash equivalents</b>	<b>1 487</b>	<b>50</b>

Cash balances with group companies are considered "frozen" and have been restated to "other financial assets" following the placing of Kaupthing Singer & Friedlander Limited into administration on 08 October 2008.

## Notes to Financial Statements (continued)

### Note 11 Trade and other payables

	31 December 2009 £'000	31 December 2008 £'000
Trade and other payables are specified as follows		
Accruals	253	289
Accounts payable	383	383
Amounts due to related parties	8 320	8 320
<b>Trade and other payables</b>	<b>8,956</b>	<b>8,992</b>

### Note 12 Share capital

	31 December 2009 £'000	31 December 2008 £'000
<b>Authorised</b>		
666,666,667 Ordinary shares of 0 135p each	90,000	90 000
<b>Issued and fully paid.</b>		
588,070,389 Ordinary shares of 0 135p each	79,390	79,390

### Note 13 Financial risk management

#### (a) Introduction and overview

The Company has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Market risk

Following the placing into Administration of Kaupthing Singer & Friedlander Limited the risks faced by the Company are no longer managed within the framework established for the Kaupthing group (the "Group")

As the risks faced by the Company are deemed not to be significant they are not actively managed

#### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations

The Company's exposure to credit risk is to its ultimate parent, Kaupthing Bank Hf, and its subsidiary Kaupthing Singer & Friedlander Limited (in administration), in the form of cash balances held by them. The Company's financial assets with Kaupthing Singer & Friedlander Limited have been impaired following the placing into Administration of this company

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities

##### (i) Management of liquidity risk

The Company does not actively manage its liquidity risk

## Notes to Financial Statements (continued)

### Note 13 Financial risk management (continued)

#### (c) Liquidity risk (continued)

##### (i) Exposure to liquidity risk

The table below summarises the remaining contractual undiscounted cash flows of the Company's financial liabilities

	Carrying amount £'000	Gross nominal inflow/ (outflow) £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000
As at 31 December 2009							
<b>Financial liabilities</b>							
Other financial liabilities	8,573	(8,573)	(8,573)	—	—	—	—
<b>Total financial liabilities</b>	<b>8,573</b>	<b>(8,573)</b>	<b>(8,573)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
As at 31 December 2008							
<b>Financial liabilities</b>							
Other financial liabilities	8,609	(8,609)	(8,609)	—	—	—	—
<b>Total financial liabilities</b>	<b>8,609</b>	<b>(8,609)</b>	<b>(8,609)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### (d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments

The Company's only exposure to market risk is from foreign exchange movements on its cash balance held with Kaupthing Bank Hf

#### (e) Fair values of financial assets and financial liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation

The Company's financial assets and financial liabilities are held on the Statement of Financial Position at their fair values

#### (f) Capital management

Capital resources are not managed and monitored at the level of the Company. Rather the Group's capital resources are managed and monitored in accordance with the regulatory capital requirements of the Group's lead regulator, the Financial Services Authority (FSA). The Group must at all times monitor and demonstrate the compliance with the relevant regulatory capital requirements of the FSA.

## Notes to Financial Statements (continued)

### Note 14 Contingent liabilities

The Company provides a guarantee on behalf of a subsidiary within the Group. The guarantee provided and the maximum potential amount of future payments which the Group could be required to make at 31 December 2009 were as follows

	31 December 2009 £000
<b>Financial Guarantee<sup>1</sup></b>	
Debenture	40,152
Interest	985
	<u>41,137</u>
<b>Security held</b>	
Value of Property	(14,950)
Cash on deposit	(13,512)
	<u>(28,462)</u>
<b>Exposure</b>	<u>(12,675)</u>

<sup>1</sup> Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are notional principal amounts and interest less value of security held against the instrument.

The amount disclosed in the above table reflects the Bank's estimated exposure under guarantee undertakings and is based on a property valuation dated 30 March 2009 and does not take into account the benefit of any rental income that is generated from the secured property. The risks and exposures arising from guarantees are captured and managed in accordance with the Company's overall credit risk management policies and procedures. The Guarantee expires in 2019.

### Note 15 Related parties

(i) Fees and income earned from subsidiaries during the year were as follows

- Interest income of £Nil (2008 £299,433)
- Dividend income of £Nil (2008 £Nil)

(ii) The Company has a £5,917,352 (2008 £7,396,689) cash balance with Kaupthing Singer & Friedlander Limited (in administration) a direct subsidiary. A provision of £2,588,841 has been raised against the cash balance (which accounts for 35% of the cash balance) held with Kaupthing Singer & Friedlander Limited (in administration).

(iii) The Company has tax balances due from Kaupthing Singer & Friedlander Limited (in administration) amounting to £5,111,019 (2008 £5,058,254). A provision of £1,675,253 has been raised against the tax balance due by Kaupthing Singer & Friedlander Limited (in administration).

(iv) The Company has intercompany balances outstanding to its subsidiaries amounting to £8,320,489 (2008 8,320,489).

### Note 16 Events after the Statement of Financial Position date

There have been no events subsequent to the Balance Sheet date which require adjustment or disclosure in the Financial Statements or notes therein.

### Note 17 Ultimate parent company

The Company's ultimate parent company is Kaupthing Bank Hf, a company resident and incorporated in Iceland. As Kaupthing Bank Hf is currently under a moratorium the results of the Company are no longer consolidated in the financial statements of the Company's parent company.