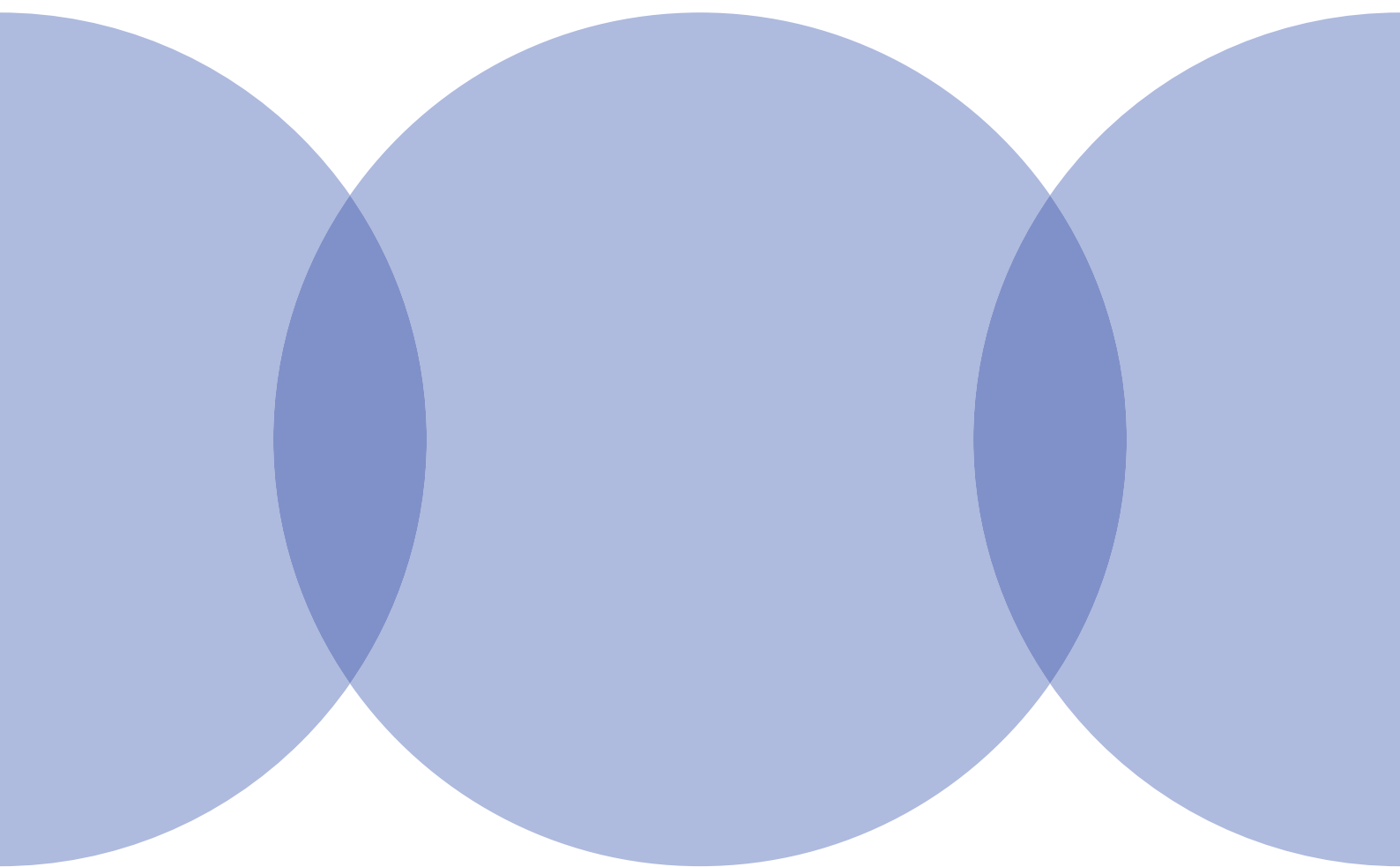


Zurich Bank Group Consolidated financial statements

31 December 2009



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Directors and other information

Board of directors at 25 March 2010

Name

G Dempsey
C Holmes
A Scully
M Scheiner
P Wauthier (Non-Executive)
N Bullman (Non-Executive and member of Audit Committee)
J Cunningham (Non-Executive)
M Pitcher (Non-Executive and member of Audit Committee)

Registered office

Greg Dempsey
Zurich Bank
La Touche House
IFSC
Dublin 1

Solicitors

McCann FitzGerald
Riverside One
Sir John Rogerson's Quay
Dublin 2

Auditors

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin 1

Bankers

Allied Irish Banks, plc
Citibank N.A

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2009.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements of the Company and Group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS and the European Communities (Credit Institutions : Accounts) Regulations, 1992.

Irish company law requires the directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and 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 estimates that are reasonable and prudent;
- state that the Financial Statements comply with IFRS;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements are prepared in accordance with IFRS as adopted by the European Union, with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities and review of the business

In 2009 Zurich Bank was involved in three principal lines of business. Firstly, it is engaged in property related lending in Ireland and the UK, focusing on existing business and that of Dunbar Bank, its subsidiary in the UK. Total property loans for the company as at 31 December 2009 amounted to £615m (2008:£543m). A decision to cease new property lending activities within Ireland was taken in 2009 with the focus switching to management of the existing portfolio.

The second line of business is the provision of loans to businesses and individuals to facilitate the financing of their insurance premiums, which amounted to £15m (2008: £1m) at 31 December 2009. This line of business continues to offer opportunities for growth. Zurich Bank holds a 26.38% stake in a UK based company, Tactica Premium Finance Limited.

Directors' Report (continued)

The third line of business is the Zurich Property Deposit Guarantee, which involves the provision of property deposit guarantees to property developers as a substitute for customers placing cash deposits. Deposit Guarantees in issue at 31 December 2009 amounted to £ 2.8m (2008: £3.3m) all relating to UK properties.

Dunbar Bank plc provides banking services including property lending activities, deposit taking and the issuance of investment products, such as Guaranteed Equity Bonds. The total Dunbar Bank plc loan book as at 31 December 2009 was £945m (2008: £913m).

The group also operates through two other subsidiaries. Zurich Bank International, based in the Isle of Man, is engaged in providing a range of banking services which are directly aimed at the expatriate market. Furthermore, the company provides loans to businesses and individuals to facilitate the financing of their insurance premiums. This form of lending amounted to £15m at 31 December 2009 (2008: £20m).

Zurich Trust Limited, based in Jersey is involved in the provision of trustee and management services. This company has a single subsidiary, Zurich Fund Management Services Limited, also Jersey based, which provides fund administration services to clients of the Group.

In common with the wider economy, the decline in property prices and the lower levels of activity have adversely affected the markets in which the Group operates. In light of the prevailing economic environment and the decline in property value, in particular in Ireland, the Group undertook a detailed review of its property loan portfolios during 2009. This review involved the use of professional valuers providing written valuations and the use of management's knowledge and expertise of local markets and their individual customer's circumstances. Resulting from this review the group incurred a loss after tax of £111.1m (2008: profit of £11.4m) on a consolidated basis, after taking provisions against loans of £140.4m (2008: £22.7m).

The setting of provisions by its very nature is subjective, this subjectivity is compounded by the general uncertainty regarding the economic environment and when the outlook for property values will improve. These uncertainties mean it is inherently very difficult to quantify the correct level of loan loss provisions to be provided. Management believe, following the substantial increase in provisions in 2009 to £158.5m (2008 £25.3m), that the level of provisions is within an acceptable range and accurately reflects the current condition of the loan book. However, management also recognises the difficulties it and the wider banking industry has in setting provisions, resulting in the possibility that the quantum of loan loss provisions within the group may ultimately be higher than currently reported.

Future developments in the business

In relation to its property related lending activities the Group will continue to support its existing customers and to focus on the management of its existing portfolio. The Group is considering its options in relation to Dunbar Bank. This may or may not involve a sale of the business and no decision has been taken in this regard. The Group has undertaken stress testing for much of the loan book on an individual loan by loan basis and has a capital plan in place with its parent to ensure that the Group has, at all times, sufficient capital. Management has also put in place arrangements to ensure the Group has liquidity well in excess of its regulatory requirements.

Directors' Report (continued)

Statement of Internal Controls

The Group does not have a stock exchange listing and thus is not required to present a Corporate Governance Statement. However, in accordance with best practice, the Board would like to provide a statement on the Group's internal controls.

The directors acknowledge their responsibility for the Group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risk, thus they can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal controls includes a clearly defined organisation structure, defined reporting lines and authorisation limits. Written policies and procedures are in place to limit exposure to loss and to ensure compliance with laws and regulations. The Group prepares an annual budget and monthly financial reporting using clear and documented accounting policies. The directors and senior management are committed to risk management. Systems are in place to capture reliable and up to date information to aid risk monitoring and assessment. These systems are protected by physical and computer security. Further details on the management of interest rate, currency, liquidity and credit risk are given in note 3.

The Group's Audit Committee assists the Board in its responsibilities. The Audit Committee receives reports from ZFS Group Internal Audit and from PricewaterhouseCoopers containing details of control issues arising from their audit work.

The Board assesses the effectiveness of the Group's system of internal control through reporting from ZFS Group Internal Audit, the Group's Controls and Compliance function, the department heads and from discussions with key directors and senior management in which the day to day responsibility for the Group's risk management and operation is vested.

Directors' and Secretary's interests in shares

The number of shares held beneficially by directors and secretary of Zurich Bank in office at 31 December 2009, in the share capital of the Bank and the Zurich Financial Services Group of companies at the start and at the end of the year was as follows:

Directors/ Secretary		At beginning of year or date of appointment	At end of year
G Dempsey	Shares in Zurich Financial Services	-	-
C Holmes	Shares in Zurich Financial Services	563	563
A Scully	Shares in Zurich Financial Services	-	-
M Scheiner	Shares in Zurich Financial Services	-	-
P Wauthier	Shares in Zurich Financial Services	1,230	1,326
N Bullman	Shares in Zurich Financial Services	-	-
J Cunningham	Shares in Zurich Financial Services	-	-
M Pitcher	Shares in Zurich Financial Services	-	-

Directors' Report (continued)

Apart from those share interests described above, at no time during the period was the Bank or any subsidiary companies a party to any arrangements to enable the directors or the secretary of the Bank to acquire benefits by means of acquisition of shares in the Bank or any other affiliates. There were no loans to directors at any time during the year. No contracts in relation to the Bank's business to which the Bank or any of its subsidiary companies was a party and in which a director or the secretary of the Bank had a material interest, whether directly or indirectly, existed at the end of the period or at any time during the year.

Losses, dividends and reserves

£'000

Group loss on ordinary activities after taxation amounted to **(111,118)**

The directors' allocation and recommendation to deal with this amount is as follows:

Group loss retained for the year **(111,118)**

Books of account

The directors comply with the company's obligation to keep proper books of account by using appropriate systems and procedures and by the employment of competent personnel. The books of account are kept at the following address: La Touche House, IFSC, Dublin 1.

Events since the year-end

There have been no significant events since the year end.

Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future. They have considered the implications of the current economic environment on future operations and have assessed the impact of this environment on the short and medium term strategy for the Group. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Directors

The names of the persons who were directors at any time during the year ended 31 December 2009 are set out below. Except where indicated, they served for the entire year.

G Dempsey	(Irish)	
C Holmes	(Irish)	Appointed 2nd December 2009
A Scully	(Irish)	
M Scheiner	(American)	Appointed 4th December 2009
P Wauthier	(French and British)	Appointed 7th October 2009
M Pitcher	(British)	
N Bullman	(British)	
J Cunningham	(Irish)	Appointed 15th October 2009
D Peach	(British)	Resigned 21st August 2009
H Graham	(British)	Resigned 8th September 2009

Directors' Report (continued)

Auditors

PricewaterhouseCoopers will be re-appointed in accordance with section 160(2) of the Companies Act, 1963.

Directors

G Dempsey
A Scully
C Holmes

25 March 2010

Secretary

G Dempsey

Independent Auditors' Report to the Members of Zurich Bank

We have audited the consolidated and company financial statements (the "financial statements") of Zurich Bank for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Change in Equity, Significant Accounting Policies 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 Annual Report and the financial statements, in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 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 consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting of the company; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report to the Members of Zurich Bank (continued)

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 consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- the company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the company's affairs as at 31 December 2009 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2009 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Dublin, Ireland

25 March 2010

Consolidated statement of comprehensive income

	Notes	2009 £'000	2008 £'000
Interest and similar income	5	106,273	142,211
Interest expense and similar charges	5	(43,779)	(78,103)
Net interest income		62,494	64,108
Fee and commission income	6	3,818	2,965
Fee and commission expense	6	(2,498)	(1,997)
Net fee and commission income		1,320	968
Net trading income	7	4,981	4,332
Other operating income	8	1,414	1,097
Administrative expenses	9	(32,759)	(27,770)
Other operating expenses	10	(3,955)	(4,276)
Operating profit before impairment		33,495	38,459
Impairment charge for credit losses	11	(140,390)	(22,697)
Operating profit/(loss)		(106,895)	15,762
Share of profit/(loss) of associate	19	(284)	(42)
(Loss)/profit before income tax		(107,179)	15,720
Income tax expense	12	(3,939)	(4,273)
(Loss)/profit for the year		(111,118)	11,447
Other comprehensive (expense)/income			
Available-for-sale reserve	31	(3)	-
Other comprehensive (expense)/income, net of tax		(3)	
Total comprehensive (expense)/income, net of tax		(111,121)	11,447

(Loss)/Profit on ordinary activities before taxation arose solely from continuing operations.

(Loss)/Profit on ordinary activities after tax dealt with in the statement of comprehensive income of Zurich Bank amounted to (£121.0m) (2008: £21.1m gain).

Directors

G Dempsey
A Scully
C Holmes

Secretary

G Dempsey

Consolidated statement of financial position

	Notes	2009 £'000	2008 £'000
Assets			
Cash and balances with central banks	13	34,957	29,698
Loans and advances to banks	14	714,953	162,229
Loans and advances to customers	17	1,431,288	1,452,087
Derivative financial instruments	15	29,843	12,306
Financial assets designated at fair value	16	175,253	361,553
Financial investments available-for-sale	18	175,921	-
Investments in associates	19	1,824	2,108
Intangible assets	20	5,777	8,622
Property, plant and equipment	21	2,308	2,976
Deferred income tax assets	29	2,575	2,550
Other assets	22	87,760	6,220
Total assets		2,662,459	2,040,349
Liabilities			
Deposits from banks	23	89,660	136,536
Due to customers	24	2,139,576	1,583,373
Derivative financial instruments	15	71,360	10,701
Other borrowed funds	25	96,187	50,606
Financial liabilities designated at fair value	26	410	441
Other liabilities	27	32,101	30,741
Provisions	28	50	350
Current income tax liabilities		845	2,210
Total liabilities		2,430,189	1,814,958
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	31	54,222	31,215
Share premium account	31	223,778	128,785
Retained (losses)/earnings	31	(45,727)	65,391
Available-for-sale reserve	31	(3)	-
Total equity		232,270	225,391
Total equity and liabilities		2,662,459	2,040,349

Directors

G Dempsey
A Scully
C Holmes

Secretary

G Dempsey

Company statement of financial position

	Notes	2009 £'000	2008 £'000
Assets			
Cash and balances with central banks	13	34,957	29,698
Loans and advances to banks	14	882,756	271,224
Loans and advances to customers	17	518,054	537,095
Derivative financial instruments	15	9,013	9,304
Financial assets designated at fair value	16	175,253	361,553
Shares in group undertakings	36	253,802	238,802
Investments in associates	19	2,150	2,150
Intangible assets	20	3,471	5,864
Property, plant and equipment	21	732	1,000
Deferred income tax assets	29	-	57
Other assets	22	81,040	3,747
Total assets		1,961,228	1,460,494
Liabilities			
Deposits from banks	23	551,076	326,354
Due to customers	24	1,054,084	865,870
Derivative financial instruments	15	50,563	7,781
Other borrowed funds	25	96,187	50,606
Financial liabilities designated at fair value	26	410	441
Other liabilities	27	9,724	7,253
Current income tax liabilities		13	-
Total liabilities		1,762,057	1,258,305
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	31	54,222	31,215
Share premium account	31	223,778	128,785
Retained (losses)/earnings	31	(78,829)	42,189
Total equity		199,171	202,189
Total equity and liabilities		1,961,228	1,460,494

Directors

A Scully
C Holmes
G Dempsey

Secretary

G Dempsey

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				Total
	Share capital	Share premium	Available-for Sale Reserve	Retained earnings/ (losses)	
	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	31,215	128,785	-	53,944	213,944
Net profit for the year	-	-	-	11,447	11,447
Total recognised gain for 2008	-	-	-	11,447	11,447
At 1 January 2009	31,215	128,785	-	65,391	225,391
Net loss for the year	-	-	-	(111,118)	(111,118)
Total recognised gain/(loss) for 2009	-	-	-	(111,118)	(111,118)
Gain/(loss) Available-for-Sale reserve	-	-	(3)	-	(3)
Proceeds from shares issued March 2009	1,950	8,050	-	-	10,000
Proceeds from shares issued Oct 2009	6,824	28,176	-	-	35,000
Proceeds from shares issued Dec 2009	14,233	58,767	-	-	73,000
Total proceeds from shares issued	23,007	94,993	-	-	118,000
At 31 December 2009	54,222	223,778	(3)	(45,727)	232,270

Company statement of changes in equity

	Attributable to equity holders of the parent			Total
	Share capital	Share premium	Retained earnings/ (losses)	
	£'000	£'000	£'000	£'000
At 1 January 2008	31,215	128,785	21,072	181,072
Net profit for the year	-	-	21,117	21,117
Total recognised gain for 2008	-	-	21,117	21,117
At 1 January 2009	31,215	128,785	42,189	202,189
Net loss for the year	-	-	(121,018)	(121,018)
Total recognised gain/(loss) for 2009	-	-	(121,018)	(121,018)
Proceeds from shares issued March 2009	1,950	8,050	-	10,000
Proceeds from shares issued Oct 2009	6,824	28,176	-	35,000
Proceeds from shares issued Dec 2009	14,233	58,767	-	73,000
Total proceeds from shares issued	23,007	94,993	-	118,000
At 31 December 2009	54,222	223,778	(78,829)	199,171

Consolidated statement of cash flows

	Notes	2009 £'000	2008 £'000
Operating Activities			
(Loss)/profit before tax		(107,179)	15,720
Adjustments for:			
Change in operating assets		(150,292)	(535,128)
Change in operating liabilities		557,230	301,079
Non cash items included in profit before tax		148,672	20,301
Interest from financing activities		6,296	3,558
Income taxes refunded/(paid)		(5,329)	(9,527)
Net cash flows from/(used in) operating activities		449,398	(203,997)
Investing activities			
Purchase of property and equipment		(289)	(940)
Purchase of intangible assets		(3,153)	(4,598)
Issue of financial investments available for sale		(175,881)	-
Issue of financial assets designated at fair value		(13,986)	-
Proceeds from sale of financial assets designated at fair value		139,350	173,903
Investment in associate		-	(2,108)
Net cash from/(used in) investing activities		(53,959)	166,257
Financing activities			
Proceeds from issue of share capital		118,000	-
Proceeds from issue of subordinated debt		96,187	-
Redemption of subordinated debt		(50,000)	-
Interest paid on subordinated debt		(6,902)	(3,596)
Dividends paid to equity holders of the parent		-	-
Net cash (used in)/from financing activities		157,285	(3,596)
Net increase/(decrease) in cash and cash equivalents		552,724	(41,336)
Cash and cash equivalents at beginning of year		162,229	203,565
Cash and cash equivalents at end of year	32	714,953	162,229

Company statement of cash flows

	Notes	2009 £'000	2008 £'000
Operating Activities			
(Loss)/profit before tax		(120,705)	20,858
Adjustments for :			
Change in operating assets		37,175	(386,428)
Change in operating liabilities		190,353	235,298
Non cash items included in profit before tax		113,255	4,076
Interest from financing activities		6,296	3,558
Income taxes refunded/(paid)		14	264
Net cash flows from/(used in) operating activities		226,388	(122,374)
Investing activities			
Purchase of property and equipment		(261)	(418)
Purchase of intangible assets		(2,810)	(3,194)
Issue of financial assets designated at fair value		(13,986)	-
Proceeds from sale of financial assets designated at fair value		139,350	173,903
Investment in subsidiaries		(15,000)	(118,000)
Investment in associated undertakings		-	(2,150)
Net cash from/(used in) investing activities		107,293	50,141
Financing activities			
Proceeds from issue of share capital		118,000	-
Proceeds from issue of subordinated debt		96,187	-
Redemption of subordinated debt		(50,000)	-
Interest paid on subordinated debt		(6,902)	(3,596)
Net cash (used in)/from financing activities		157,285	(3,596)
Net increase/(decrease) in cash and cash equivalents		490,966	(75,829)
Cash and cash equivalents at beginning of year		184,196	260,025
Cash and cash equivalents at end of year	32	675,162	184,196

Notes to the consolidated financial statements

1. General information

Zurich Bank (the Company) and its subsidiaries (together, the Group) provide retail and corporate banking services in Ireland, the UK and the Isle of Man, as well as trust services in Jersey.

The Company is a public company and is incorporated and domiciled in Ireland. The address of its registered office is as follows: La Touche House, IFSC, Dublin 1, Ireland

These consolidated financial statements have been approved for issue by the Board of directors on 25 March 2010.

2 Summary of significant accounting policies

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

2.1 Basis of Preparation

The Group's financial statements in respect of the year ending 31 December 2009 have been prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as adopted by the European Union (EU).

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. They are de-consolidated from the date on which control ceases. The results of subsidiaries acquired or disposed of are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

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 of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess (if any) of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired would be recorded as goodwill. If the cost of acquisition were less than the fair value of the net assets of the subsidiary acquired, the difference would be recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Notes to the consolidated financial statements (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in British pounds (£), which is the Group's functional and presentation currency.

(b) Transactions and balances

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

(c) Group companies

The results and financial position of all the Group entities are recorded in British pounds (£) which is both the functional currency and the presentation currency.

The principal exchange rates used by the group are as follows:

	Average 2009	Average 2008	Closing 2009	Closing 2008
£/€	1.1490	1.2576	1.1277	1.0501
£/€	1.5611	1.8533	1.6158	1.462

Notes to the consolidated financial statements (continued)

2.4 Financial assets

The Group classifies its financial assets in the following categories: financial assets available-for-sale, financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives which significantly modify the cash flows, are designated at fair value through profit and loss.

(b) Loans and receivables

Loans and receivables are comprised of loans and advances to customers and loans and advances to banks. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(c) Available-for-sale financial investments

Available-for-sale financial investments consist of debt securities. Debt securities in this category may be sold in response to needs for liquidity or in response to changes in the market conditions.

Regular-way purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

Notes to the consolidated financial statements (continued)

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve' on an after tax basis. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement. When the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments'.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.5 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments 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 the profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

Changes in the fair value of most of the Group's derivative instruments are recognised immediately in the income statement under net trading income. Changes in the fair value of the Group's total return swaps are recognised immediately in the income statement under interest income against the hedge fund asset income which the total return swaps are hedging.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the consolidated financial statements (continued)

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

2.8 Dividend income

Dividends are recognised in the income statement when the Company's right to receive payment is established.

2.9 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The Group assesses whether objective evidence of impairment exists for financial assets. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Notes to the consolidated financial statements (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The methodology and assumptions used for estimating future cash flows are reviewed regularly by management to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit and loss account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

The total allowance for credit loss consists of two components: specific counterparty allowances and provisions, and collectively assessed allowances and provisions. The specific counterparty component applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows which are expected to be received. Each impaired financial asset is assessed on its merits, and management considers the workout strategy and estimates of cash flows considered recoverable.

Collectively assessed credit loss allowances and provisions cover credit losses inherent in portfolios of claims with similar economic characteristics where there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances and provisions, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

In order to estimate the required allowance or provision, management make assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions management makes depends on how well they estimate future cash flows for specific counterparty allowances and provisions and the model assumptions and parameters used in determining collective allowances and provisions. While this necessarily involves judgment, management believe that its allowances and provisions are reasonable and supportable.

2.11 Intangible assets

Intangible assets include the value of computer software. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over their useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least every financial year-end. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense and economic factors.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 3-5 years

Notes to the consolidated financial statements (continued)

Intangible assets are assessed for impairment whenever there is any indication that their value may have diminished. Evidence of a loss is assessed at every balance sheet date. Where a loss is established, an impairment loss is booked to the income statement. It may be reversed when the factors that prompted impairment have changed or no longer exist. This impairment loss will reduce the depreciable amount of the asset and also affect its future depreciation schedule.

2.12 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

- Leasehold improvements 7 years
- Office Equipment 5 years
- Computer Equipment 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

2.13 Leases

A Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

2.14 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.15 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Notes to the consolidated financial statements (continued)

2.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are provided as part of our Zurich Property Deposit Guarantee product.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

2.17 Employee benefits

(a) Pension obligations

Group companies participate in various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group participates in both defined benefit and defined contribution plans.

Defined benefit pension scheme assets are measured at fair value. Defined benefit pension scheme liabilities are measured on an actuarial basis using the projected unit method. The defined benefit pension charge to operating profit comprises the current service cost and past service costs. The excess of the expected return on scheme assets over the interest cost on the scheme liabilities is presented in the profit and loss account as other finance income. Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the statement of total recognised gains and losses for the year in which they occur.

Where the company cannot identify its share of the underlying assets and/or liabilities, the scheme is accounted for as a defined contribution scheme. The defined contribution pension charge comprises the contribution payable to the scheme for the year. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2.18 Deferred income tax

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

The principal temporary differences arise from impairment provisions, depreciation of property, plant and equipment and provisions for pensions. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

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

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Notes to the consolidated financial statements (continued)

2.19 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.20 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary 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 balance sheet date are dealt with in the subsequent events note.

2.21 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.22 Standards/Interpretations issued but not yet effective

The Group has not yet applied the following new standards, amendments to standards and interpretations that have been issued by the IASB but are not yet effective:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
IFRS 3 (Revised)	Business Combinations	1 July 2009
IFRIC 17	Distribution of non cash assets of owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments: Classification and measurement	1 January 2013
IAS 24 (Amendment)	Related Party Disclosures	1 January 2011

These will be adopted in future periods by the Group and are not expected to have a material impact on the Group's Financial Statements.

Notes to the consolidated financial statements (continued)

3. Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Liquidity risk and market risk are monitored by a sister central treasury company, Zurich Treasury Services Limited (ZTS), according to policies approved by the Board of directors. ZTS identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units and the Group's interaction with ZTS is defined in a Service Level Agreement. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit risk

Credit risk is the risk that the Group will suffer a financial loss from counterparty's failure to repay interest, capital, or meet a commitment they have entered into where the collateral pledged as security is insufficient to cover the payments due.

Credit risk arises principally through the Group's property loans, alternative investment exposures, wholesale credit exposures such as derivatives, and consumer credit exposures. Credit exposure arises not only from amounts already lent and contingent liabilities, but also from conditional and unconditional commitments such as guarantees which are off balance sheet.

The continued deterioration in the property market, particularly the Irish property market, adversely and materially impacted the results for the Group in 2009. The Group undertook a detailed review of its property loan portfolios during 2009. Additionally, as detailed below, additional credit risk control and measurement procedures have been implemented in respect of the Irish property loan book in particular, specifically the establishment of a Zurich Bank Property Management Team and the cessation of new lending in the Irish market.

3.1.1 Credit risk measurement

The Group's credit risk function operates a system of credit risk monitoring of any current credit exposure or potential credit exposure ('PCE'). For lending products current credit exposure is the drawn balance on the loan and PCE is the total commitment to the counterparty.

Current credit exposure for derivatives is defined as the aggregated amount of the mark to market of the trade plus PCE and adjusted for collateral. PCE is calculated as the principal notional amount multiplied by a conversion factor based on the maturity of the transaction and the type of derivative contract.

Current credit exposure and potential credit exposure is adjusted for collateral where applicable. For example current exposure and PCE may be reduced by collateral posted by the counterparty, either as a feature of a particular transaction such as securities or recourse to a third party, or by reference to a Credit Support Annex ('CSA') in the case of derivatives.

Notes to the consolidated financial statements (continued)

3.1.2 Risk limit control and mitigation policies

It is the objective of the Group's Credit Risk function to minimise credit related losses for the Group through adherence to prudent credit risk policies, the establishment of credit limits and daily monitoring of positions where applicable.

The Group Credit Policy sets the framework for the management of the Group's overall credit activities and exposures. This document has been approved by the Zurich Bank Board and is subject to an annual review process. The document is utilised by Zurich Bank and all of its subsidiary banks.

Responsibility for credit risk management has been delegated by each bank's Board to a Balance Sheet and Risk Committee ('BSRC'). The ongoing management of credit risk has been further delegated to each bank's Credit Committee. The Zurich Bank Credit Committee is responsible for credit risk at an overall Group level and is responsible for reporting on the consolidated credit exposures to the Zurich Bank BSRC, Zurich Bank Board and Zurich Financial Services Group Risk Management.

The Zurich Bank Board has delegated all credit risk decisions in respect of transactions secured by property located in Ireland to Zurich Bank Risk Mitigation & Restructuring Committee (ZBRMRC). Membership includes Directors, senior managers and property specialists. Decisions are taken by a majority of votes and the Chair has the decisive vote in the case of even votes. The Chair also has the power of veto but all vetoed cases are automatically escalated for approval to the ZFS group.

The Credit Committee and BSRC of each bank within the Group include directors and senior management.

Approval must be sought from the respective Boards for any proposals that fall outside the limits delegated to the respective Credit Committees.

Exposure to credit risk is also managed through the regular analysis of the ability of borrowers to meet interest and capital repayment obligations. In addition a formal review process is undertaken at least annually for each exposure. In response to the difficult economic environment in Ireland and the ongoing challenges presented by its Irish property portfolio, the group has established a dedicated Property Management Team to manage this Irish loan portfolio. The relatively small number of loans in this portfolio allows the Property Management Team to closely monitor the performance of each of these loans through regular and continuous contact with the borrowers and/ or their advisors.

The Group has employed a range of policies and procedures to mitigate credit risk. One such measure is the taking of collateral. The Group Credit Policy has set restrictions on the type of collateral deemed acceptable for the Group.

For loans and advances to customers, the Group requires various forms of credit protection including covenants, and obtains security such as charges and personal guarantees.

Collateral (where held), is monitored for diminution in value. All quoted securities are valued monthly or in periods of volatility at least weekly to ensure Loan to Value (LTV) covenants are maintained. Traditionally property security was valued before the inception of the loan and in addition when there was a default or when new lending was requested that exceeded previously agreed loan to valuation thresholds. As part of the ongoing management of loans and the setting of provisions valuations are now carried out more frequently.

For derivative exposures the current credit exposure is the mark-to-market of the trade with an add-on for the Potential Credit Exposure (PCE). The PCE is calculated as Notional x Conversion Factor (the Conversion Factor is based upon derivative type and time to maturity). All derivative programmes have to be approved by Zurich Group Risk and documented under an ISDA agreement. Any new counterparty has to also enter into a Credit Support Annex to the ISDA, which provides for cash/near cash collateralisation. Dunbar Bank and Zurich Bank International have a threshold of zero with a minimum collateral adjustment of £100,000; Zurich Bank has a collateral threshold of no more than £15m.

Notes to the consolidated financial statements (continued)

3.1.3 Impairment and provisioning policies

The Group Impairment and Provisioning policy sets out the framework for the management and monitoring of past due and impaired loans.

The criteria that the Group uses to assess whether an individual financial asset is impaired include:

Criteria	Responsibility and Frequency
Delinquency in contractual payments of principal, fees or interest	Reviewed at least monthly by each entity's Credit Team, and monitored on a daily basis by the relevant Lender, the Lending Administration team and the Irish Property Management Team.
Deterioration in the value of collateral versus the asset carrying value	<p>Regularly monitored by the Credit Team and the Irish Property Management Team.</p> <p>For property exposures, issues in respect of value of collateral versus asset carrying value will be identified as part of the ongoing relationship between the lenders and /or the Irish Property Management team and clients, and will be notified to the credit team.</p> <p>Traditionally property security was valued before the inception of the loan and in addition when there was a default or when new lending was requested that exceeded previously agreed loan to valuation thresholds As part of the ongoing management of loans and the setting of provisions valuations are now carried out more frequently.</p>
Property lending – failure of contractor leading to increased build costs	Information provided for assessment to the Credit Team by Lender, the Lending Administration team and the Property Management Team.

Provisions for loan losses above a de-minimus threshold must be approved by each bank's BSRC. The BSRC provides a report to the Board of all movements in impairment provisions against individual assets. Provisions below a de-minimus threshold can be approved by the relevant Credit Committee.

The specific impairment provision will be calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows, including the value of any collateral, discounted at the asset's original effective interest rate.

A collective impairment provision is created for loans and advances where there is no objective evidence of specific impairment on individual loans but there is evidence of impairment in the loan book at a portfolio level. This collective impairment provision is calculated with reference to the losses experienced by the bank in the past supplemented by wider economic indicators and management's experienced judgement. Observable economic indicators such as the rate of unemployment and house price indices are used to inform the overall quantum where relevant. The provision is ultimately determined by management expectations of the performance of the market.

Notes to the consolidated financial statements (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Group	
	Maximum exposure	
	2009	2008
	£'000	£'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	714,953	162,229
Loans and advances to customers:		
– Secured on Property	1,402,241	1,431,297
– Other	29,047	20,790
Derivative financial instruments	29,843	12,306
Financial assets designated at fair value	175,253	361,553
Financial investments available-for-sale	175,921	-
Other assets	87,760	6,220
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	2,817	3,349
Loan commitments and other credit related liabilities	188,807	396,577
At 31 December	2,806,642	2,394,321

	Company	
	Maximum exposure	
	2009	2008
	£'000	£'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	882,756	271,224
Loans and advances to customers:		
– Secured on Property	504,017	535,959
– Other	14,037	1,136
Derivative financial instruments	9,013	9,304
Financial assets designated at fair value	175,253	361,553
Other assets	81,040	3,747
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	2,817	3,349
Loan commitments and other credit related liabilities	89,424	157,209
At 31 December	1,758,357	1,343,481

The above table represents a worse case scenario of credit risk exposure as at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 76% of the total maximum exposure for the Group is derived from loans and advances advanced to banks and customers (2008: 67%).

Notes to the consolidated financial statements (continued)

Management is confident in its ability to control and minimise the impact of credit risk to the Group resulting from its loan and advances portfolio based on the following:

- **Loans secured on property**

This category represents the biggest component in the portfolio. Business can only be written if authorised as part of an approved business line. All lending is submitted by a responsible officer who has prepared a lending proposal in an agreed format for submission to the relevant Credit Officer. The proposal will be reviewed by the risk function for fit with policy, large exposures and suitability prior to submission to credit committee.

No lenders have individual discretions. All loans are submitted to Credit Committee. The bank does not lend to those undertaking their first development. For the majority of limited company clients, personal guarantees are required, with personal recourse relevant on loans approved in the names of individuals. If approved, the transaction moves to an administrator who will operate to procedures in compiling an offer letter addressed to the borrower, in ensuring all professionals are appointed, valuations obtained on security, documentation and security properly completed and draw downs correctly approved with limits and borrower details entered into the loans data base and the bank's accounting systems.

Thereafter the performance of the loan is monitored by the lender/Property Management Team and loans administrator, reporting any non performance issues to the relevant Credit Officer, with a minimum standard review period of 12 months. An alternative review period can be set by the relevant entity's Head of Credit or Credit Committee as part of the credit decision.

Procedures include actions to be taken in the instances of default and renewal or repayment.

- **Interbank, Government Debt and derivative exposures**

All bank and Government exposures are assessed on an individual basis using external ratings for guidance together with a full credit evaluation using the reports and accounts and other available external information. Internal ratings are also assigned to each counterparty. These are reviewed on an on-going basis.

The weighted average Standard & Poor's credit rating by exposure to interbank and derivative counterparties of the Group is AA- (2008: AA) as at 31 December 2009. UK government gilts carry a AAA rating as at 31 December 2009.

- **Financial assets designated at fair value.**

The Hedge Fund investments presently on the balance sheet are sourced from within the Zurich Financial Services group and benefit from a Total Return Swap. The Total Return Swap transfers the risks and rewards associated with an investment in the Hedge Fund for a return over Libor. It is cash collateralised to 10% of cost of the investment plus the extent to which the asset has a market value below 100%. The investments are valued monthly.

Notes to the consolidated financial statements (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	Group			
	31 December 2009		31 December 2008	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired	1,078,436	714,953	1,318,013	162,229
Past due but not impaired	131,562	-	106,726	-
Impaired	379,817	-	52,694	-
Gross balance	1,589,815	714,953	1,477,433	162,229
Less: allowance for impairment	(158,527)	-	(25,346)	-
Net balance	1,431,288	714,953	1,452,087	162,229

	Company			
	31 December 2009		31 December 2008	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired	318,143	882,756	489,766	271,224
Past due but not impaired	50,161	-	40,413	-
Impaired	261,335	-	14,817	-
Gross balance	629,639	882,756	544,996	271,224
Less: allowance for impairment	(111,585)	-	(7,901)	-
Net balance	518,054	882,756	537,095	271,224

The percentage of the loan book that is past due or impaired has increased from 11% in 2008 to 32% in 2009 for the Group and from 10% in 2008 to 49% in 2009 for the Company. This deterioration in the quality of the loan book, particularly the Irish loan book, is in line with the general market and is being closely monitored by the Credit Team/Property Management Team.

The total impairment provision for loans and advances for the Group is £158.5m (2008: £25.3m) of which £142.5m (2008: £13.7m) represents individually impaired loans and the remaining amount of £16m (2008: £11.6m) represents the portfolio provision. Further information of the impairment allowance for loans and advances to customers is provided in Note 17.

During the year ended 31 December 2009, the Group's total loans and advances, net of impairment provisions, increased by 33%.

Notes to the consolidated financial statements (continued)

(a) Loans and advances neither past due nor impaired

This category includes all loans that are performing and are neither past due or impaired.

The majority of the Group's assets that result in credit risk are property related loans in Zurich Bank and Dunbar Bank. Loans approved are subject to strict policy requirements to ensure that the credit quality of the loans is as strong as possible. Such measures include the use of conservative loan to value ratios at origination and the taking of adequate security.

The loans and advances exposure to financial institutions, which at 31 December 2009 amounted to 27% (2008: 8%) of assets, is dependent on the levels of surplus cash within the Group and is limited to a maximum period of three months for deposits. Derivatives where used are undertaken with the benefit of International Swaps and Derivatives Association (ISDA) agreements and margining arrangements. The Group maintains an authorised counterparty list of the investment grade financial institutions with which it is permitted to transact. This list is formally approved and reviewed regularly by the Zurich Bank Credit Committee.

A small part of the non-property related assets are represented by professional indemnity insurance premium funding (average portfolio during year £17m) on one year repayment loans. These loans have been entered into on a non-recourse basis.

(b) Loans and advances past due but not impaired

Past due loans are those for which a counterparty has failed to make a payment when contractually due. Once loans and advances become past due, they are assessed for impairment. However, given the nature of the property development business and the uncertain timing of cash inflows from completions, it is quite frequently the case that loans can be past their contractual maturity date but still not be impaired due to the quality of the security available and the net worth of the borrower. The value of security underlying property loans to customers is assessed on a regular basis. The value of security in 2009 was adjusted on an individual loan basis as deemed necessary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2009	Group Loans and Advances to Customers		
	Secured on		
	Property £'000	Other £'000	Total £'000
Past due up to 30 days	13,960	355	14,315
Past due 31-90 days	69,929	154	70,083
Past due 91-120 days	-	5	5
Past due greater than 120 days	46,526	633	47,159
Total	130,415	1,147	131,562

31 December 2009	Group Loans and Advances to Customers		
	Secured on		
	Property £'000	Other £'000	Total £'000
Past due up to 30 days	11,333	327	11,660
Past due 31-90 days	25,882	27	25,909
Past due 91-120 days	-	5	5
Past due greater than 120 days	12,574	13	12,587
Total	49,789	372	50,161

Notes to the consolidated financial statements (continued)

31 December 2008	Group Loans and Advances to Customers Secured on		
	Property	Other	Total
	£'000	£'000	£'000
Past due up to 30 days	15,459	140	15,599
Past due 31-90 days	54,950	100	55,050
Past due 91-120 days	2,766	7	2,773
Past due greater than 120 days	33,284	20	33,304
Total	106,459	267	106,726

31 December 2008	Company Loans and Advances to Customers Secured on		
	Property	Other	Total
	£'000	£'000	£'000
Past due up to 30 days	1,064	46	1,110
Past due 31-90 days	33,584	3	33,587
Past due 91-120 days	-	-	-
Past due greater than 120 days	5,715	1	5,716
Total	40,363	50	40,413

It is not practicable to disclose the fair value of collateral underlying the above past due loans.

(c) Loans and advances individually impaired

(c) (i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is £379.8m (2008: £52.7m).

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

31 December 2009	Group Loans and Advances to Customers Secured on		
	Property	Other	Total
	£'000	£'000	£'000
Individually impaired loans	379,450	367	379,817

31 December 2009	Company Loans and Advances to Customers Secured on		
	Property	Other	Total
	£'000	£'000	£'000
Individually impaired loans	261,104	231	261,335

Notes to the consolidated financial statements (continued)

31 December 2008	Group Loans and Advances to Customers		
	Secured on		
	Property £'000	Other £'000	Total £'000
Individually impaired loans	52,575	119	52,694

31 December 2008	Group Loans and Advances to Customers		
	Secured on		
	Property £'000	Other £'000	Total £'000
Individually impaired loans	14,775	42	14,817

It is not practicable to disclose the fair value of collateral underlying the above impaired loans.

The increase in impaired loans in 2009 is driven by the deterioration in the property market, particularly the Irish property market. The performance of the loan book continues to be closely monitored by the Credit Team/Property Management Team.

(c) (ii) Loans and advances to banks

There were no impaired loans and advances to banks in 2009 or 2008.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset from past due to watch status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that repayments will most likely continue to be received. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired are as follows:

	Group Loans and Advances to Customers	
	2009 £'000	2008 £'000
Secured on property	146,881	81,261
Total	146,881	81,261

	Group Loans and Advances to Customers	
	2009 £'000	2008 £'000
Secured on property	53,572	23,476
Total	53,572	23,476

Notes to the consolidated financial statements (continued)

3.1.6 Concentration of risks of financial assets with credit risk exposure

Concentration Risk arises from an uneven distribution of counterparties in credit or any other business relationships. It can also arise from a concentration of exposures in business sectors or geographical regions which is capable of generating losses large enough to jeopardise the bank's solvency.

Significant concentration risk arises in respect of the bank's exposure to the UK, as a geographical sector, and loans secured by real estate, as a business sector. This is mitigated to some extent by the bank's particular expertise in this market and the diversification within the loan portfolio. The bank's credit policy limits exposures to groups of connected parties and exposures that exceed conservative warning thresholds need to be approved by the Board of Directors. The Risk Department monitors risk concentrations against the limits set out in the credit policy and reports these on a regular basis to the Balance Sheet and Risk Committee.

(a) Geographical sectors

The following tables break down the main credit exposures at their carrying amounts, as categorised by geographical region as of 31 December 2009. For this table, exposures have been allocated to regions based on the country of domicile of the counterparties.

	Group					Total £'000
	Ireland £'000	UK £'000	US £'000	Bermuda & Caymans £'000	ROW £'000	
On-Balance Sheet						
Cash and balances with central banks	34,957	-	-	-	-	34,957
Loans and advances to banks	260,778	308,652	6,064	-	139,459	714,953
Loans and advances to customers:						
– Secured on property neither past due or impaired	49,887	996,245	-	-	3,866	1,049,998
– Secured on property past due	23,747	106,668	-	-	-	130,415
– Secured on property impaired	247,103	132,347	-	-	-	379,450
– Secured on property specific provision	(98,658)	(43,470)	-	-	-	(142,128)
– Secured on property general provision	(4,099)	(11,395)	-	-	-	(15,494)
– Other neither past due or impaired	-	28,438	-	-	-	28,438
– Other past due	-	1,147	-	-	-	1,147
– Other impaired	-	367	-	-	-	367
– Other specific provision	-	(541)	-	-	-	(541)
– Other general provision	-	(364)	-	-	-	(364)
Derivative financial instruments	370	29,335	49	-	89	29,843
Financial assets designated at fair value	-	-	-	171,691	3,562	175,253
Financial investments available-for-sale	-	175,921	-	-	-	175,921
Other assets	5,916	7,008	540	74,296	-	87,760
	520,001	1,730,358	6,653	245,987	146,976	2,649,975
Off Balance Sheet Commitments						
Financial guarantees	-	2,817	-	-	-	2,817
Loan commitments and other credit related liabilities	19,295	169,512	-	-	-	188,807
As at 31 December 2009	539,296	1,902,687	6,653	245,987	146,976	2,841,599

Notes to the consolidated financial statements (continued)

	Company					Total £'000
	Ireland £'000	UK £'000	US £'000	Bermuda & Caymans £'000	ROW £'000	
On-Balance Sheet						
Cash and balances with central banks	34,957	-	-	-	-	34,957
Loans and advances to banks	260,778	494,457	6,064	-	121,457	882,756
Loans and advances to customers:						
– Secured on property neither past due or impaired	49,887	250,259	-	-	3,866	304,012
– Secured on property past due	23,747	26,042	-	-	-	49,789
– Secured on property impaired	247,103	14,001	-	-	-	261,104
– Secured on property specific provision	(98,658)	(4,500)	-	-	-	(103,158)
– Secured on property general provision	(4,099)	(3,631)	-	-	-	(7,730)
– Other neither past due or impaired	-	14,130	-	-	-	14,130
– Other past due	-	372	-	-	-	372
– Other impaired	-	231	-	-	-	231
– Other specific provision	-	(466)	-	-	-	(466)
– Other general provision	-	(230)	-	-	-	(230)
Derivative financial instruments	370	8,506	49	-	88	9,013
Financial assets designated at fair value	-	-	-	171,691	3,562	175,253
Other assets	5,892	312	540	74,296	-	81,040
	519,977	799,483	6,653	245,987	128,973	1,701,073
Off Balance Sheet Commitments						
Financial guarantees	-	2,817	-	-	-	2,817
Loan commitments and other credit related liabilities	19,295	70,129	-	-	-	89,424
As at 31 December 2009	539,272	872,429	6,653	245,987	128,973	1,793,314

Notes to the consolidated financial statements (continued)

31 December 2008	Group					Total £'000
	Ireland £'000	UK £'000	US £'000	Bermuda & Caymans £'000	ROW £'000	
On-Balance Sheet						
Cash and balances with central banks	29,698	-	-	-	-	29,698
Loans and advances to banks	91,857	57,654	385	-	12,333	162,229
Loans and advances to customers:						
– Secured on property neither past due or impaired	251,932	1,045,462	-	-	-	1,297,394
– Secured on property past due	31,732	74,728	-	-	-	106,460
– Secured on property impaired	14,775	37,800	-	-	-	52,575
– Secured on property specific provision	(2,922)	(10,677)	-	-	-	(13,599)
– Secured on property general provision	(3,173)	(8,360)	-	-	-	(11,533)
– Other neither past due or impaired	-	18,941	-	-	1,678	20,619
– Other past due	-	266	-	-	-	266
– Other impaired	-	119	-	-	-	119
– Other specific provision	-	(116)	-	-	-	(116)
– Other general provision	-	(98)	-	-	-	(98)
Derivative financial instruments	915	5,543	1,600	-	4,248	12,306
Financial assets designated at fair value:	-	-	-	348,275	13,278	361,553
Other assets	1,216	239	2,539	-	2,226	6,220
	416,030	1,221,501	4,524	348,275	33,763	2,024,093
Off Balance Sheet Commitments						
Financial guarantees	-	3,349	-	-	-	3,349
Loan commitments and other credit related liabilities	116,729	279,848	-	-	-	396,577
As at 31 December 2008	532,759	1,504,698	4,524	348,275	33,763	2,424,019

Notes to the consolidated financial statements (continued)

31 December 2008	Company					Total £'000
	Ireland £'000	UK £'000	US £'000	Bermuda & Caymans £'000	ROW £'000	
On-Balance Sheet						
Cash and balances with central banks	29,698	-	-	-	-	29,698
Loans and advances to banks	91,857	168,458	385	-	10,524	271,224
Loans and advances to customers:						
– Secured on property neither past due or impaired	251,932	236,752	-	-	-	488,684
– Secured on property past due	31,732	8,631	-	-	-	40,363
– Secured on property impaired	14,775	-	-	-	-	14,775
– Secured on property specific provision	(2,922)	-	-	-	-	(2,922)
– Secured on property general provision	(3,173)	(1,768)	-	-	-	(4,941)
– Other neither past due or impaired	-	1,059	-	-	24	1,083
– Other past due	-	50	-	-	-	50
– Other impaired	-	42	-	-	-	42
– Other specific provision	-	(39)	-	-	-	(39)
– Other general provision	-	-	-	-	-	-
Derivative financial instruments	915	2,303	1,600	-	4,486	9,304
Financial assets designated at fair value:	-	-	-	348,275	13,278	361,553
Other assets	1,190	-	2,539	-	18	3,747
	416,004	415,488	4,524	348,275	28,330	1,212,621
Off Balance Sheet Commitments						
Financial guarantees	-	3,349	-	-	-	3,349
Loan commitments and other credit related liabilities	116,729	40,480	-	-	-	157,209
As at 31 December 2008	532,733	459,317	4,524	348,275	28,330	1,373,179

Notes to the consolidated financial statements (continued)

(b) Industry sectors

The following table breaks down the main credit exposures at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Group						Total £'000
	Government Gilts £'000	Financial institutions £'000	Secured on property £'000	ZFS group companies £'000	Alternative investments £'000	Other £'000	
On-Balance Sheet							
Cash and balances with central banks	-	34,957	-	-	-	-	34,957
Loans and advances to banks	-	714,953	-	-	-	-	714,953
Loans and advances to customers:							
– Secured on property	-	-	1,402,241	-	-	-	1,402,241
– Other	-	-	-	-	-	29,047	29,047
Derivative financial instruments	-	29,756	-	87	-	-	29,843
Financial assets designated at fair value:							
Financial investments available-for-sale	175,921	-	-	-	-	-	175,921
Other assets	-	-	-	4,315	74,296	9,149	87,760
	175,921	779,666	1,402,241	4,402	249,549	38,196	2,649,975
Off Balance Sheet Commitments							
Financial guarantees	-	-	2,817	-	-	-	2,817
Loan commitments and other credit related liabilities	-	-	188,807	-	-	-	188,807
As at 31 December 2009	175,921	779,666	1,593,865	4,402	249,549	38,196	2,841,599

Notes to the consolidated financial statements (continued)

31 December 2009	Company						Total £'000
	Government Gilts £'000	Financial institutions £'000	Secured on property £'000	ZFS group companies £'000	Alternative investments £'000	Other £'000	
On-Balance Sheet							
Cash and balances with central banks	-	34,957	-	-	-	-	34,957
Loans and advances to banks	-	644,907	-	237,849	-	-	882,756
Loans and advances to customers:							
– Secured on property	-	-	504,017	-	-	-	504,017
– Other	-	-	-	-	-	14,037	14,037
Derivative financial instruments	-	6,096	-	87	-	2,830	9,013
Financial assets designated at fair value:	-	-	-	-	175,253	-	175,253
Other assets	-	-	-	4,406	74,296	2,338	81,040
	-	685,960	504,017	242,342	249,549	19,205	1,701,073
Off Balance Sheet Commitments							
Financial guarantees	-	-	-	2,817	-	-	2,817
Loan commitments and other credit related liabilities	-	-	-	49,424	40,000	-	89,424
As at 31 December 2009	-	685,960	504,017	294,583	289,549	19,205	1,793,314

31 December 2008	Group						Total £'000
	Financial institutions £'000	Secured on property £'000	ZFS group companies £'000	Alternative investments £'000	Other £'000		
On-Balance Sheet							
Cash and balances with central banks	29,698	-	-	-	-	-	29,698
Loans and advances to banks	162,229	-	-	-	-	-	162,229
Loans and advances to customers:							
– Secured on property	-	1,431,297	-	-	-	-	1,431,297
– Other	-	-	-	-	-	20,790	20,790
Derivative financial instruments	11,642	-	-	-	-	664	12,306
Financial assets designated at fair value:	-	-	-	-	361,553	-	361,553
Other assets	-	-	2,913	-	-	3,307	6,220
	203,569	1,431,297	2,913	361,553	24,761	-	2,024,039
Off Balance Sheet Commitments							
Financial guarantees	-	3,349	-	-	-	-	3,349
Loan commitments and other credit related liabilities	-	396,577	-	-	-	-	396,577
As at 31 December 2008	203,569	1,831,223	2,913	361,553	24,761	-	2,424,019

Notes to the consolidated financial statements (continued)

31 December 2008

	Company					
	Financial institutions	Secured on property	ZFS group companies	Alternative investments	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
On-Balance Sheet						
Cash and balances with central banks	29,698	-	-	-	-	29,698
Loans and advances to banks	137,775	-	133,449	-	-	271,224
Loans and advances to customers:						
– Secured on property	-	535,959	-	-	-	535,959
– Other	-	-	-	-	1,136	1,136
Derivative financial instruments	8,399	-	242	-	663	9,304
Financial assets designated at fair value:						
Other assets	-	-	2,962	361,553	-	361,553
	-	-		-	785	3,747
	175,872	535,959	136,653	361,553	2,584	1,212,621
Off Balance Sheet Commitments						
Financial guarantees	-	3,349	-	-	-	3,349
Loan commitments and other credit related liabilities	-	117,209	40,000	-	-	157,209
As at 31 December 2008	175,872	656,517	176,653	361,553	2,584	1,373,179

Notes to the consolidated financial statements (continued)

3.2 Market risk

The Group does not have a trading book. Market risk arises from interest rate mismatches between assets and liabilities and foreign currency risk as a consequence of assets and liabilities being denominated in different currencies. As part of the management of market risk, the Group undertakes various economic hedging strategies.

3.2.1 Market risk measurement techniques

The major measurement techniques used to measure and control market risk are outlined below.

(a) Value at risk

The Group applies a 'value at risk' methodology (VaR) to its portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse non-credit market movements. It expresses the 'maximum' amount the Group might lose over a defined holding period, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1-day periods in the past. The Group's assessment of past movements is based on data for the past two years. VaR is calculated via simulation. The scenarios for the simulation are generated from historical observations with a weighting applied to enable the model to quickly respond to changes in volatility. Foreign exchange risk, equity risk and interest rate risk are shifted in the simulation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. Some risk factors such as option volatility risk are not incorporated. However, the majority of the time the Group has minimal option exposure and when it does have exposure it is generally a net long option position.

As VaR constitutes an integral part of the Group's market risk control regime, VaR limits are reviewed by the Board at least annually.

3.2.2 VAR summary for 2009 and 2008

Group VAR	31-Dec-09	31-Dec-08
	£	£
Total 95%, 1 day VAR	221,069	79,805

Company VAR	31-Dec-09	31-Dec-08
	£	£
Total 95%, 1 day VAR	30,458	27,226

Notes to the consolidated financial statements (continued)

3.2.3 Foreign exchange risk

Foreign currency risk arises as a consequence of assets and liabilities being denominated in different currencies. It is the Group's policy not to take currency positions as it does not undertake foreign currency trading. A foreign currency position may arise in the ordinary course of business. The position is assessed as the sum of all non sterling currency positions irrespective of whether they are long or short. This is then compared to a limit established for foreign currency position risk.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

	GBP £'000	Group EUR £'000	USD £'000	Other £'000	Total £'000
As at 31 December 2009					
Assets					
Cash and balances with central bank	-	34,957	-	-	34,957
Loans and advances to banks	514,772	174,383	25,417	381	714,953
Loans and advances to customers	1,208,654	222,172	462	-	1,431,288
Derivative financial instruments	128,407	(108,005)	3,821	5,620	29,843
Financial assets designated at fair value	-	-	175,253	-	175,253
Financial investments available-for-sale	175,921	-	-	-	175,921
Other assets	9,950	5,796	72,014	-	87,760
Total financial assets	2,037,704	329,303	276,967	6,001	2,649,975
Liabilities					
Deposits from banks	68,805	-	20,855	-	89,660
Due to customers	1,712,887	275,788	150,631	270	2,139,576
Derivative financial instruments	(36,522)	(4,823)	107,073	5,632	71,360
Other borrowed funds	35,000	61,187	-	-	96,187
Financial liabilities designated at fair value	-	410	-	-	410
Other Liabilities	26,874	4,358	869	-	32,101
Total financial liabilities	1,807,044	336,920	279,428	5,902	2,429,294
Net on-balance sheet financial position	230,660	(7,617)	(2,461)	99	220,681
Credit commitments	169,512	19,295	-	-	188,807

Notes to the consolidated financial statements (continued)

	GBP £'000	Company EUR £'000	USD £'000	Other £'000	Total £'000
As at 31 December 2009					
Assets					
Cash and balances with central bank	-	34,957	-	-	34,957
Loans and advances to banks	684,454	173,286	24,981	35	882,756
Loans and advances to customers	296,202	221,846	6	-	518,054
Derivative financial instruments	107,664	(108,010)	3,723	5,636	9,013
Financial assets designated at fair value	-	-	175,253	-	175,253
Other assets	3,231	5,796	72,013	-	81,040
Total financial assets	1,091,551	327,875	275,976	5,671	1,701,073
Liabilities					
Deposits from banks	478,615	25,528	46,933	-	551,076
Due to customers	681,244	248,833	123,994	13	1,054,084
Derivative financial instruments	(57,220)	(4,823)	106,974	5,632	50,563
Other borrowed funds	35,000	61,187	-	-	96,187
Financial liabilities designated at fair value	-	410	-	-	410
Other Liabilities	4,663	4,195	866	-	9,724
Total financial liabilities	1,142,302	335,330	278,767	5,645	1,762,044
Net on-balance sheet financial position	(50,751)	(7,455)	(2,791)	26	(60,971)
Credit commitments	70,129	19,295	-	-	89,424

Notes to the consolidated financial statements (continued)

	GBP £'000	Group EUR £'000	USD £'000	Other £'000	Total £'000
As at 31 December 2008					
Assets					
Cash and balances with central bank	-	29,698	-	-	29,698
Loans and advances to banks	45,250	13,103	84,248	19,628	162,229
Loans and advances to customers	1,153,336	298,450	301	-	1,452,087
Derivative financial instruments	(34,493)	(74,645)	121,444	-	12,306
Financial assets designated at fair value	-	-	361,553	-	361,553
Total financial assets	1,164,093	266,606	567,546	19,628	2,017,873
Liabilities					
Deposits from banks	101,239	24,791	10,506	-	136,536
Due to customers	833,380	177,118	534,175	38,700	1,583,373
Derivative financial instruments	(60,721)	68,328	22,242	(19,148)	10,701
Other borrowed funds	50,606	-	-	-	50,606
Financial liabilities designated at fair value	-	441	-	-	441
Total financial liabilities	924,504	270,678	566,923	19,552	1,781,657
Net on-balance sheet financial position	239,589	(4,072)	623	76	236,216
Credit commitments	279,848	116,729	-	-	396,577

	GBP £'000	Company EUR £'000	USD £'000	Other £'000	Total £'000
As at 31 December 2008					
Assets					
Cash and balances with central bank	-	29,698	-	-	29,698
Loans and advances to banks	156,622	12,411	82,882	19,309	271,224
Loans and advances to customers	238,633	298,440	22	-	537,095
Derivative financial instruments	(37,488)	(74,649)	121,441	-	9,304
Financial assets designated at fair value	-	-	361,553	-	361,553
Total financial assets	357,767	265,900	565,898	19,309	1,208,874
Liabilities					
Deposits from banks	255,475	44,187	26,692	-	326,354
Due to customers	153,694	157,081	516,659	38,436	865,870
Derivative financial instruments	(63,679)	68,328	22,281	(19,149)	7,781
Other borrowed funds	50,606	-	-	-	50,606
Financial liabilities designated at fair value	-	441	-	-	441
Total financial liabilities	396,096	270,037	565,632	19,287	1,251,052
Net on-balance sheet financial position	(38,329)	(4,137)	266	22	(42,178)
Credit commitments	40,480	116,729	-	-	157,209

Notes to the consolidated financial statements (continued)

3.2.4 Interest rate risk

Interest rate risk affects both sides of the balance sheet. It is the Group's overall policy that when asset types are agreed for a business line, appropriate liabilities are taken on with matching tenor which limits the total interest rate risk. The Group is also exposed to interest rate basis risk. This is the risk inherent in having a mismatch between the bases used to calculate interest income on assets versus the basis used to calculate interest expense on liabilities. The majority of the Group's loans and advances to customers generate income based on the Bank of England Base Rate whilst the majority of the Group's liabilities incur interest expenses on a LIBOR basis. This mismatch is regularly monitored by the Group and is considered to be acceptable given market conditions and the margins charged on Base Rate loans.

Limits are agreed by each bank's Balance Sheet and Risk Committee (BSRC) which comprises senior management including each bank's chief executive. At each monthly meeting of the BSRC, reports monitoring this risk are provided and approved prior to submission to the board. The Zurich Bank Treasurer and the Head of Risk will provide the information to these meetings. This information is then passed to the Head of Risk of Zurich Bank for inclusion in Zurich Banks' BSRC for noting.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Where the interest rate risk of a particular category of asset or liability has been hedged using derivatives from a later time bucket interval to the "Up to 3 months" bucket, that category of asset or liability is shown in the "Up to 3 months" bucket.

	Group					Non-interest bearing	Trading	Total
	Up to 3 months	3-6 months	6 mths to 1 year	1-5 years	Over 5 years			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2009								
Assets								
Cash and balances with central bank	34,957	-	-	-	-	-	-	34,957
Loans and advances to banks	714,953	-	-	-	-	-	-	714,953
Loans and advances to customers	1,431,288	-	-	-	-	-	-	1,431,288
Derivative financial instruments	-	-	-	-	-	-	29,843	29,843
Financial assets designated at fair value	175,253	-	-	-	-	-	-	175,253
Financial investments available-for-sale	175,921	-	-	-	-	-	-	175,921
Total financial assets	2,532,372	-	-	-	-	-	29,843	2,562,215
Liabilities								
Deposits from banks	89,660	-	-	-	-	-	-	89,660
Due to customers	2,139,576	-	-	-	-	-	-	2,139,576
Derivative financial instruments	-	-	-	-	-	-	71,360	71,360
Other borrowed funds	96,187	-	-	-	-	-	-	96,187
Financial liabilities designated at fair value	410	-	-	-	-	-	-	410
Total financial liabilities	2,325,833	-	-	-	-	-	71,360	2,397,193
Cumulative interest repricing gap	206,539	206,539	206,539	206,539	206,539	206,539	165,022	165,022
As at 31 December 2008								
Total financial assets	2,005,567	-	-	-	-	-	12,306	2,017,873
Total financial liabilities	1,770,956	-	-	-	-	-	10,701	1,781,657
Cumulative interest repricing gap	234,611	234,611	234,611	234,611	234,611	234,611	236,216	236,216

Notes to the consolidated financial statements (continued)

	Company						Trading £'000	Total £'000
	Up to 3 months £'000	3-6 months £'000	6 mths to 1 year £'000	1-5 years £'000	Over 5 years £'000	Non- interest bearing £'000		
As at 31 December 2009								
Assets								
Cash and balances with central bank	34,957	-	-	-	-	-	-	34,957
Loans and advances to banks	882,756	-	-	-	-	-	-	882,756
Loans and advances to customers	518,054	-	-	-	-	-	-	518,054
Derivative financial instruments	-	-	-	-	-	-	9,013	9,013
Financial assets designated at fair value	175,253	-	-	-	-	-	-	175,253
Total financial assets	1,611,020	-	-	-	-	-	9,013	
	1,620,033							
Liabilities								
Deposits from banks	551,076	-	-	-	-	-	-	551,076
Due to customers	1,054,084	-	-	-	-	-	-	1,054,084
Derivative financial instruments	-	-	-	-	-	-	50,563	50,563
Other borrowed funds	96,187	-	-	-	-	-	-	96,187
Financial liabilities designated at fair value	410	-	-	-	-	-	-	410
Total financial liabilities	1,701,757	-	-	-	-	-	50,563	1,752,320
Cumulative interest repricing gap	(90,737)	(90,737)	(90,737)	(90,737)	(90,737)	(90,737)	(132,287)	(132,287)
As at 31 December 2008								
Total financial assets	1,199,570	-	-	-	-	-	9,304	
	1,208,874							
Total financial liabilities	1,243,271	-	-	-	-	-	7,781	1,251,052
Cumulative interest repricing gap	(43,701)	(43,701)	(43,701)	(43,701)	(43,701)	(43,701)	(42,178)	(42,178)

Notes to the consolidated financial statements (continued)

	Group						Trading £'000	Total £'000
	Up to 3 months £'000	3-6 months £'000	6 mths to 1 year £'000	1-5 years £'000	Over 5 years £'000	Non- interest bearing £'000		
As at 31 December 2008								
Assets								
Cash and balances with central bank	29,698	-	-	-	-	-	-	29,698
Loans and advances to banks	162,229	-	-	-	-	-	-	162,229
Loans and advances to customers	1,452,087	-	-	-	-	-	-	1,452,087
Derivative financial instruments	-	-	-	-	-	-	12,306	12,306
Financial assets designated at fair value	361,553	-	-	-	-	-	-	361,553
Total financial assets	2,005,567	-	-	-	-	-	12,306	2,017,873
Liabilities								
Deposits from banks	136,536	-	-	-	-	-	-	136,536
Due to customers	1,583,373	-	-	-	-	-	-	1,583,373
Derivative financial instruments	-	-	-	-	-	-	10,701	10,701
Other borrowed funds	50,606	-	-	-	-	-	-	50,606
Financial liabilities designated at fair value	441	-	-	-	-	-	-	441
Total financial liabilities	1,770,956	-	-	-	-	-	10,701	1,781,657
Cumulative interest repricing gap	234,611	234,611	234,611	234,611	234,611	234,611	236,216	236,216
As at 31 December 2007								
Total financial assets	1,784,815	-	-	-	-	-	-	21,238
	1,806,053							
Total financial liabilities	1,465,445	-	-	-	-	-	-	110,311
	1,575,756							
Cumulative interest repricing gap	319,370	319,370	319,370	319,370	319,370	319,370	230,297	230,297

Notes to the consolidated financial statements (continued)

	Company						Trading £'000	Total £'000
	Up to 3 months £'000	3-6 months £'000	6 mths to 1 year £'000	1-5 years £'000	Over 5 years £'000	Non- interest bearing £'000		
As at 31 December 2008								
Assets								
Cash and balances with central bank	29,698	-	-	-	-	-	-	29,698
Loans and advances to banks	271,224	-	-	-	-	-	-	271,224
Loans and advances to customers	537,095	-	-	-	-	-	-	537,095
Derivative financial instruments	-	-	-	-	-	-	9,304	9,304
Financial assets designated at fair value	361,553	-	-	-	-	-	-	361,553
Total financial assets	1,199,570	-	-	-	-	-	9,304	
	1,208,874							
Liabilities								
Deposits from banks	326,354	-	-	-	-	-	-	326,354
Due to customers	865,870	-	-	-	-	-	-	865,870
Derivative financial instruments	-	-	-	-	-	-	7,781	7,781
Other borrowed funds	50,606	-	-	-	-	-	-	50,606
Financial liabilities designated at fair value	441	-	-	-	-	-	-	441
Total financial liabilities	1,243,271	-	-	-	-	-	7,781	1,251,052
Cumulative interest repricing gap	(43,701)	(43,701)	(43,701)	(43,701)	(43,701)	(43,701)	(42,178)	(42,178)
As at 31 December 2007								
Total financial assets	1,144,241						2,438	1,146,679
Total financial liabilities	998,589	-	-	-	-	-	91,549	1,090,138
Cumulative interest repricing gap	145,652	145,652	145,652	145,652	145,652	145,652	56,541	56,541

Notes to the consolidated financial statements (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management process

The Zurich Bank Board is responsible for defining the liquidity management and control framework. The Board fulfils this responsibility by formulating the 'Liquidity Risk Policy' and ensuring that limits set are appropriate for its subsidiaries taking into account local circumstances and regulatory requirements. The Balance Sheet and Risk Committee (BSRC) of each bank have a responsibility for monitoring the implementation of the Liquidity Policy.

The process of managing liquidity includes:

- Asset and Liability mismatch reports are produced in each currency and on a sterling consolidated basis for each bank. The sterling consolidated reports are produced for each of the banks on a daily basis. These are reviewed to ensure compliance and any breaches are reported to the Treasurer of Zurich Bank, the Credit Team in Zurich Bank and the front office to rectify the breach;
- A sterling consolidated Maturity Mismatch report for each bank is produced on a monthly basis which presents the ALM mismatch report graphically, highlighting the cumulative mismatch and identifying the extent to which internal and regulatory limits are being adhered to;
- Through its subsidiary ZBIL, in the Isle of Man, the Group has fixed rate bond and instant access deposit products. In addition, it generates long term funds from the sale of equity indexed savings products known as Guaranteed Equity Bonds;
- As a result of current market conditions, the Group undertakes regular liquidity stress testing, assuming inter-alia a lengthening of the expected repayment profile for property development lending.
- Ongoing review of the annual liquidity and funding plan.
- Submission of liquidity returns to the Regulator.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as guarantees.

3.3.2 Funding approach

The Funding Policy identifies the sources of funding for the Group and the level of committed facilities that are available and are required to support the future growth of the Group. Sources of liquidity are regularly reviewed to maintain an appropriate diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative cash flows

The following table presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected behaviourally adjusted undiscounted cash inflows, with such behavioural adjustments being made on a prudent basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, items in the course of collection; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer deposits contractually repayable will be extended, particularly demand deposit and current accounts. The Group would also be able to meet unexpected net cash outflows by accessing additional funding sources such as committed bank lines.

Notes to the consolidated financial statements (continued)

	Up to 1 month £'000	1-3 months £'000	Group 3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2009						
Liabilities						
Deposits from banks	37,371	50,075	2,289	-	-	89,736
Due to customers	833,374	221,257	351,858	48,853	735,739	2,191,080
Other borrowed funds	-	1,450	4,445	7,143	168,051	181,089
Financial liabilities designated at fair value	-	-	-	-	410	410
Other liabilities	27,748	2,278	811	263	1,001	32,101
Total financial liabilities	898,493	275,060	359,403	56,258	905,201	2,494,417

Included above are cash outflows classified as Due to customers which relate to Guarantee Equity Bonds (GEBs). These are long term investment products but certain tranches do offer the customer the option to withdraw their deposits at short notice but subject to a substantial breakage fee. Historically, the Group's experience has been that a very small percentage of such GEBs are redeemed early and as such this represents a very stable source of longer term funding. On an expected maturity basis, the cash outflow relating to GEBs reported in the "Up to 1 month" classification of £239.8m (2008: £245.8m) would be spread across the later time buckets as follows: Up to 1 month £nil (2008: £4.0m); 1-3 months £13.2m (2008: £nil), 3-12 months £59.3m (2008: £64.5m), 1-2 years £96.9m (2008: £81.3m), and over 2 years £70.4m (2008: £96.0m).

	Up to 1 month £'000	1-3 months £'000	Company 3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2009						
Liabilities						
Deposits from banks	138,054	77,879	202,326	18,411	137,719	574,389
Due to customers	387,868	109,126	86,993	14,610	508,413	1,107,009
Other borrowed funds	-	1,450	4,445	7,143	168,051	181,089
Financial liabilities designated at fair value	-	-	-	-	410	410
Other liabilities	7,528	1,809	387	-	-	9,724
Total financial liabilities	533,450	190,264	294,152	40,163	814,593	1,872,621

Notes to the consolidated financial statements (continued)

	Up to 1 month £'000	1-3 months £'000	Group 3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2008						
Liabilities						
Deposits from banks	110,652	24,005	-	-	-	134,657
Due to customers	1,072,126	123,184	230,253	109,068	51,471	1,586,102
Other borrowed funds	4	587	2,680	3,571	105,369	112,211
Financial liabilities designated at fair value	-	-	-	-	441	441
Other liabilities	3,046	20,278	6,574	3,403	-	33,301
Total financial liabilities	1,185,828	168,054	239,507	116,042	157,281	1,866,712

	Up to 1 month £'000	1-3 months £'000	Company 3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2008						
Liabilities						
Deposits from banks	152,002	60,641	113,937	1,051	209	327,840
Due to customers	611,888	83,952	87,296	61,434	22,292	866,862
Other borrowed funds	4	587	2,680	3,571	105,369	112,211
Financial liabilities designated at fair value	-	-	-	-	441	441
Other liabilities	1,031	837	4,401	984	-	7,253
Total financial liabilities	764,925	146,017	208,314	67,040	128,311	1,314,607

3.3.4 Derivative cash flows

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward, currency swaps; and
- Interest rate derivatives: cross currency interest rate swaps.

The following table analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the consolidated financial statements (continued)

	Group					
	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2009						
Interest rate swaps						
Outflow	(26)	(82)	(1,627)	(1,954)	(3,842)	(7,531)
Inflow	1	505	1,775	2,082	4,491	8,854
Forward foreign exchange						
Outflow	(178,661)	-	-	-	-	(178,661)
Inflow	180,904	-	-	-	-	180,904
Equity derivatives						
Outflow	(442)	(45,888)	(5,558)	(14,860)	(38,581)	(105,329)
Inflow	75	854	288	99	237	1,553
Total outflow	(179,129)	(45,970)	(7,185)	(16,814)	(42,423)	(291,521)
Total inflow	180,980	1,359	2,063	2,181	4,728	191,311

	Company					
	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2009						
Interest rate swaps						
Outflow	(26)	(82)	(1,627)	(1,954)	(3,842)	(7,531)
Inflow	1	505	1,775	2,082	4,491	8,854
Forward foreign exchange						
Outflow	(178,652)	-	-	-	-	(178,652)
Inflow	180,896	-	-	-	-	180,896
Equity derivatives						
Outflow	(160)	(45,548)	(1,515)	(3,862)	(25,657)	(76,742)
Inflow	160	979	1,515	3,862	25,657	32,173
Total outflow	(178,838)	(45,630)	(3,142)	(5,816)	(29,499)	(262,925)
Total inflow	181,057	1,484	3,290	5,944	30,148	221,923

Notes to the consolidated financial statements (continued)

	Up to 1 month £'000	1-3 months £'000	Group 3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2008						
Interest rate swaps						
Outflow	(32)	(557)	(2,778)	(2,427)	(6,794)	(12,588)
Inflow	6	568	2,898	2,832	7,223	13,527
Forward foreign exchange						
Outflow	(214,944)	(34,408)	-	-	-	(249,352)
Inflow	213,591	38,434	-	-	-	252,025
Equity derivatives						
Outflow	(828)	(4,900)	(4,423)	(8,125)	(20,479)	(38,755)
Inflow	596	6	243	33	2,757	3,635
Total outflow	(215,804)	(39,865)	(7,201)	(10,552)	(27,273)	(300,695)
Total inflow	214,193	39,008	3,141	2,865	9,980	269,187

	Up to 1 month £'000	1-3 months £'000	Company 3-12 months £'000	1-2 years £'000	Over 2 years £'000	Total £'000
As at 31 December 2008						
Interest rate swaps						
Outflow	(30)	(557)	(2,778)	(2,427)	(6,794)	(12,586)
Inflow	4	568	2,898	2,832	7,223	13,525
Forward foreign exchange						
Outflow	(214,944)	(34,408)	-	-	-	(249,352)
Inflow	213,591	38,434	-	-	-	252,025
Equity derivatives						
Outflow	-	(3,080)	(14)	(25)	-	(3,119)
Inflow	586	-	-	-	-	586
Total outflow	(214,974)	(38,045)	(2,792)	(2,452)	(6,794)	(265,057)
Total inflow	214,181	39,002	2,898	2,832	7,223	266,136

Notes to the consolidated financial statements (continued)

3.3.5 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 34) are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 34) are also included below based on the earliest contractual maturity date.

(c) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable operating leases (Note 34) are summarised in the table below.

(d) Capital commitments

At the year end, the group had no material capital commitments.

	Group			
	No later than 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
As at 31 December 2009				
Loan commitments	188,807	-	-	188,807
Operating lease commitments	1,967	7,543	1,672	11,182
Guarantees, acceptances and other financial facilities	949	1,868	-	2,817
Total	191,723	9,411	1,672	202,806

	Company			
	No later than 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
As at 31 December 2009				
Loan commitments	89,424	-	-	89,424
Operating lease commitments	1,225	4,573	-	5,798
Guarantees, acceptances and other financial facilities	949	1,868	-	2,817
Total	91,598	6,441	-	98,039

Notes to the consolidated financial statements (continued)

	Group			Total £'000
	No later than 1 year £'000	1-5 years £'000	Over 5 years £'000	
As at 31 December 2008				
Loan commitments	396,577	-	-	396,577
Operating lease commitments	2,057	8,231	3,379	13,667
Guarantees, acceptances and other financial facilities	1,481	1,868	-	3,349
Total	400,115	10,099	3,379	413,593

	Company			Total £'000
	No later than 1 year £'000	1-5 years £'000	Over 5 years £'000	
As at 31 December 2008				
Loan commitments	157,209	-	-	157,209
Operating lease commitments	1,315	5,261	965	7,541
Guarantees, acceptances and other financial facilities	1,481	1,868	-	3,349
Total	160,005	7,129	965	168,099

3.4 Fair value of financial assets and liabilities

Derivative financial instruments, financial assets designated at fair value, financial assets available for sale and financial liabilities designated at fair value are disclosed as fair value on the face of the Group and Company Statement of Financial position.

Due to the short term nature of certain financial assets and liabilities, including loans and advances to banks, deposits from banks and due to customers, and the frequency of the interest rate resets, the carrying value of these financial instruments is deemed to be a close approximation of fair value. This fair value of these financial assets and liabilities is estimated by using discounted cash flow calculations based on the Group's current incremental lending/borrowing rates, which equate to market rates. Other borrowed funds, while of a long term nature, were drawn down on 30th December 2009 and will reset every 3 months at libor plus an additional margin up to the contractual repayment date of 30th December 2019. Therefore the amortised cost is deemed to be a fair approximation of the fair value of these liabilities.

In respect of loans and advances to customers, given the lack of liquidity in the markets at present, management have considered that this disclosure is not practicable. The book value less impairment provisions raised on loans and advances to customers is deemed to be a reasonable approximation of the fair value given that the majority of the loans are floating rate and reprice every 3 months. However; a significant level of judgement is involved in determining the level of specific and portfolio provisions.

3.5 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, human error, unauthorised activity and systems or external events. It is inherent in all businesses and encompasses a wide range of potential issues. The framework around the Group's operational risk is designed to maintain exposure within very low limits while at the same time allowing sufficient operational freedom to conduct the Group's business.

Notes to the consolidated financial statements (continued)

The risk management strategies adopted for each risk type of operational risk are dependent on the nature of the specific risk involved and typically include achieving one or more of the following objectives:

- lessen the likelihood of the risk occurring;
- lessen the impact of the risk should it occur;
- avoid the risk altogether through withdrawal from the risk activity;
- transfer the risk to another party (for example insurance).

As part of its operational risk framework the Bank has implemented a loss event management database to capture, assess, manage and report on operational risks; including related issues, actions and controls. It also captures loss event and key risk indicator data. Top down scenarios, which are based on management's overall view, are used to validate quantification and modeling. Risks are identified and action plans to mitigate the risks implemented. Regular reporting of operational risk incidents and updates on mitigates procedures is undertaken and submitted to the Balance Sheet and Risk Committee. The Group also manages its exposure by having a well embedded risk and controls culture. Its range of products is relatively small and it benefits from well established business rules.

3.6 Capital management

Objectives and Policies

The objectives of the Group's capital management policy are:

- to comply with the capital requirements set out by the regulators of the banking system where the entities within the Group operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of the business.

The Group's ICAAP (Internal Capital Adequacy Assessment Process) document sets out the framework for the Group's overall capital and regulatory risk management. This document is regularly reviewed and updated and is submitted for review and approval to the Board. On an ongoing basis, the Balance Sheet and Risk Committee will consider the ICAAP document to ensure that the bank is adequately capitalised considering its latest assessment of the market in which it is operating and that it has an appropriate asset allocation and origination strategy.

Capital adequacy and the use of regulatory capital are continually monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Financial Regulator (FR) for supervisory purposes.

The Group's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital and qualifying impairment allowances

The Group manages its capital in accordance with the capital requirements set by the Financial Regulator in Ireland which reflects the EU Capital Adequacy Directive and its preceding directives. These requirements set a floor under which capital levels must not fall. The Group seeks to maintain sufficient capital to ensure that these requirements are not breached.

Notes to the consolidated financial statements (continued)

How the Capital Management Objectives are met

The Group meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the Financial Regulator. The Group stress tests the capital held to ensure that under stressed conditions that it continues to comply with regulatory minimal ratios. It also seeks to minimise refinancing risk by managing the maturity profile of non-equity capital.

Capital management forms an integral part of the overall Group annual financial planning exercise which takes place each autumn for the following three full years. Thereafter the financial forecast is updated once a quarter where necessary to reflect any material changes to the operating or financial environment.

Notes to the consolidated financial statements (continued)

4. Critical accounting estimates and judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are continually evaluated.

(a) Impairment losses on loans and advances

A provisioning policy establishes the basis for identifying and reporting impaired loans and assessing whether a provision is required. It is the Credit Team within each of the Banks and the Head of Risk's responsibility to identify and report such situations to the Balance Sheet Risk Committee (BSRC). Those exposures which are causing concern (out of order and watch list classifications) are considered and recommendations in respect of any specific provisions are made.

If the loan is not already classified as out of order due to non payment or deteriorating security value it now will be classified as out of order. Specific impairment provisions above a de-minimus level require the agreement of BSRC, and all movements in such provisions are reported to the Board.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The provision is ultimately determined by management expectations of the performance of the market.

In carrying out a detailed review of the property portfolio the Group use professionally provided valuations to support its estimates of future cash flows. This includes seeking new professional valuations, where appropriate, or updating existing valuations in line with movements in the relevant property indices. Whilst the information provided by professionally provided valuations is indicative it is still dependent on factors such as liquidity in the market. Management also consider the work out strategies for all impaired and non-performing loans. This data, combined with management's knowledge and expertise of the UK and Irish markets and its individual customers, is used to estimate the future cash flows on a loan by loan basis.

(b) Fair value of derivatives

Derivatives, which include all customer and proprietary derivative transactions together with any associated hedges, are measured at fair value and the resultant profits and losses are included in net trading income. In the event of a market price not being readily available internally generated prices will be used. These prices are calculated using recognised formulae for the type of transaction using quoted market prices in active markets and discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments 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 the profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

(c) Deferred tax

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable. The Group has not recognised a deferred tax asset on losses generated in 2009 as based on the current available financial information, it is not probable that future taxable profits will be available against which unused taxable losses can be offset

Notes to the consolidated financial statements (continued)

5. Net interest income

	2009	2008
	£'000	£'000
Interest Income		
Loans and advances		
- to banks	2,513	6,392
- to customers	97,956	117,201
	100,469	123,593
Cash and short term funds	488	918
Financial investments available-for-sale	42	-
Derivatives at fair value through P&L	5,274	17,700
	106,273	142,211
Interest Expense		
Deposits from banks	(1,653)	(6,800)
Due to customers	(35,830)	(67,745)
	(37,483)	(74,545)
Subordinated Liabilities	(6,296)	(3,558)
	(43,779)	(78,103)

Interest income accrued, once a financial asset becomes impaired, is £0.8m (2008: £nil) and has been fully provided for.

6. Net fee and commission income

	2009	2008
	£'000	£'000
Fee and commission income		
Trust and other fiduciary fees	2,322	2,313
Other fees	1,496	652
	3,818	2,965
Fee and commission expense		
Brokerage fees paid	(187)	(204)
Other fees paid	(2,311)	(1,793)
	(2,498)	(1,997)

Notes to the consolidated financial statements (continued)

7. Net trading income/(expense)

	2009	2008
	£'000	£'000
Foreign exchange:		
- Transaction gains less (losses)	1,489	(49,966)
- Translation gains less (losses)	3,075	54,980
Securities and interest rate instruments	417	(682)
	4,981	4,332

Foreign exchange net trading income includes gains and losses from spot and forward contracts, and translated foreign currency assets and liabilities. Interest rate instruments include the results of interest rate and currency swaps and options.

8. Other operating income

	2009	2008
	£'000	£'000
Rental income	1,414	1,097
	1,414	1,097

Notes to the consolidated financial statements (continued)

9. Administrative expenses

	2009	2008
	£'000	£'000
Staff costs		
Wages and salaries	9,280	9,907
Social security costs	1,029	1,164
Pension costs	1,444	1,445
	11,753	12,516
Auditors' remuneration for audit services	262	295
Directors' emoluments for services as directors	292	266
Directors' salaries and other emoluments	843	908
Other administration expenses	12,654	11,598
Depreciation of property and equipment	921	574
Amortisation of intangible assets	1,853	1,613
Impairment of property and equipment	36	-
Impairment of intangible assets	4,145	-
	32,759	27,770

The average number of people employed directly or indirectly by the Group, analysed by location, during the year is as follows:

	2009	2008
Ireland	31	34
United Kingdom	81	79
Jersey	17	14
Isle of Man	21	20
	150	147

10. Other operating expenses

	2009	2008
	£'000	£'000
Operating lease rentals	3,344	2,676
Other	611	1,600
	3,955	4,276

Other administration expenses include a provision of £0.1m (2008: £1.6m) which is Dunbar Bank'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.

Dunbar Bank has provided for the present value of its estimated future liabilities in respect of these events. Were the FSCS unable to recover any of the amounts owed, Dunbar Bank's contingent liability would be £8.1m discounted or £9.8m undiscounted. (See also Note 34).

Notes to the consolidated financial statements (continued)

Zurich Bank International Limited paid an initial contribution of £0.3m to the statutory Isle of Man Depositors' Compensation Scheme under the Compensation of Depositors Regulations 2008. An additional provision of £0.3m was made in respect of future contributions to the Scheme.

The Isle of Man Depositors' Compensation Scheme provides compensation to a maximum of 100% of the first £50k or currency equivalent of individual depositors and £20k in any other case, subject to a maximum of £200m for all participants, in the event of the failure of a participant institution to meet its obligations to depositors.

Such a failure triggers the payment of a levy by each participant calculated at 0.125% of average deposit liabilities over such period preceding the levying of the contribution as deemed appropriate by the Scheme Manager, with a minimum annual contribution of £35k and a maximum annual contribution of £350k

11. Impairment charge for credit losses

	2009	2008
	£'000	£'000
Loans and advances to customers (note 17)	140,390	22,697

12. Income tax expense

	2009	2008
	£'000	£'000
Current Tax		
Irish Corporation tax		
Current year	521	(237)
Prior year	(265)	(28)
Foreign tax		
Current year	3,719	6,299
Prior year	(11)	(487)
	3,964	5,547
Deferred tax (Note 29)		
Origination and reversal of timing differences	(25)	(1,274)
Corporation tax on profit for this year	3,939	4,273

Notes to the consolidated financial statements (continued)

Further information about deferred income tax is presented in Note 29. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	2009	2008
	£'000	£'000
(Loss)/Profit before tax	(107,179)	15,720
Tax calculated at a tax rate of 12.5% (2008:12.5%)	(13,398)	1,964
Prior year under / (over) provision	(276)	(515)
Losses brought forward	-	(14)
Expenses not deductible for tax purposes	43	130
Depreciation (less than)/in excess of capital allowances	89	109
Other temporary differences	(67)	(88)
Income not subject to tax	(12)	(21)
Tax losses not utilised	15,645	-
Foreign earnings subject to different rates of tax	1,915	2,708
	3,939	4,273

13. Cash and balances with central banks

	Group and Company	
	2009	2008
	£'000	£'000
Freely available:		
Minimum Reserve balance	33,319	28,079
Restricted balances:		
Deposit protection account	1,638	1,619
	34,957	29,698

Restricted balances are not available for use in the Group's day-to-day operations. Balances with central banks and mandatory reserve deposits are floating rate assets. The deposit protection account is non interest bearing.

While the minimum reserve balance is freely available on any one day, a minimum average balance must be maintained over a one month period.

Notes to the consolidated financial statements (continued)

14. Loans and advances to banks

	Group	
	2009	2008
	£'000	£'000
Included in cash and cash equivalents (Note 32)	714,953	162,229
	714,953	162,229
<hr/>		
Current	714,953	162,229
	Company	
	2009	2008
	£'000	£'000
Included in cash and cash equivalents (Note 32)	675,162	184,196
Loans and advances to other banks	207,594	87,028
	882,756	271,224
<hr/>		
Current	710,183	236,662
Non current	172,573	34,562

The company has loans and advances to its subsidiaries of £238m as at 31 December 2009. (2008: £133m)

15. Derivative financial instruments and hedging activities

15.1 Derivatives

The Group uses a number of the following derivative instruments for economic hedging purposes.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate forwards that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Notes to the consolidated financial statements (continued)

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

Certain products held by the Group are subject to equity risk. The Group manages this equity price risk by entering into equity derivative financial instruments.

	Contract/ notional amount £'000	Group Fair Values	
		Assets £'000	Liabilities £'000
At 31 December 2009			
Derivatives marked to market at fair value			
Interest rate swaps	237,605	3,365	(2,058)
Forward foreign exchange	204,495	2,791	(561)
Total return equity swaps	204,440	-	(45,110)
Equity options held & written	1,361	7	-
Embedded derivatives	569,350	1,665	(12,868)
Equity index futures & swaps	569,350	21,966	(10,763)
Interest rate futures	1,201,088	49	-
		29,843	(71,360)
Total derivative assets/(liabilities) held for economic hedging		29,843	(71,360)
Total recognised derivative assets/(liabilities)			
Current		4,397	(46,899)
Non-current		25,446	(24,461)

Notes to the consolidated financial statements (continued)

	Contract/ notional amount £'000	Company Fair Values	
		Assets £'000	Liabilities £'000
At 31 December 2009			
Derivatives marked to market at fair value			
Interest rate swaps	77,605	3,337	(2,056)
Forward foreign exchange	338,280	2,791	(561)
Total return equity swaps	204,440	-	(45,110)
Equity options held & written	2,722	7	(7)
Embedded derivatives	-	-	-
Equity index futures & swaps	235,376	2,829	(2,829)
Interest rate futures	1,201,088	49	-
		9,013	(50,563)
Total derivative assets/(liabilities) held for economic hedging		9,013	(50,563)
Total recognised derivative assets/(liabilities)			
Current		3,161	(45,670)
Non-current		5,852	(4,893)
At 31 December 2008			
Derivatives marked to market at fair value			
Interest rate swaps	1,016,434	3,562	(1,740)
Forward foreign exchange	253,096	5,500	(2,689)
Total return equity swaps	358,482	-	(3,072)
Equity options held & written	1,504	44	-
Embedded derivatives	330,769	-	5,411
Equity index futures & swaps	330,769	3,200	(8,611)
Interest rate futures	510,000	-	-
		12,306	(10,701)
Total derivative assets/(liabilities) held for economic hedging		12,306	(10,701)
Total recognised derivative assets/(liabilities)			
Current		6,513	(5,934)
Non-current		5,793	(4,767)

Notes to the consolidated financial statements (continued)

	Contract/ notional amount £'000	Company Fair Values	
		Assets £'000	Liabilities £'000
At 31 December 2008			
Derivatives marked to market at fair value			
Interest rate swaps	607,209	3,760	(1,976)
Forward foreign exchange	253,108	5,500	(2,689)
Total return equity swaps	358,482	-	(3,072)
Equity options held & written	3,010	44	(44)
Interest rate futures	510,000	-	-
		9,304	(7,781)
<hr/>			
Total derivative assets/(liabilities) held for economic hedging		9,304	(7,781)
Total recognised derivative assets/(liabilities)			
Current		6,548	(5,969)
Non-current		2,756	(1,812)

15.2 Hedging activities

The hedging practices and accounting treatment are disclosed in Note 2.5. The Group uses derivatives for the purposes of economic hedges; it does not currently adopt any hedge accounting treatment in relation to these derivatives.

16. Financial assets designated at fair value

	Group and Company	
	2009 £'000	2008 £'000
Alternative Investments	175,253	361,553
	175,253	361,553

Equity securities have been designated as financial assets at fair value through profit and loss. This designation was made as there is a derivative in place to hedge the investment and to use another asset classification would result in an accounting mismatch between the performance of the investment and the hedging derivative. The year-end balance above includes unrealised gains of £24m (2008: £3m). All of the above securities were unlisted and none were issued by public bodies or banks

Notes to the consolidated financial statements (continued)

17. Loans and advances to customers

	Group	
	2009	2008
	£'000	£'000
Secured on Property	1,559,862	1,456,429
Other	29,953	21,004
Gross loans and advances	1,589,815	1,477,433
Less: allowance for impairment	(158,527)	(25,346)
Net	1,431,288	1,452,087
Current	1,330,258	1,278,953
Non-current	101,030	173,134

	Company	
	2009	2008
	£'000	£'000
Secured on Property	614,905	543,822
Other	14,733	1,174
Gross loans and advances	629,639	544,996
Less: allowance for impairment	(111,585)	(7,901)
Net	518,054	537,095
Current	450,400	417,843
Non-current	67,654	119,252

Allowance for impairment:

Reconciliation of allowance accounts for losses on loans and advances by class is as follows:

	Group		
	Secured on property £'000	Other £'000	Total £'000
Balance at 1 January 2009	25,131	215	25,346
Additional provisions made during the year	139,607	783	140,390
Exchange Differences	(2,771)	-	(2,771)
Total charged to income statement	136,836	783	137,619
Loans written off during the year as uncollectible	(4,346)	(108)	(4,454)
Amounts recovered during the year	-	16	16
Balance at 31 December 2009	157,621	906	158,527

Notes to the consolidated financial statements (continued)

	Company		
	Secured on property £'000	Other £'000	Total £'000
Balance at 1 January 2009	7,862	39	7,901
Additional provisions made during the year	105,797	691	106,488
Exchange Differences	(2,771)	-	(2,771)
Total charged to income statement	103,026	691	103,717
Loans written off during the year as uncollectible	-	(33)	(33)
Balance at 31 December 2009	110,888	697	111,585

	Group		
	Secured on property £'000	Other £'000	Total £'000
Balance at 1 January 2008	3,250	249	3,499
Additional provisions made during the year	22,514	183	22,697
Total charged to income statement	22,514	183	22,697
Loans written off during the year as uncollectible	(633)	(217)	(850)
Balance at 31 December 2008	25,131	215	25,346

	Company		
	Secured on property £'000	Other £'000	Total £'000
Balance at 1 January 2008	500	-	500
Additional provisions made during the year	7,362	43	7,405
Total charged to income statement	7,362	43	7,405
Loans written off during the year as uncollectible	-	(4)	(4)
Balance at 31 December 2008	7,862	39	7,901

Notes to the consolidated financial statements (continued)

18. Financial investments available-for-sale

	Group	
	2009	2008
	£'000	£'000
At 1 January 2009	-	-
Additions	175,882	-
Net unrealised loss on available-for-sale financial investments (Note 31)	(3)	-
Interest (Note 5)	42	-
At 31 December 2009	175,921	-
Current	175,921	-

19. Investments in associates

	Group	
	2009	2008
	£'000	£'000
Beginning of year	2,108	-
Investment in associate	-	2,150
Share of results	(284)	(58)
Share of tax	-	16
	2,108	2,108.00

	Company	
	2009	2008
	£'000	£'000
Investment at Cost	2,150	2,150

	Country of Incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	Interest held %
2009						
Tactica Premium Finance Limited	UK	681	(35)	401	(284)	26.38%

Notes to the consolidated financial statements (continued)

20. Intangible assets

	Group	
	Computer Software £'000	Total £'000
Cost		
At 31 December 2008	11,431	11,431
Additions	3,153	3,153
Impairment	(6,124)	(6,124)
Disposals/Write-Off	(30)	(30)
At 31 December 2009	8,430	8,430
Accumulated Depreciation		
At 31 December 2008	2,809	2,809
Impairment	(1,979)	(1,979)
Disposals/Write-Off	(30)	(30)
Charge for year	1,853	1,853
At 31 December 2009	2,653	2,653
Net Book Amount		
At 31 December 2008	8,622	8,622
At 31 December 2009	5,777	5,777

	Company	
	Computer Software £'000	Total £'000
Cost		
At 31 December 2008	7,244	7,244
Additions	2,810	2,810
Impairment	(6,124)	(6,124)
Disposals/Write-Off	(30)	(30)
At 31 December 2009	3,900	3,900
Accumulated Depreciation		
At 31 December 2008	1,380	1,380
Impairment	(1,979)	(1,979)
Disposals/Write-Off	(30)	(30)
Charge for year	1,058	1,058
At 31 December 2009	429	429
Net Book Amount		
At 31 December 2008	5,864	5,864
At 31 December 2009	3,471	3,471

An impairment review was performed for intangible assets during the year. Certain assets of Zurich Bank were deemed to be impaired and were written off in full.

Notes to the consolidated financial statements (continued)

21. Property, plant and equipment

	Group			Total £'000
	Leasehold Improvements £'000	Computer Equipment £'000	Office Equipment £'000	
Cost				
At 31 December 2008	1,402	2,385	1,572	5,359
Additions	0	256	33	289
Impairment	-	(48)	-	(48)
Disposals/Write-Off	(6)	(345)	(291)	(642)
At 31 December 2009	1,396	2,248	1,314	4,958
Accumulated Depreciation				
At 31 December 2008	1,119	784	480	2,383
Impairment	-	(12)	-	(12)
Disposals/Write-Off	(6)	(345)	(291)	(642)
Charge for year	232	440	249	921
At 31 December 2009	1,345	867	438	2,650
Net Book Amount				
At 31 December 2008	283	1,601	1,092	2,976
At 31 December 2009	51	1,381	876	2,308
Company				
	Leasehold Improvements £'000	Computer Equipment £'000	Office Equipment £'000	Total £'000
Cost				
At 31 December 2008	1,364	1,111	467	2,942
Additions	-	261	-	261
Impairment	-	(48)	-	(48)
Disposals/Write-Off	(6)	(345)	(291)	(642)
At 31 December 2009	1,358	979	176	2,513
Accumulated Depreciation				
At 31 December 2008	1,111	509	322	1,942
Impairment	-	(12)	-	(12)
Disposals/Write-Off	(6)	(345)	(291)	(642)
Charge for year	225	183	85	493
At 31 December 2009	1,330	335	116	1,781
Net Book Amount				
At 31 December 2008	253	602	145	1,000
At 31 December 2009	28	644	60	732

An impairment review was performed for tangible assets during the year. Certain assets of Zurich Bank were deemed to be impaired and were written off in full.

Notes to the consolidated financial statements (continued)

22. Other assets

	Group	
	2009	2008
	£'000	£'000
Receivable from ZFS group undertakings	4,429	1,937
Receivable from Investment brokers	74,247	-
Current taxation	-	200
Prepayments and accrued income	6,990	2,997
Other assets	2,094	1,086
	87,760	6,220
<hr/>		
Current	87,760	6,220

	Company	
	2009	2008
	£'000	£'000
Receivable from ZFS group undertakings	4,406	1,922
Receivable from Investment brokers	74,247	-
Current taxation	-	200
Prepayments and accrued income	981	1,187
Other assets	1,406	438
	81,040	3,747
<hr/>		
Current	81,040	3,747

Receivables from investment brokers consist of equity securities for which a redemption request was made as at 31st December 2009. The balance above includes unrealised gains of £21m.

Notes to the consolidated financial statements (continued)

23. Deposits from banks

	Group	
	2009	2008
	£'000	£'000
Deposits from other banks	89,660	136,536
	89,660	136,536
Current	89,660	136,536

Included in group deposits from banks are cash collateral balances of £18.4m (2008: £nil) which relate to amounts held by the Group as collateral for sale and repurchase agreements and derivatives.

	Company	
	2009	2008
	£'000	£'000
Deposits from other banks	551,076	326,354
	551,076	326,354
Current	412,083	325,154
Non current	138,993	1,200

The company has deposits from its subsidiaries of £533m as at 31 December 2009. (2008: £252m)

24. Due to customers

	Group	
	2009	2008
	£'000	£'000
Corporate/Interbank customers	466,763	271,592
Retail customers	1,069,937	671,966
Group companies	602,876	639,815
	2,139,576	1,583,373
Current	1,260,387	1,505,498
Non current	879,189	77,875

	Company	
	2009	2008
	£'000	£'000
Corporate/Interbank customers	466,763	271,592
Retail customers	2,040	1,499
Group companies	585,281	592,779
	1,054,084	865,870
Current	580,003	788,195
Non current	474,081	77,675

Notes to the consolidated financial statements (continued)

Deposits from certain counterparties and guaranteed equity bonds carry fixed interest rates. However, this interest rate exposure is swapped into floating via the use of swap derivatives. All other customer deposits carry variable rates.

Included in customer deposits are cash collateral balances of £20.5m (2008: £35.9m) which relate to amounts held by the Group as collateral for derivatives with another ZFS group company.

25. Other borrowed funds

		Group and Company	
		2009	2008
		£'000	£'000
Loan capital	Interest rate (%)		
Subordinated notes			
£35m Floating rate 10 year note maturity Dec 2019	Libor + 3.6%	35,000	-
Eur69m Floating rate 10 year note maturity Dec 2019	Libor + 3.6%	61,187	-
£50m Floating rate perpetual subordinated note	Libor + 1.3%	-	50,606
		96,187	50,606
<hr/>			
Current		-	606
Non current		96,187	50,000

On 30 December 2009, Zurich Bank issued £35m and Eur 69m of floating rate 10 year subordinated debt.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2008: nil).

26. Financial liabilities designated at fair value

		Group and Company	
		2009	2008
		£'000	£'000
Debt securities in issue		410	441
<hr/>			
Non current		410	441

This designation was made as the debt is a hybrid contract that contains an embedded derivative. The contractual undiscounted amount that will be required to be paid at maturity of the above debt is £0.4m.

There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value in 2009 (2008: nil).

Notes to the consolidated financial statements (continued)

27. Other liabilities

	Group	
	2009	2008
	£'000	£'000
Due to ZFS group undertakings	6,266	3,504
Accruals and deferred income	22,546	23,543
Other	3,289	3,694
At 31 December	32,101	30,741

	Company	
	2009	2008
	£'000	£'000
Due to group undertakings	3,403	1,030
Accruals and deferred income	5,011	5,501
Other	1,310	722
At 31 December	9,724	7,253

28. Other provisions

	Group	
	2009	2008
	£'000	£'000
At 1 January	350	350
Utilised during year	(300)	-
At 31 December	50	350

Provisions for litigation relate to legal costs that Dunbar Bank believes it will incur in respect of previously impaired loans. These provisions are expected to be utilised within the next year.

Notes to the consolidated financial statements (continued)

29. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate appropriate to the relevant jurisdiction.

The movement on the deferred income tax account is as follows:

	Group	
	2009	2008
	£'000	£'000
At 1 January	2,550	1,280
Additions/(Reductions)	25	1,274
Exchange Differences	-	(4)
At 31 December	2,575	2,550

	Company	
	2009	2008
	£'000	£'000
At 1 January	57	62
Additions/(Reductions)	(57)	(6)
Exchange Differences	-	1
At 31 December	-	57

Deferred income tax assets and liabilities are attributable to the following items:

	Group	
	2009	2008
	£'000	£'000
Accelerated tax depreciation	28	(60)
Impairment provisions disallowed	2,210	1,852
Other short term differences	337	758
	2,575	2,550

	Company	
	2009	2008
	£'000	£'000
Accelerated tax depreciation	-	57
	-	57

Notes to the consolidated financial statements (continued)

The deferred tax credit/(charge) in the income statement comprises the following temporary differences:

	Group	
	2009	2008
	£'000	£'000
Accelerated tax depreciation	142	70
Impairment provisions disallowed	303	1,223
Other short term differences	(420)	(19)
	25	1,274
	<hr/>	
	Company	
	2009	2008
	£'000	£'000
Accelerated tax depreciation	(57)	57
Impairment provisions disallowed	-	(62)
	(57)	(5)

Deferred tax of £15.6m has not been recognised in respect of losses incurred in 2009 as the Group has deemed that it is not probable that sufficient future profits will be available to offset these losses.

30. Pensions

Certain employees of Zurich Bank are members of a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The charge for the year to the profit and loss account was £419k (2008: £352k).

Employees of Dunbar Bank plc and Zurich Trust Limited (ZTL) are members of two funded defined benefit schemes operated by a ZFS Group company, 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 2009 which identified a deficit of £300m. It is not possible to identify Dunbar Bank plc's share of the underlying assets and liabilities on a consistent and reasonable basis, and so the Group has accounted for the scheme as a defined contribution scheme. Contributions by the Group to the principal scheme in the period were £967k (2008: £948k), being 20% of pensionable salary.

Details of the two defined benefit schemes and the disclosures required appear in the accounts of Zurich Employment Services Limited and Zurich (UK) General Services Limited.

Staff working for Zurich Bank International Limited (ZBIL) are employed by another Group undertaking, Zurich Employment Services Limited, and therefore ZBIL does not directly incur staff or pension costs. The Company incurs management charges from Zurich Employment Services Limited, via its recharge from Zurich Financial Services (Isle of Man) Group Services Limited. The pension charge for the year to the profit and loss account of ZBIL was £248k (2008: £145k).

Notes to the consolidated financial statements (continued)

31. Equity

	Group	
	2009	2008
	£'000	£'000
Share capital (Note 31a)	54,222	31,215
Share premium account	223,778	128,785
Retained earnings/(losses)	(45,727)	65,391
Available-for-sale reserve (Note 31d)	(3)	-
	232,270	225,391

	Company	
	2009	2008
	£'000	£'000
Share capital (Note 31a)	54,222	31,215
Share premium account	223,778	128,785
Retained earnings/(losses)	(78,829)	42,189
	199,171	202,189

(a). Share Capital

	Group and Company	
	2009	2008
	£'000	£'000
Authorised:		
100,000,000 Ordinary shares of £1 each	100,000	100,000
30,000 ordinary shares of €1.27 each	23	23
Allotted and fully paid:		
Equity:		
54,199,120 ordinary shares of £1 each	54,199	31,192
30,000 ordinary shares of €1.27	23	23
	54,222	31,215

(b). Share Premium

Premiums from the issue of shares are reported in the share premium.

(c). Retained earnings/(losses)

Retained earnings/(losses) consist of the statutory reserve, which has to be formed in accordance with national law, and undistributed profits/(losses) from previous years.

Notes to the consolidated financial statements (continued)

(d). Available-for-sale reserves

	Group	
	2009	2008
	£'000	£'000
At 1 January 2009	-	-
Net unrealised loss on available-for-sale financial investments	(3)	-
At 31 December 2009	(3)	-

This is the unrealised loss on the fair value of financial investments available-for-sale, net of tax.

32. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months to maturity.

	Group	
	2009	2008
	£'000	£'000
Cash nostro accounts	58,020	55,769
Due from other banks	656,933	106,460
	714,953	162,229

	Company	
	2009	2008
	£'000	£'000
Cash nostro accounts	23,402	49,282
Due from other banks	651,760	134,914
	675,162	184,196

33. Fair Value of financial instruments

A. Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument;

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data;

Level 3: valuation techniques for which any significant input is not based on observable market data.

Notes to the consolidated financial statements (continued)

The tables below show the financial instruments recorded at fair value by level of the fair value hierarchy:

	Group			Total Fair Value £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets				
Derivative financial instruments				
Interest rate swaps	-	3,365	-	3,365
Forward foreign exchange	-	2,791	-	2,791
Equity options held & written	-	-	7	7
Embedded derivatives	-	1,665	-	1,665
Equity index futures & swaps	-	21,798	168	21,966
Interest rate futures	49	-	-	49
	49	29,619	175	29,843
Financial assets designated at fair value	-	-	175,253	175,253
Financial investments available-for-sale	175,921	-	-	175,921
	175,970	29,619	175,428	381,017
Financial Liabilities				
Derivative financial instruments				
Interest rate swaps	-	(2,058)	-	(2,058)
Forward foreign exchange	-	(561)	-	(561)
Total return equity swaps	-	-	(45,110)	(45,110)
Embedded derivatives	-	(12,700)	(168)	(12,868)
Equity index futures & swaps	-	(10,763)	-	(10,763)
	-	(26,082)	(45,278)	(71,360)
Financial liabilities designated at fair value	-	(410)	-	(410)
	-	(26,492)	(45,278)	(71,770)

Notes to the consolidated financial statements (continued)

	Company			Total Fair Value £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets				
Derivative financial instruments				
Interest rate swaps	-	3,337	-	3,337
Forward foreign exchange	-	2,791	-	2,791
Equity options held & written	-	-	7	7
Equity index futures & swaps	-	2,829	-	2,829
Interest rate futures	49	-	-	49
	49	8,957	7	9,013
Financial assets designated at fair value	-	-	175,253	175,253
	49	8,957	175,260	184,266
Financial Liabilities				
Derivative financial instruments				
Interest rate swaps	-	(2,056)	-	(2,056)
Forward foreign exchange	-	(561)	-	(561)
Total return equity swaps	-	-	(45,110)	(45,110)
Equity options held & written	-	-	(7)	(7)
Equity index futures & swaps	-	(2,829)	-	(2,829)
	-	(5,446)	(45,117)	(50,563)
Financial liabilities designated at fair value	-	(410)	-	(410)
	-	(5,856)	(45,117)	(50,973)

B. Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, forward foreign currency exchange contracts, equity index swaps and embedded derivatives. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations.

The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rate and interest rate curves.

Derivative products valued using a valuation technique with significant non-market observable inputs are primarily equity index swaps and total return equity swaps. These derivatives are traded over the counter and are valued using models which calculate the present value. The models incorporate various non-observable inputs which include options on equity indices, house price indices, stocks, commodities, commodity indices and currencies.

Notes to the consolidated financial statements (continued)

Financial assets designated at fair value

Financial assets designated at fair value using a valuation technique with significant non-market observable inputs are hedge fund investments.

These hedge funds are on a fully recourse basis under a total return equity swap from Zurich Financial Services. In addition, Zurich Bank holds collateral in respect of 10% of the cost of the investment.

Financial investments available for sale

Financial investments available for sale value using quoted prices in active markets are UK government gilts.

Financial liabilities designated at fair value

Financial liabilities designated at fair value using a valuation technique with market observable inputs consists of a liability in respect of a hybrid contract that contains an embedded derivative.

The liability relates to an over the counter trade and is valued using models which calculate the present value. The observable market inputs include the Amsterdam Exchange Index.

C. Movements in level 3 financial instruments measured at fair value

The following tables contain a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 Jan 2009 £'000	Fair value gain/(loss) in income statement £'000	Group Gain/(loss) recorded in equity £'000	Net purchases, sales and settlements £'000	At 31 Dec 2009 £'000
Financial Assets					
Derivative financial instruments					
Equity options held & written	44	(37)			7
Equity index futures & swaps	111	57	-	-	168
	155	20	-	-	175
Financial assets designated at fair value	361,553	(7,494)	-	(178,806)	175,253
	361,708	(7,474)	-	(178,806)	175,428
Financial Liabilities					
Derivative financial instruments					
Total return equity swaps	(3,072)	(42,038)	-	-	(45,110)
Embedded derivatives	(111)	(57)	-	-	(168)
	(3,183)	(42,095)	-	-	(45,278)

Notes to the consolidated financial statements (continued)

	At 1 Jan 2009 £'000	Fair value gain/(loss) in income statement £'000	Company Gain/(loss) recorded in equity £'000	Net purchases, sales and settlements £'000	At 31 Dec 2009 £'000
Financial Assets					
Derivative financial instruments					
Equity options held & written	44	(37)			7
	44	(37)	-	-	7
Financial assets designated at fair value	361,553	(7,494)	-	(178,806)	175,253
	361,597	(7,531)	-	(178,806)	175,260
Financial Liabilities					
Derivative financial instruments					
Embedded derivatives	(3,072)	(42,038)	-	-	(45,110)
Equity index futures & swaps	(44)	37	-	-	(7)
	(3,116)	(42,001)	-	-	(45,117)

D. Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

The total return equity swap that is classified as level 3 is a hedge of the financial assets designated at fair value which are also classified as level 3. Similarly the level 3 embedded derivatives are a hedge of the level 3 equity index swaps. Gains/(losses) are offsetting in the income statement and therefore the bank is not exposed to fair value movements on its level 3 instruments.

Notes to the consolidated financial statements (continued)

34. Contingent liabilities and commitments

(a) Loan commitment, guarantee and other financial facilities

At 31 December 2009, the Group had the contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	Group	
	2009 Contract amount £'000	2008 Contract amount £'000
Commitments		
Undrawn standby facilities, credit lines and other commitments to lend:		
- less than 1 year	188,807	396,577
Memorandum items – contingent liabilities	8,349	10,139
Guarantees	2,817	3,349

The above contingent liabilities are liabilities of Dunbar Bank. Dunbar Bank has an undiscounted contingent liability of £9.8m (discounted £8.1m) in the event that the FSCS is unable to recover any of the amounts owed by the clients of a number of failed institutions (Note 10).

Dunbar Bank also has a building guarantee of £0.21m. 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.

	Company	
	2009 Contract amount £'000	2008 Contract amount £'000
Commitments		
Undrawn standby facilities, credit lines and other commitments to lend:		
- less than 1 year	89,424	157,209
Guarantees	2,817	3,349

The Zurich Property Deposit Guarantee involves the provision of property deposit guarantees to property developers as a substitute for customers placing cash deposits. Deposit Guarantees in issue at 31 December 2009 amounted to £2.8m (2008: £3.3m).

Notes to the consolidated financial statements (continued)

(b) Operating lease commitments

	Group	
	2009	2008
	£'000	£'000
No later than 1 year	1,967	2,057
Later than 1 year and no later than 5 years	7,543	8,231
Later than 5 years	1,672	3,379
	11,182	13,667

	Company	
	2009	2008
	£'000	£'000
No later than 1 year	1,225	1,315
Later than 1 year and no later than 5 years	4,573	5,261
Later than 5 years	-	965
	5,798	7,541

The Group has entered into commercial leases on premises. These leases have an average life of between seven and nine years.

35. Related-party transactions

The immediate parent undertaking as at year end is ZCMC II Holdings Limited, incorporated in Ireland. The smallest and largest group of undertakings for which Group financial statements are drawn up and of which the Zurich Bank Group is a member is the Zurich Financial Services Group, incorporated in Switzerland. Copies of its Group financial statements are available from its registered office at Mythenquai 2, 8022 Zurich, Switzerland.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The interest charged to and paid by related parties are at normal commercial rates. For the year ended 31 December 2009, the Group has not made any provision for doubtful debts relating to amounts owed by related parties.

The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

(a) Amounts due from related parties

	Group	
	2009	2008
	£'000	£'000
Derivative financial instruments	87	-
Loans and advances to customers	6	22
Other assets	4,335	2,946
	4,428	2,968
Interest income	5,273	17,692

Notes to the consolidated financial statements (continued)

(a) Amounts due from related parties

	Company	
	2009	2008
	£'000	£'000
Derivative financial instruments	87	242
Loans and advances to customers	6	22
Loans and advances to banks	237,849	133,449
Other assets	4,408	2,961
	<hr/> 242,350	<hr/> 136,674
Interest income	9,164	30,416

No provisions have been recognised in respect of loans given to related parties (2008: nil).

There were no loans advanced to directors or key management personnel at any time during the year.

The loans and advances to associated companies are unsecured, carry variable interest rates and repayable on demand.

(b) Amounts due to related parties

	Group	
	2009	2008
	£'000	£'000
Due to customers	582,571	592,779
Other borrowed funds	96,187	50,606
Other liabilities	5,721	3,045
	<hr/> 684,479	<hr/> 646,430
Interest expense	21,090	15,609

(b) Amounts due to related parties

	Company	
	2009	2008
	£'000	£'000
Deposits from banks	532,511	251,525
Due to customers	585,281	592,779
Derivative financial instruments	7	44
Other borrowed funds	96,187	50,606
Other liabilities	3,403	1,030
	<hr/> 1,217,389	<hr/> 895,984
Interest expense	31,375	25,964

The above deposits are unsecured, carry variable interest rates and are repayable on demand.

Notes to the consolidated financial statements (continued)

(c) Other transactions with related parties

	Group	
	2009	2008
	£'000	£'000
Fee and commission income	235	-
Fee and commission expense	154	456
Administration expenses	7,612	3,761

(c) Other transactions with related parties

	Company	
	2009	2008
	£'000	£'000
Fee and commission income	577	243
Fee and commission expense	3,814	2,717
Administration expenses	-	2,582

(d) Key Management Compensation

	Group	
	2009	2008
	£'000	£'000
Salaries and other short-term benefits	1,844	1,973
Post-employment benefits	179	126
	2,023	2,099

(d) Key Management Compensation

	Company	
	2009	2008
	£'000	£'000
Salaries and other short-term benefits	676	692
Post-employment benefits	92	35
	767	727

(e) Loans to and deposits from Directors and Key Management

	Group	
	2009	2008
	£'000	£'000
Loans	-	-
Deposits	92	1,087
	92	1,087

2 directors and other key management personnel (2008:3), including close family members, have deposits with the Group which are on the same terms as offered to members of the general public or other ZFS staff.

Notes to the consolidated financial statements (continued)

36. Shares in group undertakings

On 24 May 2005, the Bank acquired the ordinary shares of Zurich Bank International Limited (ZBI) a bank licensed by the Financial Services Commission in the Isle of Man. The registered address of ZBI is; 43-51 Athol Street, Douglas, Isle of Man, IM99 1ET and it has a statutory year-end of 31 December. ZBI is engaged in providing a range of banking services which are directly aimed at the expatriate market. Furthermore the company provides loans to businesses and individuals to facilitate the financing of their insurance premiums. The total investment in ZBI at 31 December 2009 amounted to £15.7m (2008: £7.7m).

On 1 August 2005, the Bank acquired the ordinary shares of Dunbar Group plc a company incorporated in the UK with a registered address of 9 - 15 Sackville Street London W1A 2JP. Dunbar Group plc had a subsidiary Dunbar Bank plc a bank licensed by the Financial Services Authority. During 2005, a voluntary members winding-up commenced for Dunbar Group plc and as part of this process, its shares in Dunbar Bank plc were transferred to Zurich Bank. Dunbar Group plc was liquidated during 2006. The principal activity of Dunbar Bank plc is the provision of a range of banking and related services, including property-lending activities. The total investment in Dunbar Bank plc at 31 December 2009 amounted to £237.5m (2008: £230.5m).

By acquiring Dunbar Bank plc on 1 August 2005, the Group also acquired Dunbar Bank plc's subsidiary, Dunbar Nominees Limited, a company incorporated in the UK with a registered address of the 33 Jermyn Street, London, SW1Y 6AD. This company acts, from time to time, as a nominee for clients of the Group.

On 22 November 2006, the Bank acquired the ordinary shares of Zurich Trust Limited, a company incorporated in Jersey with a registered office of One Castle Street, St Helier, Jersey, Channel Islands, JE2 3RT. The principal activity of Zurich Trust Limited is the provision of trustee and management services. The total investment in Zurich Trust Limited at 31 December 2009 amounted to £0.6m (2008: £0.6m). Zurich Trust Limited had two subsidiaries, Z Nominees Limited and Z Secretaries Limited with registered office at One Castle Street, St Helier, Jersey, Channel Islands, JE2 3RT.

On 29 May 2007, the Group set up a new subsidiary, Zurich Fund Management Services Limited, which was incorporated in Jersey. This new company will be used to provide fund administration services to clients of the Group.

37. Investments in associates

On 24 December 2008 the group acquired a 26.38% share in a premium financing company, Tactica Premium Finance Company Limited, which is incorporated in the UK. The registered address is Penrose House, 67 Hightown Road, Banbury, Oxfordbridge OX16 9BE. This stake was acquired in order to gain a stronger presence in the UK premium financing market.

Notes to the consolidated financial statements (continued)

38. Parent support

Zurich Insurance Company, a company organised under the laws of Switzerland, issued a surety bond (the "Surety Bond") dated 23 September 1997. The terms of the Surety Bond provide that, where called upon, Zurich Insurance Company will cause Zurich Bank to have a net worth of at least US\$10 million. In addition, Zurich Insurance Company will, upon request, provide on a timely basis an amount of funds needed by the Company in order to meet its financial payment obligations to counterparties under financial products instruments (as defined in the Surety Bond). The obligations of Zurich Insurance Company under the Surety Bond are limited to an amount equal to US\$3 billion. The Surety Bond is governed by the laws of the State of New York.

On 21 June 2001, Zurich Financial Services and Zurich Group Holding (each a "Zurich Party") jointly and severally issued a guaranty (the "Zurich Guaranty") in favour of Zurich Bank. The terms of the Zurich Guaranty provide that if Zurich Bank requires funds to make any payment or delivery required under the terms of any Guaranteed Obligation (as defined in the Zurich Guaranty), the Zurich Parties will, jointly and severally, upon the request of Zurich Bank, provide on a timely basis the amount of funds that such Zurich Bank needs in order to meet its obligations. Each Zurich Party's payment obligations under the Zurich Guaranty are irrevocable, unsecured and unsubordinated obligations of such Zurich Party and rank pari passu with all other unsecured and unsubordinated obligations of such Zurich Party. Each Zurich Party's obligations under the Zurich Guaranty may not be assigned, transferred or delegated to any other person. The Zurich Guaranty is governed by the laws of the State of New York.

39. Events after the balance sheet date

There have been no significant events since the balance sheet date.

40. Approval of financial statements

The directors approved the financial statements on 25 March 2010.

