

Registered Number: 966713



# Annual report and accounts 2008





# Company information

## **Board of Directors at 20 March 2009**

Grahame Blanchard  
Andy Deller (Chief Executive Officer)  
Richard Desmond (Non Executive Director)  
Hugh Graham  
Nigel Jackson  
Paul Keay  
Patrick Lindley (Finance Director)  
Ian Lovett (Chairman)  
Mike Pitcher (Non Executive Director)  
Carroll Raphael

## **Secretary**

Patrick Lindley

## **Registered Office**

33 Jermyn Street  
London  
SW1Y 6AD  
Telephone: 020 7437 7844  
Registered Number: 966713

## **Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants  
1 Embankment Place  
London  
WC2N 6RH

# Report of the Directors

The directors submit the annual accounts of Dunbar Bank plc (“the Company”) for the year ended 31 December 2008.

## Principal activities

The principal activity of the Company throughout 2008 continued to be the provision of a range of banking and related services, including property-lending activities.

## Review of the business and future developments

Patrick Lindley succeeded Chris Gibson as the Company’s Finance Director on 1 January 2008. The Company moved into its new offices on Jermyn Street on 11 January 2008, when its new brand was launched. Grahame Blanchard, the Company’s Head of Credit, was appointed to the Board on 25 February 2008 reflecting the importance of credit, particularly in the current environment.

Building on previous developments to the Company’s core banking system, further property loans were sub-participated during the year, allowing the Company to enhance its risk management.

The UK moved into recession in 2008, with property being particularly affected. Furthermore retail depositors lost confidence in various banks, a number of which were nationalised or sold. Despite this, the Company remained profitable in 2008 and its retail deposits actually increased. We believe that this was as a result of our prudent approach to business, our traditional approach to customer service and our continued focus on our areas of expertise. Going forward, we continue to monitor our business closely in the light of the prevailing economic environment.

Future conditions in the property market represent one of the risks that the Company faces. It could impact on future business volumes, loan impairment and the value of property used as loan collateral. Details of market, liquidity and credit risks are explained in Note 21.

Increasingly Dunbar Bank has been working more closely with the other entities in the Zurich Banking group, gaining efficiencies and synergies as a result.

On 22 December 2008, the Company strengthened its capital position considerably by the issuance of £118m of Tier Two Perpetual Subordinated Debt to Zurich Bank in Dublin. No interest is payable on this instrument, which was issued at par and was fully paid up.

Given the straightforward nature of the business, the Company’s directors are of the opinion that the inclusion of key performance indicators is not necessary for an understanding of the development, performance or position of the business.

## Risk Management

The directors and senior management are committed to risk management and actively promote training and education within the company on risk and control issues. Derivative financial instruments are used to hedge interest rates, house price index and FTSE 100 index exposures arising from the issue of Guaranteed Equity Bonds (GEBs), the returns of which are linked to these indices. Further details on the risk management policies and the management of market, liquidity and credit risk are given in Note 21.

## Results and dividends

The Company’s profit for the year before taxation amounted to £16,687,000 (2007: £32,353,000), with profit after taxation amounting to £12,383,000 (2007: £22,307,000). The directors proposed, declared and paid a dividend of £23,157,000 in 2008 (2007: £18,643,000).

## Post Balance Sheet Event

On 27 January 2009, the Company issued a further £7m of ordinary shares at par to Zurich Bank in Dublin to further strengthen its Tier One capital.

## Directors and holding company

The names of the persons who were directors at any time during the year ended 31 December 2008 are set out below. Except where indicated, they served for the entire year.

Grahame Blanchard (appointed 25 February 2008)	Paul Keay
Andy Deller	Patrick Lindley (appointed 1 January 2008)
Richard Desmond	Ian Lovett
Hugh Graham	Mike Pitcher
Nigel Jackson	Carroll Raphael

The Company is a wholly owned subsidiary of Zurich Bank, a company incorporated in Ireland and is exempted under (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 from the disclosure of the directors' interests in the shares of the Company or any other body corporate within the same group.

None of the directors had a material interest in a contract of significance with the Company (or any subsidiary of Zurich Financial Services) during the year to 31 December 2008.

## Creditor payment policy

Creditors external to the Zurich Financial Services group are settled by other group companies.

## Statement of directors' responsibilities

The following statement sets out the responsibilities of the directors in relation to these financial statements. The report of the auditors, shown on pages 7 and 8, sets out their responsibilities in relation to these financial statements. The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

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

### Auditors and disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware.

The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Employee policy

The Company has adopted the group employee policies and practices of Zurich Financial Services and Zurich Bank, as appropriate.

### Auditors

The directors have adopted the Elective Regime, under Section 386 of the Companies Act 1985, for the dispensation from the annual appointment of auditors. The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

### Charitable donations

During the year the Company made charitable donations of £11,321 (2007: £3,616).

On behalf of the Board

**P.J. Lindley**

Secretary

26 March 2009

# Report of the Auditors

## Independent auditors' report to the members of Dunbar Bank plc

We have audited the financial statements of Dunbar Bank plc for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

26 March 2009

## Profit and loss account

Year ended 31 December 2008			2008	2007
	Note		£'000	£'000
Interest receivable			75,461	64,468
Interest payable			<u>(36,002)</u>	<u>(29,702)</u>
<b>Net interest income</b>			<b>39,459</b>	34,766
Fees and commissions receivable			7,683	10,786
Fees and commissions payable			<b>(666)</b>	(550)
Other operating income	2		<u>627</u>	<u>1,469</u>
<b>Total operating income</b>			<b>47,103</b>	46,471
Administration expenses	3		<b>(14,579)</b>	(13,644)
Depreciation			<b>(685)</b>	(421)
(Provision for) / write back of bad and doubtful debts	11		<u><b>(15,152)</b></u>	<u>(53)</u>
<b>Profit on ordinary activities before tax</b>	5		<b>16,687</b>	32,353
Tax on profit on ordinary activities	6		<u><b>(4,304)</b></u>	<u>(10,046)</u>
<b>Profit on ordinary activities after tax</b>			<u><b>12,383</b></u>	<u>22,307</u>

- A statement of movements on shareholders' funds is given in Note 19.
- There were no other recognised gains or losses made by the Company during the year ended 31 December 2008 and year ended 31 December 2007 other than the profits for those years.
- There are no material differences between profit on ordinary activities before taxation stated above and its historical cost equivalents.
- The accompanying notes are an integral part of the financial statements.

# Balance sheet

At 31 December 2008

	Note	2008 £'000	2007 £'000
<b>Assets</b>			
Cash in hand		-	33
Loans and advances to banks	9	10,663	535
Loans and advances to customers	10	895,371	739,629
Tangible fixed assets	13	3,632	2,795
Other assets	14	3,876	4,846
Prepayments and accrued income		1,382	1,520
<b>Total assets</b>		<b>914,924</b>	<b>749,358</b>
<b>Liabilities and shareholders' funds</b>			
Deposits by banks	15	174,819	144,337
Customer accounts	16	466,670	435,858
Other liabilities	17	6,426	11,134
Provisions for liabilities and charges	18	377	350
Accruals and deferred income		16,603	14,875
<b>Total liabilities</b>		<b>664,895</b>	<b>606,554</b>
Called up share capital	19	89,000	89,000
Profit and loss account		43,029	53,804
Tier 2 perpetual subordinated debt		118,000	-
Equity shareholders' funds	19	250,029	142,804
<b>Total liabilities and shareholders' funds</b>		<b>914,924</b>	<b>749,358</b>
<b>Memorandum items</b>			
Contingent liabilities	20	8,249	747
Undrawn loan commitments		204,928	202,883

The accounts were approved by the Board of Directors on 26 March 2009.

**A.M. Deller**

**P.J. Lindley**

Directors

# Notes to the accounts

## 1. Accounting policies

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards, the special provisions of Part VII of the United Kingdom Companies Act 1985 relating to banking groups and banking companies respectively and the Statements of Recommended Practice issued by the British Bankers' Association. No segmental analysis has been provided as the directors regard the business as a single segment, being banking and related services principally in the United Kingdom.

(i) **Interest**

Interest receivable and interest payable are accrued on a day to day basis.

(ii) **Loan fees**

Fees received in respect of facilities granted to customers for loans and overdrafts are credited to the profit and loss account in full only when the facility is drawn down.

(iii) **Redemption fees**

Fees received in respect of facilities granted to customers for loans and overdrafts are credited to the profit and loss account on a receipts basis.

(iv) **Provisions for bad and doubtful debts**

Specific provisions are made against loans on a case by case basis to cover anticipated losses in respect of all accounts where a probable loss has been identified due to impairment. Anticipated losses on such accounts are calculated as the difference between the current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs of disposal and sale.

Bad debts are written off, and the relevant specific provision released, when the Board believes that no further recovery will be made. Where an amount, relating to any loan that has previously been written off, is subsequently recovered, it is taken back as a credit to the profit and loss account in the accounting year in which it is recovered.

In addition, "Incurred But Not Recorded" provisions are made on a portfolio basis to reflect the probability that other loans, although not specifically identified, may also be impaired at the balance sheet date, with the result that the amount advanced may not be recovered in full. Such provisions are based on the directors' view of the portfolio (excluding cases already specifically provided for) according to risk profiles reflecting product characteristics, borrower credit-worthiness and loan-to-value ratios, and applying estimated rates of loss based on historical experience and anticipated market conditions.

(v) **Derivative financial instruments**

The Company does not permit trading transactions to be undertaken in off balance sheet financial instruments or derivatives other than for customer facilitation purposes, as defined by Financial Reporting Standard 13. Transactions of this nature are all fully hedged. All other off balance sheet financial instruments and derivatives are entered into to hedge the Company's financial obligations. Transactions designated as hedging transactions are treated in accordance with the accounting treatment of the items being hedged.

(vi) **Derivative financial instruments fees**

Derivative financial instrument fees are amortised over the life of the financial instruments.

(vii) **Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Translation differences are reflected in the profit and loss account. Transactions during the year in foreign currencies are translated at the rate ruling at the transaction date.

(viii) **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis at rates which will write off these assets over their expected useful lives. Any permanent diminution in the value of tangible assets is charged to the profit and loss account where appropriate. The estimated useful life of fixed assets by reference to which depreciation has been calculated is as follows:

Computer Software	5 years
Laptops	3 years
Office Equipment	7 years

All the Office Equipment held on the Company's balance sheet relates to the fit out of its new premises in Jermyn Street. Previously, the Company has estimated the useful economic life of Office Equipment to be 5 years. However, it estimates that this office equipment will have a life of at least 7 years and so the Company has adjusted its depreciation rate accordingly. There was no impact on the opening balance as depreciation on these assets only commenced when the Company commenced its occupation of the premises in January 2008

(ix) **Pension costs**

Pension costs are charged to the profit and loss account in line with the contributions made to the Company's pension schemes as disclosed in Note 26.

(x) **Deferred tax**

Deferred tax is provided in full in respect of timing differences that have arisen but not reversed at the balance sheet date. It is not provided on permanent differences. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax balances are not discounted.

(xi) **Group Accounts**

The company is exempt from the preparation of group accounts by virtue of Section 228 of the Companies Act 1985 as it is a wholly owned subsidiary of a company established under the laws of an EC member state and which itself prepares consolidated accounts.

## 2. Other operating income

Other operating income can be analysed as follows:

Sundry Income  
Foreign exchange  
Derivative financial instrument fees

**2008**  
**£'000**

**201**  
**(4)**  
**430**  

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**627**  

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2007  
£'000

200  
1  
1,268  

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1,469  

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## 3. Administration expenses

Staff costs:

- wages and salaries  
- social security costs

Other administration expenses

**2008**  
**£'000**

**6,631**  
**742**  
**7,206**  

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**14,579**  

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2007  
£'000

7,812  
882  
4,950  

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13,644  

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The average number of persons employed by the Company during the year was 79 (2007: 72)

### Other administration expenses - FSCS fee

Other administration expenses include a provision of £1.6m which is the Company's estimate of the levies that will be charged by the UK Financial Services Compensation Scheme (FSCS). The FSCS provides compensation to certain customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

During the year, customers of a number of institutions (including Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Limited, Landsbanki 'Icesave', and London Scottish Bank plc) became eligible for payments under the scheme. In order to meet its obligations to the depositors of these institutions, the FSCS borrowed £19.7 billion from HM Treasury on an interest only basis until September 2011. These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the above named institutions.

The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs. Individual institutions make payments based on their market participation (in the case of deposits, the proportion that their protected deposits represent of total market protected deposits) at 31st December each year.

The Bank has provided for the present value of its estimated future liabilities in respect of these events. The key assumptions used to calculate the provision include:

- That the FSCS will recover 95% of the assets of the banks in question evenly over the next 6 years;
- That the FSCS will require the balance to be met by scheme members evenly over the next 10 years;
- That the Bank's share of the UK protected retail deposits market will remain constant;

- That the levies charged by the FSCS on those firms ceasing to be part of the scheme will cover the present value of their liabilities under it and so not affect the position of the Bank;
- That future interest payable by the FSCS will be 3%, which is also the rate that the Bank has used to discount its future liabilities to the scheme.

Were the FSCS unable to recover any of the amounts owed, the Bank's contingent liability would be £7.72m discounted or £9.61m undiscounted.

#### 4. Emoluments of directors

	<b>2008</b> <b>£'000</b>	2007 £'000
Emoluments of highest paid director	<b>416</b>	349
Emoluments of other directors	<b>1,311</b>	1,120
Compensation in respect of loss of office	<u>-</u>	<u>315</u>
Total aggregate emoluments excluding pension contributions	<b><u>1,727</u></b>	<b><u>1,784</u></b>

Directors' emoluments include performance related pay, benefits and bonuses.

The executive directors are members of the Zurich Financial Services UK Pension Scheme. The value of the highest paid director's accrued pension benefits at 31 December 2008 was £9,089 (2007: £6,245).

Fees of £38,250 (2007: £39,000) were paid to non-executive directors in the year.

#### 5. Profit on ordinary activities before tax

Profit on ordinary activities is stated after auditors' remuneration of £90,000 (2007: £111,300).

Auditors' remuneration for other services for the Company was £Nil (2007: £60,000).

## 6. Tax on profit on ordinary activities

	<b>2008</b>	2007
	<b>£'000</b>	£'000
UK corporation tax at the rate of 28.5% (2007: 30%)	<b>6,071</b>	10,362
Over accrued in previous years	<b>(487)</b>	-
Current tax charge for the year	<b>5,584</b>	10,362
Deferred tax (credit) / charge	<b>(1,280)</b>	(316)
Tax on profit on ordinary activities	<b><u>4,304</u></b>	<u>10,046</u>
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (28.5%). The differences are explained below:		
	<b>2008</b>	2007
	<b>£'000</b>	£'000
Profit on ordinary activities before tax	<b>16,687</b>	32,353
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	<b>4,756</b>	9,706
Effects of:		
• Expenses not deductible for tax purposes	<b>90</b>	122
• Capital allowances for period less than / in (excess of) depreciation	<b>24</b>	(15)
• Other short term timing differences	<b>1,201</b>	549
• Adjustments to tax in respect of prior periods	<b>-</b>	-
Current tax charge for the year	<b><u>6,071</u></b>	<u>10,362</u>

## 7. Dividends

	<b>2008</b>	2007
	<b>£'000</b>	£'000
<b>Dividends proposed, declared and paid</b>		
26.02p per ordinary share of £1 paid (2007: 20.95p)	<b><u>23,157</u></b>	<u>18,643</u>

## 8. Assets and liabilities denominated in foreign currency

Assets denominated in currencies other than sterling	<b>2008</b> <b>£'000</b> <u>27</u>	2007 £'000 <u>20</u>
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The principal foreign currency to which the above assets relate is US dollar.

## 9. Loans and advances to banks

With agreed maturity dates or periods of notice, by remaining maturity: <ul style="list-style-type: none"> <li>• 1 year or less but over 3 months</li> <li>• 3 months or less</li> <li>• on demand</li> </ul>	<b>2008</b> <b>£'000</b>  104 - <u>10,559</u>  <u>10,663</u>	2007 £'000  - - <u>535</u>  <u>535</u>
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## 10. Loans and advances to customers

With agreed maturity dates or periods of notice, by remaining maturity: <ul style="list-style-type: none"> <li>• 5 years or less but over 1 year</li> <li>• 1 year or less but over 3 months</li> <li>• 3 months or less</li> </ul> Provisions for bad and doubtful debts	<b>2008</b> <b>£'000</b>  52,648 378,566 481,399  <u>(17,242)</u>  <u>895,371</u>	2007 £'000  107,055 292,161 343,163  <u>(2,750)</u>  <u>739,629</u>
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## 11. Provisions for / (write back of) bad and doubtful debts

	<b>Specific £'000</b>	<b>IBNR £'000</b>	<b>Total £'000</b>
At 1 January 2008 and at 31 December 2007	900	1,850	<b>2,750</b>
Additional provisions made during the year	10,461	4,742	<b>15,203</b>
Released to P&L	(90)	-	<b>(90)</b>
Provisions written off during the year	<u>(621)</u>	<u>-</u>	<u><b>(621)</b></u>
At 31 December 2008	<u>10,650</u>	<u>6,592</u>	<u><b>17,242</b></u>
Gross charge against profit	<b>15,139</b>		
Debts charged directly against profit not provided for	<u><b>13</b></u>		
Net charge to profit	<u><b>15,152</b></u>		

## 12. Investment in subsidiary undertakings

The Company continues to have a £2 investment in Dunbar Nominees Limited, which is a wholly owned subsidiary incorporated in England. This company was a non trading company throughout both 2007 and 2008.

### 13. Tangible Fixed Assets

	<b>Computer Software £'000</b>	<b>Laptops £'000</b>	<b>Office Equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 31 December 2007	2,232	-	1,145	3,377
Additions	1,537	25		1,562
Disposals	<u>-</u>	<u>-</u>	<u>(40)</u>	<u>(40)</u>
<b>At 31 December 2008</b>	<u>3,769</u>	<u>25</u>	<u>1,105</u>	<u>4,899</u>
<b>Accumulated depreciation</b>				
At 31 December 2007	(582)	-	-	(582)
Charge for year	<u>(526)</u>	<u>(1)</u>	<u>(158)</u>	<u>(685)</u>
<b>At 31 December 2008</b>	<u>(1,108)</u>	<u>(1)</u>	<u>(158)</u>	<u>(1,267)</u>
<b>Net book value</b>				
<b>At 31 December 2008</b>	<u><b>2,661</b></u>	<u><b>24</b></u>	<u><b>947</b></u>	<u><b>3,632</b></u>
<b>At 31 December 2007</b>	<u>1,650</u>	<u>-</u>	<u>1,145</u>	<u>2,795</u>

## 14. Other assets

	<b>2008</b> <b>£'000</b>	2007 £'000
Amounts due from group undertakings	<b>1,046</b>	2,524
Deferred tax asset	<b>2,487</b>	1,207
Other assets	<b>343</b>	1,115
	<b><u>3,876</u></b>	<u>4,846</u>

Included within other assets is a deferred tax asset:

	<b>Deferred Tax</b>	
	<b>2008</b> <b>£'000</b>	2007 £'000
At 1 January	<b>1,207</b>	891
Over accrued in previous years	-	(147)
Impact of change in UK tax rate	-	87
Origination and reversal of timing differences	<b>1,280</b>	376
At 31 December	<b><u>2,487</u></b>	<u>1,207</u>

The deferred tax asset comprised:

	<b>2008</b> <b>£'000</b>	2007 £'000
Accelerated capital allowances	<b>(117)</b>	(130)
General provision disallowed	<b>1,846</b>	560
Other short term differences	<b>758</b>	777
Deferred tax asset	<b><u>2,487</u></b>	<u>1,207</u>

## 15. Deposits by banks

	<b>2008</b> <b>£'000</b>	2007 £'000
With agreed maturity dates or periods of notice, by remaining maturity:		
• 5 years or less but over 1 year	<b>33,052</b>	46,469
• 1 year or less but over 3 months	<b>50,107</b>	13,422
• 3 months or less but not repayable on demand	<b>89,737</b>	64,912
• repayable on demand	<b>1,923</b>	19,534
	<b><u>174,819</u></b>	<b><u>144,337</u></b>

Included in the above amounts for the Company at 31 December 2008 were deposits of £122,895,980 (2007: £124,803,490) from Zurich Bank

## 16. Customer accounts

	<b>2008</b> <b>£'000</b>	2007 £'000
With agreed maturity dates or periods of notice, by remaining maturity:		
• Greater than 5 years	<b>4,028</b>	-
• 5 years or less but over 1 year	<b>72,411</b>	25,869
• 1 year or less but over 3 months	<b>27,725</b>	320
• 3 months or less but not repayable on demand	<b>247,241</b>	265,641
• repayable on demand	<b>115,265</b>	144,028
	<b><u>466,670</u></b>	<b><u>435,858</u></b>

Customer accounts with agreed maturity dates of greater than 5 years are due to mature in June 2014. These comprise guaranteed equity bonds the returns of which are linked to movements in the FTSE 100 index. The Company uses equity related contracts to hedge against this financial obligation, as per note 22 Derivatives and other financial instruments.

## 17. Other liabilities

	<b>2008</b> <b>£'000</b>	2007 £'000
Taxation and Social Security	<b>2,146</b>	6,163
Amounts due to group undertakings	<b>2,991</b>	2,288
Other creditors	<b>1,289</b>	2,683
	<b><u>6,426</u></b>	<b><u>11,134</u></b>

## 18. Provisions for liabilities and charges

<b>Litigation</b>	<b>2008</b> <b>£'000</b>	2007 £'000
At 1 January	<b>350</b>	350
Additions	<u>27</u>	<u>-</u>
At 31 December	<b><u>377</u></b>	<u>350</u>

Provisions for litigation relate to legal costs the Company believes it will incur in respect of previously impaired loans. £327k of this provision was utilised in March 2009 and the remaining provision of £50k is expected to be utilised by the end of 2009.

## 19. Shareholders' funds

<b>Share Capital</b>	<b>2008</b> <b>£'000</b>	2007 £'000
Ordinary shares of £1 each Authorised (140 million shares)	<u>140,000</u>	<u>140,000</u>
Allotted, called up and fully paid (89 million shares)	<u>89,000</u>	<u>89,000</u>
<b>Shareholders' Funds</b>	<b>2008</b> <b>£'000</b>	2007 £'000
At 1 January 2008	<b>142,804</b>	139,140
Company profit on ordinary activities after tax	<b>12,382</b>	22,307
Dividend declared and paid	<b>(23,157)</b>	(18,643)
Retained profit / (loss)	<b>(10,775)</b>	3,664
Tier 2 perpetual subordinated debt	<b>118,000</b>	<u>-</u>
At 31 December 2008	<b><u>250,029</u></b>	<u>142,804</u>

A subordinated loan of £118,000,000 was advanced by Zurich Bank, Dunbar Bank's immediate holding company, on 23 December 2008. The loan was unsecured, it has no fixed redemption date and is interest free.

## 20. Contingent Liabilities

### **Building Guarantee**

The National House Building Council (NHBC) provides a guarantee to purchasers of new homes that certain structural problems emerging within the first 10 years will be rectified. However, for the first two years of the guarantee, the NHBC does not wish to carry all the risk and so will seek a guarantee or warranty from the developer or bonds from financial institutions such as the Company in circumstances where the Company has provided a loan to the developer in respect to the property concerned.

The contingent liability relates to the possibility that the Company's clients will default on their obligations, consequently the bond provided by the Company is used to settle the liability, for which the Company's clients have provided collateral in full. The aggregate value of the bonds was disclosed under the memorandum items of the balance sheet.

### **FSCS fee**

Where the FSCS is unable to recover any of the amounts owed by the clients of a number of failed institutions, the Bank's contingent liability would be £7.72m discounted or £9.61m undiscounted. For more details, please refer to Note 3, Administration Expenses (above).

## 21. Asset / Liability Management and Market Risk

The The Balance Sheet and Risk Committee and the Credit Committee are charged with managing the various risk exposures that the Company is exposed to.

### **Market Risk**

Market risk is the risk of possible losses arising due to unfavourable movements in interest rates, foreign exchange rates and market prices. The Company is exposed to market risk through its residential and commercial property development loan book. Although the Company's exposure to market risk is limited, it is constantly monitored by senior management through a segmental analysis of the loan book.

### **Liquidity Risk**

Liquidity risk is the risk of not being able to sustain a reduction in funding or to finance asset expansion. Poor liquidity can have a negative effect on profitability and in extreme cases can result in an institution's insolvency. Potential cash flow mismatches are monitored daily by the treasury department and liquidity is constantly under review by senior management. Undrawn committed facilities are in place to maintain an adequate level of liquidity.

### **Credit Risk**

The Company manages credit risk through its Balance Sheet and Risk Committee and its Credit Committee. The Balance Sheet and Risk Committee's Terms of Reference and the Company's Lending Policy are approved at least annually by the Board.

## 22. Derivatives and other financial instruments

The Company does not hold derivatives for trading purposes. Those held for non-trading purposes are entered into either for customer facilitation or to enable the Company to hedge its financial obligations.

Interest rate related contracts, including caps and swaps, are provided to customers to enable them to obtain protection from adverse movements in interest rates. Market risk is eliminated by hedging potential liabilities with financial institution counterparties, the counterparty credit risk exposure to whom (including that for equity related contracts as noted below) is subject to limits set by the Board of Directors commensurate with their financial standing.

Equity related contracts, including guaranteed equity bonds, are used to ensure that the Company can fully meet its obligations to customers with deposits and loan facilities, the returns of which are linked to the stock market movements, the FTSE 100, Halifax house price indices and green index. These are also used to hedge the obligations relating to certain deposits with equity related returns. The Company has no material currency risks.

Equity related contracts are recognised in the financial statements as interest payable or accrued.

## Maturity analysis and replacement costs of derivative financial instruments

The principal amounts of instruments not included on the Company's balance sheet at 31 December 2008 and 31 December 2007 are set out below. Also shown is the replacement cost of these instruments which represents their positive fair value.

2008	1 year or less		5 years or less but over 1 year		Over 5 years		Total	
	Notional Principal	Replacement Cost	Notional Principal	Replacement Cost	Notional Principal	Replacement Cost	Notional Principal	Replacement Cost
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Interest rate related contracts</b>								
Financial institutions	245,100	2	158,000	42	-	-	403,100	44
Non financial institutions	4,125	-	2,000	-	-	-	6,125	-
<b>Equity related contracts</b>								
Financial institutions	18,050	274	315,469	4,468	32,635	268	366,154	5,010
<b>Total</b>	<b>267,275</b>	<b>276</b>	<b>475,469</b>	<b>4,510</b>	<b>32,635</b>	<b>268</b>	<b>775,379</b>	<b>5,054</b>
2007	1 year or less		5 years or less but over 1 year		Over 5 years		Total	
	Notional Principal	Replacement Cost	Notional Principal	Replacement Cost	Notional Principal	Replacement Cost	Notional Principal	Replacement Cost
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Interest rate related contracts</b>								
Financial institutions	15,927	7	403,100	10	-	-	419,027	17
Non financial institutions	4,315	15	6,125	-	-	-	10,440	15
<b>Equity related contracts</b>								
Financial institutions	37,480	4,486	196,484	14,202	-	-	233,964	18,688
<b>Total</b>	<b>57,722</b>	<b>4,508</b>	<b>605,709</b>	<b>14,212</b>	<b>-</b>	<b>-</b>	<b>663,431</b>	<b>18,720</b>

### Fair value of financial derivatives

Set out below is a comparison by category of book values and fair values of all of the Company's derivatives as at 31 December 2008 and 31 December 2007.

2008	Non-trading fair value £'000	Non-trading book value £'000
<b>Assets</b>		
Interest rate related contracts	44	-
Equity related contracts *	1,391	49
	<u>1,435</u>	<u>49</u>
<b>Liabilities</b>		
Interest rate related contracts	6	-
Equity related contracts *	5,395	431
	<u>5,401</u>	<u>431</u>
2007	Non-trading fair value £'000	Non-trading book value £'000
<b>Assets</b>		
Interest rate related contracts	32	-
Equity related contracts	-	-
	<u>32</u>	<u>-</u>
<b>Liabilities</b>		
Interest rate related contracts	21	-
Equity related contracts	(16,335)	571
	<u>(16,314)</u>	<u>571</u>

Fair values of the non-trading derivatives have been calculated on the basis of market values as at 31 December 2008 and 31 December 2007.

\* The book value represents the interest receivable or payable on these contracts and is shown as an asset or a liability in the balance sheet under UK GAAP, however the fair value is not reported on the balance sheet.

## Hedging

The tables below summarise the unrecognised gains and losses on hedges at 31 December 2008 and 31 December 2007 and the movements therein during the year pending their recognition in the profit and loss account.

2008	Gains	Losses	Total net gains/(losses)
	£'000	£'000	£'000
Unrecognised gains and losses on hedges at 1 January 2008	19,143	(2,237)	16,906
Of which recognised in the year to 31 December 2008	-	-	-
Gains and losses arising before 1 January 2008 that were not recognised in the year to 31 December 2008	19,143	(2,237)	16,906
Gains and losses arising in the year to 31 December 2008 that were not recognised in that year	(14,021)	(6,507)	(20,528)
Unrecognised gains and losses on hedges at 31 December 2008	5,122	(8,744)	(3,622)
Of which expected to be recognised in the year to 31 December 2009	303	(983)	(680)
<b>2007</b>	<b>Gains</b>	<b>Losses</b>	<b>Total net gains/(losses)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Unrecognised gains and losses on hedges at 1 January 2007	27,984	(6,072)	21,912
Of which recognised in the year to 31 December 2007	(18,492)	-	(18,492)
Gains and losses arising before 1 January 2007 that were not recognised in the year to 31 December 2007	9,492	(6,072)	3,420
Gains and losses arising in the year to 31 December 2007 that were not recognised in that year	9,651	3,835	13,486
Unrecognised gains and losses on hedges at 31 December 2007	19,143	(2,237)	16,906
Of which expected to be recognised in the year to 31 December 2008	4,585	27	4,612

## 23. Interest rate sensitivity gap analysis

The Company aims to minimise its exposure to adverse interest rate movements by controlled matching of the dates on which the financial instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates as far as it is practicable to do so. The tables below summarise the Company's non-trading book as at 31 December 2008 and 31 December 2007. Items are allocated to time bands by reference to the earlier of the next contractual interest re-pricing and the maturity date.

<b>2008</b>	<b>Not more than three months</b>	<b>More than three months but not more than six months</b>	<b>More than six months but not more than one year</b>	<b>More than one year but not more than five years</b>	<b>More than five years</b>	<b>Non-interest bearing</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>							
Cash in Bank	-	-	-	-	-	-	-
Loans and advances to banks	10,633	-	-	-	-	-	<b>10,663</b>
Loans and advances to customers	903,393	-	-	-	-	-	<b>903,393</b>
Other assets	-	-	-	-	-	8,578	<b>8,578</b>
<b>Total assets</b>	<b>914,056</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,578</b>	<b>922,634</b>
<b>Liabilities</b>							
Deposits by banks	174,819	-	-	-	-	-	<b>174,819</b>
Customer accounts	440,991	25,679	-	-	-	-	<b>466,670</b>
Subordinated liabilities	-	-	-	-	-	118,000	<b>118,000</b>
Other liabilities	-	-	-	-	-	26,070	<b>26,070</b>
Shareholders funds	-	-	-	-	-	137,075	<b>137,075</b>
<b>Total liabilities</b>	<b>615,810</b>	<b>25,679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>281,145</b>	<b>922,634</b>
<b>Net Balance Sheet Position</b>	<b>298,246</b>	<b>(25,679)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(272,567)</b>	<b>-</b>
Off balance sheet items	-	-	-	-	-	-	-
<b>Interest rate sensitivity gap</b>	<b>298,246</b>	<b>(25,679)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(272,567)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>298,246</b>	<b>272,567</b>	<b>272,567</b>	<b>272,567</b>	<b>272,567</b>	<b>-</b>	<b>-</b>

2007	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Cash in Bank	-	-	-	-	-	33	<b>33</b>
Loans and advances to banks	535	-	-	-	-	-	<b>535</b>
Loans and advances to customers	739,629	-	-	-	-	-	<b>739,629</b>
Other assets	-	-	-	-	-	9,161	<b>9,161</b>
Total assets	<u>740,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,194</u>	<b><u>749,358</u></b>
<b>Liabilities</b>							
Deposits by banks	144,337	-	-	-	-	-	<b>144,337</b>
Customer accounts	435,538	320	-	-	-	-	<b>435,858</b>
Other liabilities	-	-	-	-	-	26,359	<b>26,359</b>
Shareholders funds	-	-	-	-	-	142,804	<b>142,804</b>
Total liabilities	<u>579,875</u>	<u>320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,163</u>	<b><u>749,358</u></b>
<b>Net Balance Sheet Position</b>	160,289	(320)	-	-	-	(159,969)	-
Off balance sheet items	-	-	-	-	-	-	-
<b>Interest rate sensitivity gap</b>	160,289	-	-	-	-	(159,969)	-
<b>Cumulative gap</b>	160,289	159,969	159,969	159,969	159,969	-	-

A positive interest rate sensitivity gap exists when more assets than liabilities re-price during a given period. A positive gap position tends to benefit net interest income in a rising interest environment, although the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within re-pricing periods. Conversely, a negative interest rate sensitivity gap exists when more liabilities than assets re-price during a given period.

All interest rates of off balance sheet items are reset within 3 months.

The above tables exclude certain interest rate caps that the Company has bought to hedge its cashflows in the event of extreme increases in interest rates. The circumstances under which these caps would be exercised are considered to be remote.

## 24. Cash flow statement

The Company is exempted from the requirement to prepare a cash flow statement under Financial Reporting Standard 1 (revised) – Cash Flow Statements, as a wholly owned subsidiary of Zurich Financial Services. A cash flow statement is included in the financial statements of Zurich Financial Services, which are publicly available.

## 25. Disclosure of related party transactions

Banks are obliged by law to observe a strict duty of confidentiality in respect of their customers' affairs. This is recognised by Financial Reporting Standard 8 whereby certain transactions, including bank deposits, may be exempted from disclosure. Such transactions by directors with the Company are therefore not disclosed. Other than those exempted transactions, no directors undertook transactions with the Company that require disclosure.

As permitted by Financial Reporting Standard 8, any transactions with other members at least 90% owned by Zurich Bank have not been separately stated as it prepares consolidated accounts.

## 26. Pension costs

Employees of the Company are members of two funded defined benefit schemes operated by Zurich Financial Services (UKISA) Limited. The principal scheme is the Zurich Financial Services UK Pension Scheme. The last actuarial valuation of this scheme, at 30 June 2007 and which was carried out by qualified independent actuaries, identified a deficit of £40m. An interim valuation was carried out in 2008 which identified a deficit of £293m. It is not possible to identify the Company's share of the underlying assets and liabilities on a consistent and reasonable basis, and so the Company has accounted for the scheme as a defined contribution scheme. Contributions by the Company to the principal scheme in the period were £826,634 (2007: £801,000), being 20% of pensionable salary.

Details of the two defined benefit schemes and the disclosures required by Financial Reporting Standard 17 appear in the accounts of both Zurich Financial Services (UKISA) Limited and Zurich Employment Services Limited.

## 27. Ultimate holding company and controlling party

The ultimate holding company and controlling party at 31 December 2008 was Zurich Financial Services, which is a company incorporated in Switzerland. Zurich Financial Services is also the holding company of the largest group of companies for which group accounts are prepared, and copies of its group accounts can be obtained from The Secretary, Zurich Financial Services, Mythenquai 2, 8022 Zurich, Switzerland.

Zurich Bank is the holding company of the smallest group of companies of which the Company is a wholly owned subsidiary and for which group accounts are drawn up. Copies of its group accounts can be obtained from The Secretary, Zurich Bank, 3rd Floor, La Touche House, IFSC, Dublin 1, Ireland.

## 28. Post Balance Sheet events

On 27 January 2009, the Bank issued a further £7m of ordinary shares at par to Zurich Bank in Dublin to further strengthen its Tier One capital.

Dunbar Bank plc - part of Zurich Banking and a member of the Zurich Financial Services group.  
Registered in England: 966713. Registered office: 33 Jermyn Street, London SW1Y 6AD.  
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Telephone calls may be recorded and monitored to check we've acted on your instructions and we're maintaining a quality service.