GE Capital Services Limited

Directors' report and financial statements

31 December 2006
Registered number 3343181

Directors' report and financial statements

Contents

Directors' report

The directors present their Directors' report and financial statements of GE Capital Services Limited (the "Company"), together with the consolidated financial statements of the Company and its subsidiaries (the "Group"), for the year ended 31 December 2006

Business Overview

The Group is well established in the UK consumer credit market providing a range of finance products to consumers It has traditionally concentrated on store cards offered through retailers and motor finance loans through car dealerships but more recently the product range has been expanded to include credit cards and unsecured personal loans During 2006, the Group successfully launched its GE Money brand, providing direct to consumer finance products in addition to its existing retailer-branded products

At 31 December 2006, the Group's total assets were £3 9 billion (2005 £4 5 billion), with 8 5 million active card and loan accounts in the UK

The Group also operates a small but growing corporate payments business that provides travel and expense and purchasing cards to corporate clients Total assets at 31 December 2006 were £63 million (2005 £42 million), being 1 6% of the Group's total assets As this is not yet a material part of the Group it is not intended to address it specifically within this report

A Bank Board comprising executive, non-executive and independent directors manages the Group There are three operating divisions reporting to the Board, being the cards, loans and corporate payment divisions There is a formal risk management framework that is effected through committees and these are detailed later in this report

The Group is wholly owned within the General Electric Company (a company incorporated in the USA) and is financed through a mix of equity and loans from fellow subsidiary undertakings of the ultimate parent

Market Overview

The market is characterised by a high degree of competition and ever more demanding and sophisticated customers Product boundaries are increasingly blurred with multiple borrowing solutions available to the customer, unsecured loans, overdrafts and credit cards are all competing with one another and with traditional point of sale lending

In the wider economy, inflation, unemployment and levels of personal insolvency have all risen through 2006

The card industry saw a decline in outstandings between 2005 and 2006, with credit card outstandings falling 4% from £118 billion to £113 billion and store card outstandings falling 5% from £3 7 billion to £3 5 billion

Two thirds of adults in the UK hold a credit card, and one third have three or more, with most newly issued cards going to an existing cardholder Offers of 0% balance transfers remain a popular mechanism to encourage customers to switch card providers

Credit card write off rates for the market reached 7% during 2006, continuing the upward trend seen from December 2004 when the rate was below 4% The proportion of write offs due to insolvencies has risen over this period from 20% to 30% due largely to the rapid growth in Individual Voluntary Arrangements (IVA's)

The motor finance market has seen a consistent decline in the usage of point of sale finance The Internet, accessibility to direct lenders and the increased financial knowledge of consumers have all contributed to the declining volume and number of finance deals written in 2006 The number of point of sale finance deals written in the motor finance market in 2006 fell by 9% when compared to 2005 Sales volumes also fell, but to a lesser extent (5%) due to the continued increase in average loan value (£10,823 in 2006 compared to £10,283 in 2005)

The picture was similar in the UK unsecured personal loan market during 2006, with the slowdown attributed to increased levels of debt, decreased amounts of available spend, and the growth in personal insolvencies

Directors' report *(continued)*

Strategy

Cards Strategy

Our focus in 2006 was on managing existing and acquiring new retailer-branded card programmes, whilst leveraging our relationship-marketing platform and capabilities

Given consumer preferences, we continued to open an increasing proportion of retailer-branded credit cards and migrate more of our existing store card customers onto the retailer-branded proposition, to the extent that credit card receivables grew to 30% of total card receivables (12% 2005) Our ongoing investment in developing customer value propositions was a key driver behind this growth

A practical example of our innovation was the successful re-launch of a leading client's credit card programme, with the proposition being recognised as "Most Successful Credit Card Enhancement Programme of the Year" at the 2007 Credit Card Awards GE Money was also a finalist for the "Best Credit Card Design of the Year" award for our online programme and "Best New Credit Card Product of the Year" for our GE Money Transformation Card product

Overall, sales on our card products increased to £2 4 billion in 2006, an increase of 6% on 2005, with particularly strong growth in credit card sales Total customer receivables stayed flat at £1 4 billion

Loans Strategy

Our intention in 2006 was to maintain lending volume and assets whilst earning enhanced margins However, an extremely competitive market prevented us from achieving all our goals Our gross new lending of £1 5 billion in 2006 was down on the prior year total of £1 8 billion whilst customer receivables fell from £2 6 billion to £2 1 billion

Despite the difficult market environment, we were successful in achieving a number of strategic goals that position us well for future growth

We have been successful in refining our network of intermediary auto partners to ensure ongoing focus with those that can deliver strong performance We have also been successful in developing our Internet loan capabilities, a move that will allow us to take full advantage of this low cost, high growth acquisition channel Additionally, in January 2006, the Group purchased the remaining share capital of a personal loan joint venture, which now sees us well placed to deliver unsecured personal loans direct to the consumer

Regulatory Environment

The regulatory environment continues to be challenging in the retail finance sector

Payment Protection Insurance (PPI)

The FSA continued its thematic review into the sale of PPI The work that it carried out during the second half of 2005 led it to take enforcement action against a number of firms during 2006 The Company was subject to that enforcement process and in January 2007 received a £610,000 fine We have worked closely with the FSA to enhance our insurance systems, processes and controls We have also launched an agreed remediation process that includes an extensive customer contact programme

Competition Commission report on store cards

In July 2006 the Competition Commission published its final remedies following its investigation into store cards The four main findings were that a rate warning must be printed on statements where the APR is above 25%, that the option to pay the full balance outstanding on the account by direct debit must be offered, that insurance must be unbundled to allow PPI to be offered separately from other forms of insurance and further general improvements to the information provided on statements The deadline for these changes is 1 May 2007

Directors' report (continued)

Balance Sheet Review

A combination of competitive pressures experienced across the industry and the strategic exit of a £200 million tranche of commercial lending has led to a decrease in assets from £4 5 billion to £3 8 billion in 2006 The Group is financed by fellow subsidiary undertakings of the General Electric Company and funding balances have decreased in line with asset movement from £1 5 billion to £1 1 billion at the end of 2006

Capital

The Group's capital for regulatory purposes reported at December 2006 remained stable at £2 4 billion, with the decline in risk weighted assets from £4 3 billion to £3 6 billion leading to an increase in the consolidated capital ratio to 63% The Group is adopting the standard approach for credit risk and the standardised approach for operational risk from January 2008 to achieve Basel II compliance

Income Analysis

The profit for the year before tax is £93 4 million (2005 £144 4 million) The decrease from prior year is largely attributable to the reduction in net interest income associated with lower receivables and change in our product mix

Net interest income is driven by the finance charges applied to outstanding balances on customer accounts, offset by the cost of funding those receivables There has been a reduction of £53 3 million in the year

Other income, derived from insurance commissions, arrears fees and other product commissions fell in 2006 This is explained in earlier sections of this report

Effective management of our cost base has however allowed us to achieve productivity savings with underlying administration expenses before exceptional costs falling by £10 2 million to £288 6 million, which was 3% of the total These savings were offset by the charge-off of the premium paid on the buyout of a partner in a joint venture lending company

Loan impairments continue to impact results for most participants in the unsecured lending market, although our focus on underwriting strategies during late 2005 and early 2006 has seen a stabilisation in our level of bad debt losses whilst many in our industry have seen increased loan impairment charges In addition, we have sold certain portfolios of debt at a premium to net book value, which has led to an overall reduction in the bad debt charge from £193 4 million in 2005 to £176 6 million in 2006

Social Environment

The Group appreciates the social problems that can be created by a lack of financial awareness and is committed to providing clear information about our own products and about the wider financial market This is an integral part of our social and corporate responsibility, and we continue our partnerships with Credit Action and CCCS (Consumer Credit Counselling Service), two leading debt advice charities, with whom we created the money education website www moneybasics co uk, which contains a wide range of simple, clear, independent money management information

We have also joined forces with The Institute of Chartered Accountants in England & Wales and the Personal Finance Education Business to help improve financial literacy in schools Our partnership has developed a programme of initiatives that raises awareness amongst secondary school pupils of the importance of managing their finances

In addition to such initiatives, the business is also committed to supporting our local community, especially in Leeds We are involved with the local charity Learning Partnerships and assist with reading schemes in local primary schools by providing employees with time off to assist in helping children to learn to read During the year, GE Money employees have volunteered in carrying out a number of local urban regeneration projects

Directors' report *(continued)*

Our Employees

The Group's goal is to create and sustain an inclusive environment where all employees feel they have the opportunity to succeed and where diversity is embraced The Group has a strong culture built on its core values and recognises employee's contributions and achievements through its performance management and reward and recognition processes

The Group believes in open communication with its employees This is achieved through a variety of channels including conferences and the regular publication of the GE Money magazine covering a wide range of topical issues as identified by employees Employees are encouraged to create personal development plans and have the opportunity to participate in a range of training programmes to help them achieve their goals

The business also gives sympathetic consideration to applications for employment vacancies from disabled persons Successful applicants are given appropriate assistance and training and have the same career prospects as other employees Should employees become disabled during their employment, every assistance is given to enable them to continue their career

We value our employees and as such we pay close attention to their health, safety, and wellbeing, having particular regard to the Health and Safety at Work Act 1974

Risks and Uncertainties

The Group seeks to appropriately and proactively manage all the risks pertaining to its activities The principal risks inherent within our business are credit risk, market risk, liquidity risk and operational risk

We have a formal structure for managing risk within the Group, comprising of two key elements a well-established credit risk function and a formal risk management framework

The role of the credit risk function is to set credit policy in line with the risk appetite of the business, to monitor and report on adherence to the credit policy, and to continually evaluate and refine our consumer underwriting strategies

Key components of the current risk management framework comprise the Credit Committee, the Assets and Liabilities Committee and the Audit Committee The Audit Committee provides independent oversight of the risk management framework and control systems of the Group and is chaired by an independent non-executive director

All of the above committees operate under Terms of Reference with delegated authority from the Bank Board of Directors

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet their obligations to us as they become due The Group has two main types of credit risk, being retail credit risk arising from the card and loan credit based products available to consumers and commercial credit risk arising from limited commercial lending to car dealerships

Retail credit risk is continually evaluated by reviewing underwriting criteria to determine if the loss expectation from the lending is in line with the Group's risk appetite Most of our underwriting decisions are executed through automated decision systems that are consistent with our underwriting policy Any exceptions are referred to an experienced team of underwriters that evaluate the specifics of the case within the overall credit policy guidelines to make a final decision The underwriting authority is delegated with a rigorous process Compliant execution of the underwriting policy is monitored for both automated and judgemental underwriting and any policy exceptions are escalated immediately to management A summary of the portfolio underwriting performance is published monthly and reported to the Bank Board at least quarterly

Commercial credit risk is managed by a specialist team within the credit risk function and is overseen by the central Credit Committee This team underwrites all new loans and monitors existing loans, which are primarily with car dealerships Commercial loans are approved subject to the Bank's lending policy, which takes into account loan value and credit rating of the counterparty The team also maintain the policy and limits in respect of commercial credit risk and monitor compliance with the limits, providing reports to the Credit Committee on performance of the commercial portfolios

Directors' report *(continued)*

Market Risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in interest rates, exchange rates or other market prices The Group does not undertake any trading activities and therefore the principal element of exposure to market risk is the interest rate risk

Interest rate risk arises on the products that we offer It is the risk of exposure due to the mismatch between the re-pricing dates of interest bearing assets and liabilities on the balance sheet This risk is managed through the matching of fixed rate portfolios to fixed rate debt over the expected maturity profile of each portfolio of assets in line with the Group's interest rate matching policy The policy states that the fixed proportion is determined taking into account the overall debt to equity ratio of the Group and is approved by the Board and monitored by the Asset and Liabilities Committee In 2006 we have complied with the stated policy of matching 80% to 120% of fixed rate assets with a debt profile of similar maturity

The Financial Reporting Standard 13 "Derivatives and other financial instruments" ("FRS 13") numerical disclosure in Note 30a of the notes to the financial statements does not illustrate the true anticipated matching of interest rate risk as FRS 13 requires disclosure to show the earlier of re-pricing or contractual maturity, rather than the earlier of re-pricing or expected maturity As a result, this does not reflect the behavioural characteristics of our portfolio maturity, which typically matures well in advance of its contractual payment period

Foreign currency risk arises as a result of activity undertaken by the business when lending funds in currencies other than sterling This is managed where appropriate by foreign exchange currency liabilities being matched with assets denominated in the same foreign currency No net income hedge is undertaken as total foreign income is currently insignificant for the Business

Liquidity Risk

Liquidity risk is the risk that the business is not able to meet its financial obligations as they fall due, or can do so only at excessive cost The objective of our liquidity policy is therefore to enable us to maintain sufficient liquid assets to cover cash flow imbalances and fluctuations in funding, to enable us to meet all our financial obligations

The day-to-day management of liquidity is the responsibility of the Group's treasury team, which manages our portfolio of liquid assets and our contingency funding plans Our liquidity risk policy is monitored by the Asset and Liabilities Committee, which receives monthly reports on our liquidity position We also comply with regulatory guidelines established by the FSA that govern the scope and nature of the Group's holdings of liquid assets The Group has available committed standby facility lines that are available to assist in the maintenance of liquidity levels These facilities have not been drawn upon during the year

The Group finances its operations through a mixture of equity and borrowings from fellow subsidiary undertakings of the General Electric Company In respect of liquidity risk, the Group's policy is for all borrowing lines to have a maturity of five years or more

Operational Risk

Operational risk has recently been defined with the Basel II context as the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events For the purpose of managing operational risk, we divide it into a number of discrete areas of risk that include, for example, process management, systems failure and fraud risk

The Group has always managed these risks through policies, procedures and controls primarily on a functional basis The capture, measurement and control procedure to manage operational risk has evolved towards an enterprise wide strategy with co-ordinated functional involvement

Directors' report *(continued)*

Future Developments

As stated in the business overview, 2006 was a challenging year for the Group within the wider consumer finance industry We expect 2007 to be little different Loan impairment will continue to be a key risk and it is expected that the level of regulatory activity in the industry will continue to increase Nonetheless, the Group is well placed to take advantage of opportunities in the unsecured consumer finance market and will continue to participate in this market and pro-actively manage regulatory compliance

The Group is looking to expand its business by growing its card and loans assets and exploring additional distribution channels Key to this growth is the embedding of a customer centric culture incorporating the FSA's Treating Customer Fairly principles

Proposed dividend and transfer to reserves

The retained profit for the financial year is £79 9 million (2005 £69 3 million), which the directors propose to transfer to reserves

The directors do not recommend a dividend for the year ended 31 December 2006 (2005 £ nil)

Directors

The directors who held office during the year under review are listed below, together with names of those directors who held office at the date of this report

BJ Cooper (Chairman) (resigned 15 December 2006)

GSC Morrison (Acting Chairman) (non-executive)

BAF Burn (independent non-executive)

JA Lusher (independent non-executive)

B Gilligan (non-executive)

L Perry (resigned 31 May 2007)

J S MacPhail

B Devine (appointed 28 June 2006)

SW Sinclair (resigned 11 September 2006)

L O Lopez (resigned 29 September 2006)

I E Reid (appointed 16 February 2007)

N K Sparrow (appointed 16 March 2007)

R Harvey (appointed 19 April 2007)

E D Cameron (appointed 31 May 2007)

Directors' report *(continued)*

Political and charitable contributions

The Group made no political contributions during the period Donations to UK charities amounted to £13,719 (2005 £61,166)

Payment to creditors

The Group's policy with regard to the payment of its suppliers is to agree payment terms at the start of the relationship with the supplier The Group makes every effort to conform to the agreed payment terms

Disclosure of information to auditors

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

Auditors

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

By order of the board

E D Cameron
Director

6 Agar Street
London
WC2N 4HR

29 June 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

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

Independent auditors' report to the members of GE Capital Services Limited

We have audited the group and parent company financial statements (the "financial statements") of GE Capital Services Limited for the year ended 31 December 2006, which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Reconciliations of Movements in Shareholders' Funds, and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 10

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2006 and of the Group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
Leeds
LS1 4DW

29 June 2007

Consolidated profit and loss account
for the year ended 31 December 2006

	Note	2006 £'m	2005 £'m
Interest receivable	2	**562 9**	664 1
Interest payable	4	**(76 8)**	(124 7)
Net interest income		**486 1**	539 4
Fees and commissions receivable	5	**128.5**	146 0
Fees and commissions payable		**(94 9)**	(98 3)
Other operating income	3	**120.4**	113 5
Administrative expenses		**(305 8)**	(298 8)
Depreciation and amortisation	13/14	**(63.1)**	(63 4)
Provisions for bad and doubtful debts	10	**(176.6)**	(193 4)
Operating profit		**94 6**	145 0
Share of operating loss of joint ventures	12	**(0.7)**	(0 6)
Profit on ordinary activities before taxation	6	**93 9**	144 4
Tax on profit on ordinary activities			
Ongoing	9	**(31.5)**	(68 3)
Group relief	9	**17.5**	(6 8)
Profit for the financial year	26	**79.9**	69 3

All amounts above relate to continuing operations

The historical cost profit is as stated in the consolidated profit and loss account above

The Group has no recognised gains or losses in either year other than the profit for the financial year shown above

Reconciliations of Movements in Shareholders' Funds
for the year ended 31 December 2006

	Group 2006 £'m	Group 2005 £'m	Company 2006 £'m	Company 2005 £'m
Profit for the financial year	**79.9**	69 3	**(2.0)**	(2 0)
Credit in relation to share based payments	**0.3**	-	-	-
Net increase in equity shareholders' funds	**80 2**	69 3	**(2.0)**	(2 0)
Opening equity shareholders' funds	**2,420.4**	2,349 1	**841.6**	841 6
Increase in Share Premium	-	2 0	-	2 0
Closing equity shareholders' funds	**2,500 6**	2,420 4	**839.6**	841 6

Consolidated Balance Sheet
at 31 December 2006

	Note	2006 £'m	2005 £'m
Assets			
Cash and balances at central banks		**1 8**	1 6
Loans and advances to banks, repayable on demand		**15.6**	9 4
Loans and advances to customers	10	**3,431 3**	3,988 2
Interests in joint ventures - Share of Gross Assets		**8.1**	83 4
Interests in joint ventures - Share of Gross Liabilities		**(8 4)**	(83 0)
	12	**(0.3)**	0 4
Intangible fixed assets	13	**115.1**	145 6
Tangible fixed assets	14	**16 2**	17 9
Amounts owed by Group undertakings	15	**12 0**	0 6
Other assets	17	**83.4**	127 8
Prepayments and accrued income	18	**144.4**	162 5
Total assets		**3,819.5**	4,454 0
Liabilities			
Amounts owed to Group undertakings	15	**1,078.6**	1,580 2
Debt securities in issue	19	**0 8**	0 9
Other liabilities, accruals and deferred income	20	**239 5**	252 5
Subordinated liabilities	16	**-**	200 0
		1,318.9	2,033 6
Equity shareholders' funds			
Called up share capital	23	**342.3**	342 3
Share premium account	24	**504.9**	504 9
Other reserves	25	**0.3**	-
Profit and loss account	26	**1,653.1**	1,573 2
Shareholders' funds		**2,500.6**	2,420 4
Total Liabilities		**3,819.5**	4,454 0

These financial statements were approved by the Board of Directors on 21 June 2007

Signed on behalf of the Board of Directors by

E D Cameron
Director

Company Balance Sheet
at 31 December 2006

	Note	2006 £'m	2005 £'m
Assets			
Shares in Group undertakings	11	**875.7**	875 7
Total assets		**875.7**	875 7
Liabilities			
Amounts owed to Group undertakings	15	**36.1**	34 1
		36 1	34 1
Equity shareholders' funds			
Called up share capital	23	**342 3**	342 3
Share premium account	24	**504 9**	504 9
Profit and loss account	26	**(7 6)**	(5 6)
Shareholders' funds		**839.6**	841 6
Total Liabilities		**875.7**	875 7

These financial statements were approved by the Board of Directors on March 2007

Signed on behalf of the Board of Directors by

E D Cameron
Director

Notes *(forming part of the financial statements)*

1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements

In these financial statements the following new standards have been adopted for the first time

- FRS 20 'Share-based payments'

The accounting policy under this new standard is set out below together with an indication of the effect of its adoption The corresponding amounts in these financial statements have not been restated as the effect of adopting FRS 20 is not material

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards, and under the historical cost accounting rules These financial statements have also been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups

The financial statements have been prepared in accordance with the Statements of Recommended Practice issued by both the British Bankers Association and the Finance and Leasing Association

The Group is considered to have only one segment, being the provision of consumer credit finance in the UK

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2006 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet

Where a group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows Such arrangements are reported in the consolidated financial statements on the same basis

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account

Goodwill and amortisation

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, being between three and fifteen years

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off

Notes *(continued)*

1 Accounting Policies *(continued)*

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably

Intangible assets are amortised to nil by equal annual instalments over their estimated useful life, being between three and fifteen years

Tangible fixed assets and depreciation

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows

Motor vehicles	-	Four years straight line basis or over life of lease
Fixtures and fittings	-	Ten years straight line basis
Computer hardware and office machinery	-	Three to five years straight line basis, dependent on type

Significant purchased software costs are capitalised and depreciated on a straight line basis over their estimated useful life up to a maximum of five years

Bad and doubtful debts

A specific provision is established by calculation of expected losses based upon impairment that has been identified before the balance sheet date in relation to each loan portfolio primarily through the application of provisioning models, or by specific identification of individual cases where practical A general provision is established by calculation of expected losses from impairment which is known, through experience, to have occurred but which has not yet been identified This is calculated primarily through application of provisioning models

The provisioning models applied use historical information on the arrears performance of each portfolio to predict the amount of the debt at the balance sheet date that will be irrecoverable

Interest on doubtful debts ceases to be recognised when there is a reasonable doubt over the collectability of principal and/or interest in accordance with the loan agreement

All bad debts are written off against the provision in the period in which they are classified as irrecoverable The amount necessary to bring the provisions to their assessed levels net of write offs and recoveries is charged to the profit and loss account

Leases where the Group is a lessee

Where the Group enters into a lease that entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease' The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within other liabilities Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Finance lease and hire purchase receivables

Assets leased to customers that transfer substantially all the risks and rewards associated with ownership other than legal title are classified as finance leases Amounts receivable under finance leases and hire purchase contracts which are in the nature of finance leases, are included under 'Loans and advances to customers' Leasing balances are stated in the balance sheet after deduction of unearned income allocated to future periods and provisions for bad and doubtful rentals

Notes *(continued)*

1 Accounting Policies *(continued)*

Income from such leasing contracts is credited to the profit and loss account so as to give a constant rate of return on the net cash invested over each period

Pensions and other post retirement benefits

The Group participates in pension schemes providing either benefits based on final pensionable pay or benefits based on the amounts contributed The assets of the schemes are held separately from those of the Group

Contributions payable by the Group to the defined contribution pension schemes are charged to the profit and loss account

The Group is also a member of three defined benefit pension schemes but is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the schemes as if they were defined contribution schemes As a result, the amount charged to the Group's profit and loss account represents the contributions payable to the schemes in respect of the accounting period

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date with any gains or losses included in the profit and loss account

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Provision is made for all timing differences between accounting and taxable profit Where the recovery of a deferred tax asset is doubtful, the asset is written down to its recoverable amount

Income and cost recognition

Interest receivable and payable is recognised on an accruals basis

Unearned income on fixed loan instalment credit is deducted from loans and advances to customers on the balance sheet Costs relating to opening of new accounts, being principally commissions, volume bonuses payable to intermediaries, retailers, or brokers, and other directly attributable account opening costs, are deferred These costs are amortised to the profit and loss account in line with the recognition of income on the underlying products Commissions receivable from retailers on the opening of an account are recognised in the profit and loss account so as to give a constant yield over the life of the account A proportion of commissions receivable on sale of related insurance products is recognised on sale of the product with the remainder deferred and released over the life of the policy to provide for clawback of commissions on early termination of policies

Share based payments

Certain employees of the Group are selected to participate in share options and restricted stock units of General Electric Company under the terms of the General Electric Long Term Incentive Plan The share option programme allows employees to acquire shares of General Electric Company The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2006 is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting

Notes (continued)

2 Interest receivable

	2006	2005
	£'m	£'m
Interest from customers	**562 2**	662 6
Bank interest	**0.7**	1 5
	562.9	664 1

3 Other operating income

Other operating income comprises principally cross sell income, arrears fees and other fees relating to the processes for collecting delinquent debt, consultancy services and other ancillary income

4 Interest payable

	2006	2005
	£'m	£'m
Interest payable on loans from fellow subsidiary undertakings	**74.8**	123 5
Interest payable on non recourse finance	**-**	0 8
Finance charges payable in respect of finance lease and hire purchase contracts	**0.1**	0 2
Interest payable on debt securities in issue	**-**	0 1
Other interest	**1 9**	0 1
	76.8	124 7

5 Fees and commissions receivable

	2006	2005
	£'m	£'m
Commission income receivable on loans to customers (see below)	**45.0**	39 9
Insurance commission	**83.5**	106 1
	128.5	146 0

Commission income is received from certain retailers in respect of loans to customers and the provision of marketing services

6 Profit on ordinary activities before taxation

	2006	2005
	£'m	£'m
Profit on ordinary activities before taxation is stated after charging		
Exceptional write-off of intangible fixed asset (see note 11a)	**17 1**	-
Amortisation of goodwill and intangible fixed assets	**57.0**	56 6
Depreciation	**6.1**	6 8
Rentals payable on operating leases		
Buildings	**5.7**	6 2
Plant and machinery	**0 2**	0 3
Loss on sale of fixed assets	**0.2**	0 1

Notes *(continued)*

6 Profit on ordinary activities before taxation *(continued)*

Auditors' remuneration and expenses	2006 £'m	2005 £'m
Audit of these financial statements	0 4	0 4
Audit of financial statements of subsidiaries	0 1	0 1
Other services relating to taxation	-	-
Other	-	-
	0.5	0 5

7 Staff numbers and costs

An analysis of staff costs in the year is as follows

	Group 2006 £'m	2005 £'m
Staff costs		
Wages and salaries	66 0	69 6
Share based payments (see note 22)	0.5	-
Social security costs	6.4	7 2
Other pension costs (see note 28)	8.9	6 3
Redundancy costs	0 6	2 9
	82.4	86 0

The average number of persons employed (full time equivalents) by the Group (including directors) during the year, analysed by category, was as follows

	Number of employees Group 2006	2005
Sales and administration	2,260	2,309

8 Remuneration of Directors

	2006 £'m	2005 £'m
Directors' remuneration for the year was as follows		
Directors' emoluments	1.1	1 6
Contributions to pension schemes	0.1	0 1
Compensation for loss of office	0.4	-
Total remuneration	1.6	1 7

The number of directors to whom retirement benefits are accruing under defined benefit schemes within the General Electric Company are as follows

	2006 Number	2005 Number
Defined benefit schemes	6	7

Notes *(continued)*

8 Remuneration of Directors *(continued)*

The emoluments of B Gilligan, GSC Morrison and SW Sinclair in relation to their services for the Group are borne by other subsidiaries of General Electric Company They are directors and employees of other group companies and do not specifically receive any remuneration in respect of their services to the Group and it was not possible to determine an appropriate proportion of their services on behalf of the Group Consequently their emoluments are not disclosed within these financial statements

The emoluments of the highest paid director were £825,930 (2005 £387,628) The highest paid director was not a member of a defined benefit scheme in either year

9 Taxation

	2006	2005
	£'m	£'m
a) Analysis of charge in year		
Current tax at 30% (2005 30%)	37 6	17 4
Adjustment in respect of prior years	2 3	7 9
Group relief	(17 5)	6 8
Share of joint ventures' current tax	(0.1)	(0 2)
Total Current Tax	22.3	31 9
Deferred Tax (note 21)		
Origination and reversal of timing differences	7 5	40 4
Adjustment in respect of prior years	(15.8)	2 8
Total Deferred Tax	(8.3)	43 2
Tax on Profit on Ordinary Activities	14 0	75 1
b) Factors effecting the current tax charge for the year		
Profit on ordinary activities before tax	93.9	144 4
Current tax at 30% (2005 30%)	28.2	43 3
Effects of		
Depreciation in excess of capital allowances	(4 3)	(1 1)
Other timing differences	(3.2)	(39 3)
Expenses not deductible for tax purposes	16 8	14 3
Adjustment in respect of prior years	2.3	7 9
Group relief	(17 5)	6 8
Current tax charge for year	22.3	31 9

In 2006 and 2005 there were amounts for group relief surrendered to/from Group companies for no consideration by fellow subsidiary undertakings of the General Electric Company

Any future tax charges may be impacted by the announced change in the rate of corporation tax from 30% to 28%, effective from 1 April 2008 The impact of this has not been quantified in the financial statements, as the directors do not consider it practicable to do so

Notes *(continued)*

10 Loans and Advances to Customers

	Group 2006 £'m	Group 2005 £'m
Repayable		
On demand or at short notice	**99.2**	188 9
Within three months	**358 7**	607 6
After three months but within one year	**797.3**	842 1
In the second to fifth years	**1,892 6**	1,957 5
Over five years	**283.5**	392 1
Total	**3,431.3**	3,988 2

Included in the analysis above is the balance of non performing assets of £67 1 million before provision (2005 £81 0 million) and £34 5 million after provision (2005 £42 7 million) Non performing assets are defined as assets falling 90 days past due

Loans and advances to customers are stated after provision for bad and doubtful debts An analysis of the movement in this provision is as follows

Group	**Specific £'m**	**General £'m**	**Total £'m**
At 1 January 2006	(115 5)	(34 3)	(149 8)
Arising on acquisition (see note 11a)	(7 4)	-	(7 4)
(Charge)/credit in the year	(185 5)	8 9	(176 6)
Write off net of recoveries	199 2	-	199 2
At 31 December 2006	(109 2)	(25 4)	(134 6)

Mortgage Loans – Securitised Balances

Prior to the acquisition of Malvern House Acquisition Limited (MHAL) by the Company, subsidiaries of MHAL raised finance through the securitisation of mortgage portfolios The trading results of the securitisation companies are disclosed in note 11b

During the prior year, the securitised mortgage loans of Originated Mortgage Loans 4 plc and Originated Mortgage Loans 5 plc were transferred to another Group subsidiary in return for cash consideration of £21,655,000 and £23,125,000 respectively At the same time, the respective quasi-subsidiaries redeemed the Mortgage-Backed Floating Rate Notes, thus eliminating the securitised balances from the Group balance sheet

Notes *(continued)*

11 Shares in Group Undertakings

Company	£'m
Cost	
At 1 January 2006 and 31 December 2006	875.7

The names of the Company's subsidiaries (all of which are registered in England and Wales, have co-terminous year ends, and are included within the consolidation), together with their principal activities are set out below All companies are wholly owned, except where otherwise stated

Subsidiary undertakings as at 31 December 2006	Principal activity
GE Capital Bank Limited	Provision of retail credit facilities
GE Capital Global Consumer Finance Limited	Management and administration services
GCF UK Auto Lending Limited	Provision of commercial lending
Malvern House Acquisition Limited*	Holding Company
B G Holdings Limited	Holding Company
Nationwide Credit Corporation Limited*	Holding Company
Burton Financial Services Limited*	Non trading
GE Consumer Credit Services Limited	Provision of retail credit facilities
igroup limited*	Management Company
igroup BDA limited*	Secured lending
Time Retail Finance Limited	Provision of retail credit facilities
Time Finance Limited*	Non trading
GE UK Loans Limited	Holding Company
First National Tricity Finance Limited	Provision of retail credit facilities
Retail Financial Services Limited *	Provision of retail credit facilities

Notes *(continued)*

11 Shares in Group Undertakings *(continued)*

The following companies were all dormant in the year under review

GE Capital Pension Trustees Ltd
igroup Holdings Limited *
DR Collections 2 Limited *
Viking Collection Services Limited *
Tuttle & Sons Limited *
DR Collections 1 Limited *

The following subsidiaries were liquidated on 21 July 2006
Burton Business Finance Limited
TRF Factors Limited *
First Personal Financial Services Limited *
Welbeck Finance Limited *
Debenhams Finance Limited
Time Group Business Services Limited *
Welbeck Cardholder Services Limited *

The following subsidiaries were liquidated on 24 July 2006
Cromarty Leasing Limited
Welbeck Overseas Limited *
Time Retail Services Limited *

The issued share capital of all the Company's subsidiaries and quasi-subsidiaries consists of ordinary share capital and all companies are registered in England and Wales and operate in Great Britain

* Held by a subsidiary undertaking None of the subsidiaries are banks or listed on a stock exchange

11a Acquisition of Retail Financial Services Limited

On 31 January 2006 the Group acquired the remaining 50 1% share capital of Retail Financial Services Limited, the joint venture that it had entered into with HBOS plc in 2004

	50 1% book value at date of acquisition	Adjustments	50 1% Fair value at date of acquisition
	£'m	£'m	£'m
Loans and advances to customers	74 0	(7 4)	66 6
Deferred tax asset	0 2	-	0 2
Total assets	74 2	(7 4)	66 8
Amounts owed to Group undertakings	(72 6)	-	(72 6)
Other liabilities	(1 5)	-	(1 5)
Total liabilities	(74 1)	-	(74 1)
Total net liabilities			(7 3)
Premium paid on acquisition			17 1
Total consideration			9 8
Consisting of			
Cash			9 8

The fair value adjustment was applied to the 50 1% share of the portfolio of loans acquired and was based on the expected future cashflows discounted using an appropriate discount rate

The premium paid on acquisition was written off to the profit and loss account on acquisition as an exceptional operating expense within the year, as it is not supported by future expected discounted cashflows of this portfolio

Retail Financial Services Limited made a net loss after tax of £478,000 from 1 January 2006 to the date of acquisition In the year ended 31 December 2005 the loss for the financial year was £759,000

Notes (continued)

11b Quasi-subsidiaries

The directors consider that the following single purpose companies which have previously been consolidated in the financial statements, are "quasi-subsidiaries", as defined in Financial Reporting Standard 5 "Reporting the Substance of Transactions"

Company	Principal activity
Originated Mortgage Holdings Limited	Securitisation vehicle holding company
Originated Mortgage Loans 1 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 2 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 3 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 4 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 5 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 6 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 7 plc	Securitisation vehicle (in Members Voluntary Liquidation)
Originated Mortgage Loans 8 plc	Securitisation vehicle (in Members Voluntary Liquidation)

All of the above companies, except for Originated Mortgage Holdings Limited, were placed into Members Voluntary Liquidation on 23 November 2005

None of the companies traded in the year, except Originated Mortgage Holdings Limited, following the winding up of securitisation arrangements

The aggregated summarised results of the quasi-subsidiaries (as consolidated) for the period under review are as follows

	2006	2005
	£'m	£'m
Income Statement		
Interest receivable	-	2 5
Interest payable	-	(1 4)
Net interest income	-	1 1
Operating costs	-	(1 2)
Loss before taxation	-	(0 1)

The quasi-subsidiaries, under the terms of their Articles of Association and of each of the Securitisations, were obliged to distribute substantially all excess realised profits back to the originators within the Group In the year to 31 December 2006, £nil (2005 £0 7 million) has been realised and distributed back to the Group As the current assets of the quasi-subsidiaries are realised into cash, the amounts surplus to meeting current liabilities are distributed back to the Group

	2006	2005
	£'m	£'m
Balance Sheet		
Fixed Assets Mortgage loans	-	-
Current assets	0 1	0 6
Total Assets	0 1	0 6
Creditors due within one year	-	(0 5)
Net Assets	0 1	0 1
Shareholders' funds	0 1	0 1

Notes *(continued)*

12 Interest in Joint Ventures

	2006
	£'m
At 1 January 2006	0 4
Share of Loss after tax	(0.6)
Reclassification as investment in subsidiary undertaking	(0.1)
At 31 December 2006	(0.3)

On 1 February 2000, Time Retail Finance Limited, a subsidiary undertaking of the Company, entered into a joint venture with Chartered Trust Limited (now known as Black Horse (TRF) Limited) to provide finance products to customers of Time Retail Finance Limited Time Retail Finance Limited holds 49% of the £100 nominal value of issued equity shares of Black Horse (TRF) Limited, the joint venture Company, but has effective joint control These shares were acquired at their nominal value, with no goodwill arising on the transaction

On 5 March 2004, GE UK Loans Limited, a subsidiary undertaking of the Company, entered into a joint venture with HBOS plc to provide unsecured loan products direct to consumers GE UK Loans Limited held 49 9% of the £1,500,000 nominal value of issued equity shares of Retail Financial Services Limited (RFS), the joint venture company These shares were acquired by GE UK Loans Limited at their nominal value (£0 8 million), with no goodwill arising on the transaction 250,000 'B' ordinary shares were acquired on 5 March 2004 with a further 500,000 'B' ordinary shares acquired on 30 December 2005 On 31 January 2006 GE UK Loans purchased the remaining 50 1% share capital from HBOS plc for a premium on book value of £9 8 million Retail Financial Services Limited has been subsequently accounted for as a subsidiary undertaking from this date

The Group's share of joint venture operating losses is split as follows

	2006	2005
	£'m	£'m
Share of interest receivable	1.3	11 1
Share of fees and commissions receivable	0.1	0 4
Share of other income	0 5	4 9
	1 9	16 4
Share of interest payable	(0 7)	(4 2)
Share of other expenses	(1.9)	(12 8)
Share of operating loss	(0.7)	(0 6)

Black Horse (TRF) Limited is incorporated in Great Britain and prepares audited financial statements to 31 December 2006

Notes *(continued)*

13 Intangible Fixed Assets

	Goodwill and other intangibles
Group	**£'m**
Cost	
At 1 January 2006	372 4
Additions	43 6
At 31 December 2006	416 0
Amortisation	
At 1 January 2006	226 8
Charged in year	57 0
Impairment loss (see note 11a)	17 1
At 31 December 2006	300 9
Net book value	
At 31 December 2006	**115.1**
At 31 December 2005	145 6

Included in the Group's additions to intangible fixed assets is an amount of £17 1 million in relation to the acquisition of the remaining 50 1% share of Retail Financial Services Limited, which was subsequently written off to the profit and loss account

Goodwill and other intangibles are being amortised evenly over the directors' estimate of their useful economic life, being periods of between three and fifteen years Where the directors consider that they carrying value is impaired, any excess is amortised in the current period

Notes *(continued)*

14 Tangible Fixed Assets

Group	Motor Vehicles £'m	Computers, Equipment, Fixtures and Fittings £'m	Total £'m
Cost			
At 1 January 2006	3 2	63 1	66 3
Additions	0 7	4 0	4 7
Disposals and write-offs	(0 6)	(0 3)	(0 9)
At 31 December 2006	3 3	66 8	70 1
Depreciation			
At 1 January 2006	1 4	47 0	48 4
Charge for year	0 4	5 7	6 1
On disposals and write-offs	(0 4)	(0 2)	(0 6)
At 31 December 2006	1 4	52 5	53 9
Net book value			
At 31 December 2006	**1.9**	**14.3**	**16 2**
At 31 December 2005	1 8	16 1	17 9

The cost and aggregate depreciation of motor vehicles held under finance lease agreements or similar hire purchase contracts, are £3 3million (2005 £2 7 million) and £1 4 million (2005 £1 1 million) respectively at 31 December 2006

Notes (continued)

15 Balances with Group Undertakings

	Group		Company	
	2006	2005	**2006**	2005
	£'m	£'m	**£'m**	£'m
Assets				
Parent and fellow subsidiary undertakings	**12.0**	0 6	-	-
Subsidiary undertakings	-	-	-	-
	12.0	0 6	-	-
Maturity				
Repayable on demand	-	0 6	-	-
Repayable within one month	**0.5**	-	-	-
Repayable within one year	**11.5**	-	-	-
Over five years	-	-	-	-
	12 0	0 6	-	-
Liabilities				
Parent and fellow subsidiary undertakings	**1,078.6**	1,580 2	-	34 1
Subsidiary undertakings	-	-	**36 1**	-
	1,078.6	1,580 2	**36.1**	34 1
Maturity				
Repayable on demand	-	-	-	-
Repayable within one month	-	184 5	**0.1**	-
Repayable within one year	**337.9**	272 5	-	-
Repayable within two - five years	**176 3**	138 5	-	-
Over five years	**564.4**	984 7	**36 0**	34 1
	1,078 6	1,580 2	**36.1**	34 1

16 Subordinated debt

The Group had an amount of £200 million subordinated debt dated June 2006 due to another GE undertaking Interest was payable quarterly at a rate of LIBOR plus 110 basis points This was repaid early on 12 January 2006

17 Other Assets

	Group	
	2006	2005
	£'m	£'m
Other Debtors	**52 7**	100 9
Corporation Tax	**4 9**	9 6
Deferred Taxation (see note 21)	**25 8**	17 3
	83 4	127 8

Notes (continued)

18 Prepayments and Accrued Income

Amounts falling due within one year

	Group 2006	Group 2005
	£'m	£'m
Prepayments	9.8	12 0
Deferred commission and other deferred costs	53.2	56 9
Deferred volume bonus	11.3	16 5
Accrued Income	10 1	-
	84 4	85 4

Amounts falling due after more than one year

	Group 2006	Group 2005
	£'m	£'m
Prepayments	29.5	33 6
Deferred commission and other deferred costs	22 3	32 6
Deferred volume bonus	8 2	10 9
	60 0	77 1
Total prepayments and accrued income	144.4	162 5

19 Debt Securities in Issue

	Group 2006	Group 2005
	£'m	£'m
Other debt securities in issue	0.8	0 9
Repayable		
On demand	0.8	0 9
In not more than three months	-	-
In more than three months but less than one year	-	-
In more than one year but less than five years	-	-
	0.8	0 9

The Group's debt securities in issue are dated 2011, but contractually can be redeemed on demand six months following their issue date

Notes *(continued)*

20 Other Liabilities, accruals and deferred income

	Group 2006 £'m	Group 2005 £'m
Bank loans and overdrafts	**4.1**	-
Obligations under finance leases and hire purchase contracts	**0.9**	0 9
Trade creditors	**7.5**	10 0
Other creditors including taxation and social security		
Amounts due to retailers	**33.1**	20 9
Corporation tax	**36.2**	14 4
Other taxes and social security costs	**5.6**	-
Other creditors	**63.4**	54 6
Deferred income	**19.2**	25 0
Accruals	**69.5**	126 7
	239.5	252 5

Included in amounts due to retailers by the Group is £21 8 million (2005 £13 3 million) due after more than one year

Included within accruals for the Group is an amount of £nil (2005 £16 8 million) in respect of consideration payable on the acquisition of First National Tricity Finance Limited This was paid during 2006

Certain of the analysis of other creditors and accruals relating to the prior period have been re-analysed to better reflect the nature of the underlying balances

21 Deferred Taxation

The amounts recognised as deferred taxation assets are set out below

Group	2006 £'m	2005 £'m
Difference between accumulated depreciation and amortisation and capital allowances	**(5.5)**	(9 9)
Other timing differences	**(20 3)**	(7 4)
	(25 8)	(17 3)

	Group £'m
At 1 January 2006	**(17 3)**
Credit in year	**(8.3)**
Arising on acquisition (see note 11a)	**(0.2)**
At 31 December 2006	**(25 8)**

Notes *(continued)*

22 Share based payments

Certain employees of the Group are selected to participate in share options and restricted stock units of General Electric Company under the terms of the General Electric Company Long Term Incentive Plan

Share options expire ten years from grant date and vest over services periods ranging from one to five years The option price is usually set as the closing day share price on grant date
Restricted units give the participants the right to receive shares in General Electric Company for no consideration Restricted units vest over various service periods beginning three years from grant date through grantee retirement

All grants of GE options under all plans must be approved by the Management Development and Compensation Committee of General Electric Company, which consist entirely of outside directors
The recognition and measurement principles in FRS 20 have not been applied to share options granted before 7 November 2002

Share Options

The number and weighted average exercise price of share options is as follows

	2006		2005	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	£	Number	£	Number
Outstanding at the beginning of the year	£22 39	320,740	£22 40	299,850
Granted during the year	£19 07	34,260	£19 19	22,000
Cancelled during the year	£23 59	(109,675)	-	-
Exercised during the year	£16 87	(29,563)	£6 80	(3,360)
Employee transfers	£16 67	340	£28 47	2,250
Outstanding at the end of the year	£22 00	216, 102	£22 39	320,740
Exercisable at the end of the year	£23 76	147,296	£24 47	205,276
(Credit)/expense for the year	(£113,136)	-	£142,656	-
Amount recognised in period	£340,066	-	-	-
Cumulative expense charged to date	£340,066	-	£453,202	-
For share options exercised during the year weighted average share price on date of exercise	£21 03		£22 99	
	Min	Max	Min	Max
Range of exercise price of outstanding options	£14 60	£30 97	£8 65	£39 34
Weighted average remaining contractual life of outstanding options - years	5 60	-	6 21	-

Notes (continued)

22 Share based payments (continued)

Fair value of options granted

The fair value at grant date is determined using the Black-Scholes option pricing model
The key assumptions used in calculating the fair value of share options granted are detailed below

	2006	2005
Weighted average fair value at measurement date	**£4.70**	£4 95
Share price	**£19 07**	£19 19
Exercise price	**£19.07**	£19 19
Expected volatility (weighted average volatility)	**25.40%**	27 60%
Option life (expected weighted average life) - years	**6 19**	6 00
Expected dividends	**2 94%**	2 52%
Risk free interest rate (based on government bonds)	**4.97%**	4 09%

The expected volatility is based on historical volatility

The grants are subject to service conditions Such conditions are not taken into account in the determination of grant date fair value

Restricted Stock Units (RSU's)

The number of RSUs is as follows

	2006 Number	2005 Number
Outstanding at the beginning of the year	**34,236**	34,652
Granted during the year	**42,629**	3,334
Forfeited during the year	**(17,681)**	-
Exercised during the year	**(346)**	(3,750)
Employee transfers	**67**	-
Expired during the year	**-**	-
Outstanding at the end of the year	**58,905**	34,236
Exercisable at the end of the year	**-**	-
	£	£
(Credit)/expense for the year	**(52,992)**	233,027
Amount recognised in period	**180,035**	-
Cumulative expense to date	**180,035**	233,027
For RSUs exercised during the year weighted average share price on date of exercise	**£19.05**	£22 03
Weighted average remaining contractual life of outstanding RSUs - years	**17.57**	31 16

Fair value of RSUs

The fair value of RSUs is calculated as the closing day share price on grant date

The grants are subject to service conditions Such conditions are not taken into account in determination of grant date fair value

	2006	2005
Weighted average fair value at measurement date for RSUs granted during the year	**£19.02**	£18 95

Notes *(continued)*

23 Called Up Share Capital

	2006	2005
	£'m	£'m
Authorised		
400 million Ordinary shares of £1 each	**400**	400
Allotted, called up and fully paid		
342 3 million Ordinary shares of £1 each	**342.3**	342 3

24 Share Premium Account

	Group	Company
	£'m	£'m
At 1 January and 31 December 2006	**504.9**	**504.9**

25 Share Premium Account

	Group	Company
	£'m	£'m
At 1 January 2006	-	-
Movement during the year	0 3	-
At 31 December 2006	**0 3**	-

26 Profit and Loss Reserve

	Group	Company
	£'m	£'m
At 1 January 2006	1,573 2	(5 6)
Profit for the year	79 9	(2 0)
At 31 December 2006	**1,653.1**	**(7 6)**

Notes *(continued)*

27 Contingent Liabilities and Commitments

a) Contingent Liabilities

There are no contingent liabilities to disclose as at 31 December 2006

b) Commitments

	Group 2006	2005
	£'m	£'m
Commitments		
Irrevocable commitments to lend		
Due within less than one year	-	23 8

Irrevocable commitments to lend do not include undrawn credit limits of revolving products as these are not considered to be irrevocable

Neither the Group nor the Company had any capital commitments at the end of the financial year for which no provision has been made (2005 £nil) In addition there were no commitments in respect of finance leases and similar hire purchase contracts, the inception of which occurred after the period end (2005 £nil)

Annual commitments under non-cancellable operating leases are as follows

	2006 Land and buildings	2006 Other	2005 Land and buildings	2005 Other
	£'m	£'m	£'m	£'m
Group				
Operating leases which expire				
Within one year	0.1	-	0 1	0 3
In the second to fifth years inclusive	4.3	-	4 9	-
Over five years	2.6	-	1 6	-
	7.0	-	6 6	0 3

Notes *(continued)*

28 Pension Schemes

The Group participates in three defined benefit pension schemes
i) GE Capital Pension Scheme ("the Scheme")
ii) GE Pension Plan ("the Plan")
iii) GE Supplementary Pension Scheme ("SPS scheme")
In addition, the Group operates a number of defined contribution schemes detailed in (b) below

a) Defined Benefit Schemes

In respect of the Scheme, Plan and SPS scheme, more than one employer contributes to the schemes The Group's contributions are affected by a surplus or deficit in the schemes but the Group is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis As prescribed in FRS 17, these schemes can be treated as multi-employer defined benefit schemes with additional disclosures regarding the surplus or deficit of the scheme and future action to be undertaken

Set out below are the main assumptions used in respect of the last full actuarial valuations for funding purposes of the defined benefit pension schemes

	The Scheme	The Plan	SPS Scheme
Last Valuation Date	Apr-03	Apr-03	Apr-04
Valuation method	Projected Unit	Projected Unit	Attained Age
Investment rate of return	6 00%	6 75%	7 00%
Future increases in salaries	4 50%	4 50%	4 75%
Increases in pensions	2 50%	2 50%	2 75%
Market value of assets	£71 0m	£175 6m	£12 8m
Minimum Funding Requirement	92%	101%	> 120%
Level of long term funding (actuarial value of assets as a percentage of accrued service liabilities)	63%	68%	94%

The Group's share of active members and pensioners in the three defined benefit schemes at 31 December 2006 were as follows

	The Plan		SPS		The Scheme	
	Total	GE Capital Bank Group	Total	GE Capital Bank Group	Total	GE Capital Bank Group
Active members	8,754	907	219	27	391	192
Current pensioners	2,606	51	88	3	342	59
Deferred pensioners	8,564	784	215	22	1,300	211

i) The latest valuation of The Scheme was at April 2003 which gave rise to a deficit of £42 0 million This shortfall is being addressed by increasing employers' contributions at different rates depending on the category of employee, from 1 January 2005

ii) The latest approved formal actuarial valuation of The Plan was at April 2003 which gave rise to a deficit of £82 8 million This shortfall was initially being addressed by increasing employers' contributions from 10 8% to 13 7% of pensionable salary, from 1 January 2005 During 2006, an additional annual contribution was requested to further fund the deficit and a payment of £3 2 million was made in September

iii) The latest formal actuarial valuation of the SPS Scheme was at April 2004 which gave rise to a deficit of £0 76 million This deficit is being addressed by increasing the individual employers' contributions rates of pensionable salary by 0 6%

Notes *(continued)*

Pension Schemes *(continued)*
a) Defined Benefit Schemes *(continued)*

FRS 17 Information

The actuarial valuations used in assessing the FRS 17 'Retirement Benefits' disclosures are based upon the scheme valuations, carried out at April 2003 and April 2004 The liabilities of the schemes under FRS 17 were calculated using the projected unit method using the following average assumptions

Assumption	2006 % pa	2005 % pa
Rate of increase in inflation	**3 00**	2 75
Rate of increase in salaries	**5.00**	4 75
Rate of increase in pensions	**3.00**	2 75
Discount rate	**5 00**	4 75

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65 19 2 years (male), 22 4 years (female)
- Future pensioner upon reaching 65 20 7 years (male), 24 1 years (female)

The assets of the scheme at 31 December 2006 and the total expected rate of returns were

	Long-term expected rate of return	GE Pension Plan	GE Capital Pension Scheme	GE Supplementary Pension Scheme
		£'m	£'m	£'m
Equities	8 25	572 3	146 7	13 5
Property	6 60	46 5	11 9	1 1
Bonds	4 80	201 6	44 6	6 0
Cash	4 00	9 8	0 4	0 1
Fair Value of scheme assets		830 2	203 6	20 7
Present value of scheme liabilities		(1,245 7)	(302 4)	(25 5)
Net pension liability before deferred tax		(415 5)	(98 8)	(4 8)

The assets of the scheme at 31 December 2005 and the total expected rate of returns were

	Long-term expected rate of return	GE Pension Plan	GE Capital Pension Scheme	GE Supplementary Pension Scheme
		£'m	£'m	£'m
Equities	8 40	271 6	133 3	12 7
Property	6 40	17 9	8 8	0 8
Bonds	4 40	87 4	40 9	4 5
Cash	3 75	0 4	0 7	0 1
Fair Value of scheme assets		377 3	183 7	18 1
Present value of scheme liabilities		(588 9)	(273 2)	(22 5)
Net pension liability before deferred tax		(211 6)	(89 5)	(4 4)

During the later part of 2006, the Plan received the assets and liabilities from a number of other UK GE pension arrangements Allowance has been made in these calculations for the transfer of these pension arrangements The aggregate deficit transferred was £206 million, and the aggregate assets transferred amounted to £350 million

Notes *(continued)*

Pension Schemes *(continued)*

b) Defined Contribution Schemes

Schemes are operated by the General Electric Company in respect of its subsidiaries that are based in the UK These schemes cover employees of the Group who are not members of the above schemes, who elect to join one of these other schemes and who are eligible on the basis of factors which include age and length of service

c) Total Pension Charge

The total pension charge for the year is analysed below

	2006	2005
	£'m	£'m
Defined benefit schemes	8 8	6 1
Defined contribution schemes	0 1	0 2
	8 9	6 3

Full actuarial valuations of the GE Pension Plan and GE Capital Pension Scheme were undertaken in April 2006, and are currently being finalised The results of these valuations will be used as a basis for determining the future funding requirements of participating employers

29 Assets and Liabilities Denominated in Foreign Currencies

	Group		Company	
	2006	2005	2006	2005
	£'m	£'m	£'m	£'m
Assets				
Denominated in Sterling	3,812 7	4,437 1	875.7	875 7
Denominated in currencies other than sterling	42.9	16 9	-	-
Total assets	3,855 6	4,454 0	875.7	875 7
Liabilities				
Denominated in Sterling	1,276 5	1,999 7	36.1	34 1
Denominated in currencies other than sterling	42 9	0 4	-	-
Total liabilities (excluding shareholders' funds)	1,319.4	2,000 1	36.1	34 1

Notes (continued)

30a Interest Rate Risk

Analysis of consolidated assets and liabilities by the earlier of contractual repricing date or maturity for the Group

At 31 December 2006	Non Interest Bearing	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years
	£'m	£'m	£'m	£'m	£'m	£'m
Cash and balances at central banks	1 8	-	-	-	-	-
Loans and advances to banks	-	15 6	-	-	-	-
Loans and advances to customers	-	457 9	213 1	584 2	1,892 6	283 5
Intangible fixed assets	115 1	-	-	-	-	-
Tangible fixed assets	16 2	-	-	-	-	-
Amounts owed by Group undertakings	12 0	-	-	-	-	-
Prepayments and accrued income with a maturity of over one year	60 0	-	-	-	-	-
Amounts owed to Group undertakings	-	(543 6)	(121 3)	(129 6)	(264 1)	(20 0)
Debt securities in issue	-	(0 8)	-	-	-	-
Interest in joint ventures	(0 3)	-	-	-	-	-
Equity shareholders' funds	(2,500 6)	-	-	-	-	-
Net position	(2,295 8)	(70 9)	91 8	454 6	1,628 5	263 5

At 31 December 2005	Non Interest Bearing	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years
	£'m	£'m	£'m	£'m	£'m	£'m
Cash and balances at central banks	1 6	-	-	-	-	-
Loans and advances to banks	-	9 4	-	-	-	-
Loans and advances to customers	-	796 3	312 6	529 5	1,957 7	392 1
Intangible fixed assets	145 6	-	-	-	-	-
Tangible fixed assets	17 9	-	-	-	-	-
Amounts owed by Group undertakings	0 6	-	-	-	-	-
Prepayments and accrued income with a maturity of over one year	77 1	-	-	-	-	-
Amounts owed to Group undertakings	-	(837 0)	(208 1)	(289 4)	(209 5)	(36 2)
Debt securities in issue	-	(0 9)	-	-	-	-
Subordinated debt	-	(200 0)	-	-	-	-
Interest in joint ventures	0 4	-	-	-	-	-
Equity shareholders' funds	(2,420 4)	-	-	-	-	-
Net position	(2,177 2)	(232 2)	104 5	240 1	1,748 2	355 9

A commentary on the risks relating to the Group's financial instruments and its policies to control these risks has been included within the directors' report

Short term debtors and creditors have been excluded from all FRS 13 disclosures

Notes *(continued)*

30b Fair Value of financial assets and liabilities

The fair value of the Group's financial assets and liabilities is considered to be the same as the book value

As at 31 December 2006, total unrecognised gains on off-balance sheet financial instruments amounted to £nil (2005 £nil)

31 Cash flow statement

Under FRS1 the Group is exempt from the requirement to prepare a cash flow statement, on the grounds that it is a wholly owned subsidiary undertaking and its cash flows appear in a consolidated cash flow statement in the financial statements of the ultimate parent Company, which are available to the public

32 Transactions with related parties

The Company, as a wholly owned subsidiary undertaking of the General Electric Company, has taken advantage of an exemption contained in FRS 8, 'Related Party Disclosure', in preparing its financial statements This exemption allows the Company not to disclose details of transactions with other Group companies or investees of the Group qualifying as related parties, as the consolidated financial statements of the General Electric Company, in which the Company is included, are available to the public

33 Ultimate parent Company and parent undertaking of larger Group

The largest Group in which the results of the Company are consolidated is that headed by the ultimate parent Company, the General Electric Company, incorporated in the United States of America The consolidated financial statements of the General Electric Company are available to the public and may be obtained from 3135 Easton Turnpike, Fairfield, Connecticut 06848, USA