INTERMEDIATE CAPITAL GROUP PLC

TRANSITIONAL STATEMENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONTENTS

Introduction and Summary
This document sets out our approach to International Financial Reporting Standards ("IFRS") and also explains the impact that the introduction of these standards is expected to have on our results.

IFRS applies to the financial statements of all UK listed groups whose financial year commences on or after 1 January 2005. We have a year-end of 31 January and therefore the first financial statements that we need to prepare under IFRS will be for the period commencing 1 February 2005, with the comparative figures for the previous year being restated as necessary. Our interim results for the six months to 31 July 2005 will also required to be prepared under IFRS, with a restatement of the comparatives.

There are a number of changes that result:-

As with most other financial services businesses, we have not adopted IAS 32 'Financial Instruments: Disclosure and Presentation' ("IAS 32") and IAS 39 'Financial Instruments; Recognition and Measurement' ("IAS 39") for the year to 31 January 2005. However, had we adopted these standards for this period, our unaudited proforma results would show an increase in Core Income of £1.4m and an increase in Net Capital Gains of £10.1m (both these terms are defined on page 15).

These increases are primarily due to the earlier recognition of capital profits and non-cash interest and from the valuation of certain financial instruments, including warrants, shares and derivatives. The earlier recognition of capital gains and non-cash interest is likely to lead to increased volatility in our profits going forward.

Although, in the long term, there will be no change to the quantum of such profits, we believe that this change in accounting policies is potentially less prudent than those applied under UK GAAP. Such policies are addressed in more detail in Section 4.

Our audited restated opening reserves at 1 February 2004 increase under IFRS by £17m. This is primarily due to the exclusion of the dividends declared after the balance sheet date.

Our audited restated statutory accounts for the year to 31 January 2005 show a decrease in profits after tax of £0.5m. This is due to the expense relating to fair valuing the unexercised share options.

The audited restated opening reserves at 1 February 2005, which includes the adoption of IAS 32 and IAS 39 for the first time, show an increase of £40m. This movement is detailed in the reconciliation of reserves on page 12.

IFRS restatements

Our opening balance sheet as at 1 February 2004 and our statutory results for year ended 31 January 2005 are presented for the first time under IFRS in Section 1, together with our statutory results for the six months ended 31 July 2004. This excludes IAS 32 and IAS 39 as we have, along with other financial services businesses, elected to take advantage of the provisions of IFRS 1, First-time Adoption of International Financial Reporting Standards, ("IFRS 1") not to restate comparatives.

Section 2 contains the IFRS restatement of our opening balance sheet as at 1 February 2005, including the impact of adopting IAS 32 and IAS 39.

Section 3 contains our pro-forma income statement for the year to 31 January 2005. This has been prepared on the basis that IAS 32 and IAS 39 had been applied throughout this period in order to provide a more meaningful comparison of the full effects of IFRS, compared to the statutory results for the full year 2005.

Section 4 explains the key differences between UK GAAP and IFRS, as applicable to ICG, and their impact on our financial statements.

The principle accounting policies that we expect to adopt under IFRS are included in Appendix 1. The accounting policies and disclosures adopted in this document reflect our view of the standards that will be in force for the period commencing 1 February 2005, which may, of course, be subject to change.

SECTION 1

Results for the year to 31 January 2005, prepared under IFRS

Under the transitional rules, set out in IFRS 1, we are required to produce an opening balance sheet as at 1 February 2004 and comparative balances for the year to 31 January 2005 (as part of our 2006 Annual Report and Accounts) and the six months to 31 July 2004 (as part of our interim results as at 31 July 2005). The purpose of this section is to set out these comparative figures and how they will be presented.

As we have taken advantage of the option not to apply IAS 32 and IAS 39 in the comparative period, the impacts of IFRS are restricted to dividends and share based payments as detailed on page 16.

Statutory Consolidated Balance Sheet as at 1 February 2004 – Restated Statutory Comparatives (excluding IAS 32/39)

	UK GAAP As at 31 January 2004 (Audited) £m	Effect of transition to IFRS (excl IAS 32 and IAS 39) £m	IFRS As at 1 February 2004 (Audited) £m	Notes
Non current assets				
Property, plant and equipment	**1.4**	-	**1.4**	
Financial assets; loans and Investments	**1093.9**	-	**1093.9**	
Deferred tax assets	**-**	1.0	**1.0**	1
Current assets				
Trade and other receivables	**19.2**	-	**19.2**	
Financial assets; loans and Investments	**27.5**	-	**27.5**	
Cash and cash equivalents	**38.6**	-	**38.6**	
	85.3	-	**85.3**	
Total assets	**1,180.6**	1.0	**1,181.6**	
Capital and reserves				
Called up share capital	**13.8**	-	**13.8**	
Share premium account	**170.0**	-	**170.0**	
Capital redemption reserve	**1.4**	-	**1.4**	
Reserve for share based payments	**-**	0.2	**0.2**	1
Retained earnings	**137.6**	17.4	**155.0**	1, 2
Equity shareholders' funds	**322.8**	17.6	**340.4**	
Non current liabilities				
Financial liabilities	**730.0**		**730.0**	
Current Liabilities				
Trade and other payables	**51.2**	(16.6)	**34.6**	2
Financial liabilities	**61.2**		**61.2**	
Liabilities for current tax	**15.4**		**15.4**	
Total capital and liabilities	**1,180.6**	1.0	**1,181.6**	

Notes

1. Under UK GAAP no charge has been made to profit for the cost of share options, as ICG grants all such options at the then ruling market price. IFRS 2 requires the fair value of share option awards to be expensed in the income statement over the vesting period of the options, with a corresponding amount recorded in the 'Reserve for share-based payments'. A deferred tax asset has been recognised for the future tax deductions in respect of share awards.

2. Under UK GAAP, dividends are recorded in the year to which they relate. IAS 10 requires that dividends are recorded in the year that they are declared.

Statutory Consolidated Balance Sheet as at 31 July 2004 – Restated Statutory Comparatives (excluding IAS 32/39)

	UK GAAP As at 31 July 04 (Unaudited) £m	Effect of transition to IFRS (excl. IAS 32 and IAS 39) £m	IFRS As at 31July 04 (Unaudited) £m	Notes
Non current assets				
Property, plant and equipment	**1.3**	-	**1.3**	
Financial assets; loans and Investments	**1,033.5**	-	**1,033.5**	
Deferred tax assets	**-**	0.9	**0.9**	1
Current assets				
Trade and other receivables	**25.5**	-	**25.5**	
Financial assets; loans and Investments	**1.4**	-	**1.4**	
Cash and cash equivalents	**83.3**	-	**83.3**	
	110.2	-	**110.2**	
Total assets	**1,145.0**	0.9	**1,145.9**	
Capital and reserves				
Called up share capital	**13.9**	-	**13.9**	
Share premium account	**172.4**	-	**172.4**	
Capital redemption reserve	**1.4**	-	**1.4**	
Reserve for share based payments	**-**	0.5	**0.5**	1
Retained earnings	**157.0**	8.6	**165.6**	1, 2
Equity shareholders' funds	**344.7**	9.1	**353.8**	
Non current liabilities				
Financial liabilities	**649.3**	-	**649.3**	
Current liabilities				
Trade and other payables	**65.1**	(8.2)	**56.9**	2
Financial liabilities	**69.1**	-	**69.1**	
Liabilities for current tax	**16.8**	-	**16.8**	
Total capital and liabilities	**1,145.0**	0.9	**1,145.9**	

Notes

1. Under UK GAAP no charge has been made to profit for the cost of share options, as ICG grants all such options at the then ruling market price. IFRS 2 requires the fair value of share option awards to be expensed in the income statement over the vesting period of the options, with a corresponding amount recorded in the 'Reserve for share-based payments'. A deferred tax asset has been recognised for the future tax deductions in respect of share awards.

2. Under UK GAAP, dividends are recorded in the year to which they relate. IAS 10 requires that dividends are recorded in the year that they are declared.

Statutory Consolidated Balance Sheet as at 31 January 2005 – Restated Statutory Comparatives (excluding IAS 32/39)

	UK GAAP As at 31 January 05 (Audited) £m	Effect of transition to IFRS (excl IAS 32 and IAS 39) £m	IFRS As at 31 January 05 (Audited) £m	Notes
Non current assets				
Property, plant and equipment	**1.3**	-	**1.3**	
Financial assets; loans and Investments	**1,182.8**	-	**1,182.8**	
Deferred tax assets		0.8	**0.8**	1
Current assets				
Trade and other receivables	**20.2**	-	**20.2**	
Financial assets; loans and Investments	**40.9**	-	**40.9**	
Cash and cash equivalents	**55.6**	-	**55.6**	
	116.7	-	**116.7**	
Total assets	**1,300.8**	0.8	**1,301.6**	
Capital and reserves				
Called up share capital	**13.9**	-	**13.9**	
Share premium account	**172.5**	-	**172.5**	
Capital redemption reserve	**1.4**	-	**1.4**	
Reserve for share based payments	**-**	0.7	**0.7**	1
Retained earnings	**171.7**	19.7	**191.4**	1, 2
Equity shareholders' funds	**359.5**	20.4	**379.9**	
Non current liabilities				
Financial liabilities	**711.4**	-	**711.4**	
Current Liabilities				
Trade and other payables	**78.5**	(19.6)	**58.9**	2
Financial liabilities	**131.5**	-	**131.5**	
Liabilities for current tax	**19.9**		**19.9**	
Total capital and liabilities	**1,300.8**	0.8	**1,301.6**	

Notes

1. Under UK GAAP no charge has been made to profit for the cost of share options, as ICG grants all such options at the then ruling market price. IFRS 2 requires the fair value of share option awards to be expensed in the income statement over the vesting period of the options, with a corresponding amount recorded in the 'Reserve for share-based payments'. A deferred tax asset has been recognised for the future tax deductions in respect of share awards.

2. Under UK GAAP, dividends are recorded in the year to which they relate. IAS 10 requires that dividends are recorded in the year that they are declared.

Consolidated Income Statement – Restated Statutory Comparatives (excluding IAS 32/39)
Statutory Consolidated Income Statement for the six months ended 31 July 2004

	UK GAAP Six months ended 31 July 04 (unaudited) £m	Effect of transition to IFRS (excl IAS 32 and IAS 39) £m	IFRS Six months ended 31 July 04 (unaudited) £m	Notes
Interest and dividend income	46.9	-	46.9	
Capital gains	23.7	-	23.7	
Fee and other operating income	12.5	-	12.5	
	83.1	-	83.1	
Interest payable and similar charges	(11.8)	-	(11.8)	
Provisions against loans and investments	(13.0)	-	(13.0)	
Administrative expenses	(17.5)	(0.3)	(17.8)	1
Profit on ordinary activities before taxation	40.8	(0.3)	40.5	
Tax on profit on ordinary activities	(13.2)	-	(13.2)	
Profit on ordinary activities after taxation and attributable to shareholders	27.6	(0.3)	27.3	
Earnings per share	39.9p		39.3p	

Statutory Consolidated Income Statement for the year ended 31 January 2005

	UK GAAP Year ended 31 January 05 (Audited) £m	Effect of transition to IFRS (excl IAS 32 and IAS 39) £m	IFRS Year ended 31 January 05 (Audited) £m	Notes
Interest and dividend income	101.6	-	101.6	
Capital gains	62.9	-	62.9	
Fee and other operating income	27.4	-	27.4	
	191.9	-	191.9	
Interest payable and similar charges	(26.5)	-	(26.5)	
Provisions against loans and investments	(28.2)	-	(28.2)	
Administrative expenses	(41.7)	(0.5)	(42.2)	1
Profit on ordinary activities before taxation	95.5	(0.5)	95.0	
Tax on profit on ordinary activities	(33.5)	-	(33.5)	
Profit on ordinary activities after taxation and attributable to shareholders	62.0	(0.5)	61.5	
Earnings per share	89.4p		88.6p	
Diluted earnings per share	88.7p		88.0p	

Notes

1 IFRS 2 requires the fair value of share option awards to be expensed in the income statement over the vesting period of the options, with a corresponding amount recorded in the 'Reserve for share-based payments'.

SECTION 2
IFRS Restatement of the Balance Sheet at 1 February 2005

This section sets out the full impact of the adoption of IFRS, including IAS 32 and IAS 39 on the opening balance sheet as at 1 February 2005 together with a reconciliation of the movement on reserves.

The primary differences on the adoption of IAS 32 and IAS 39 compared to current accounting treatment under UK GAAP are set out below:

- Mezzanine loans and loan stock will be held on balance sheet at amortised cost using the effective interest rate (“EIR”) method. Underwriting and agency fees will be reclassified to interest income and included in the EIR calculation as part of amortised cost. Under UK GAAP, loans are held at cost plus capitalised interest less provisions. The related fees are currently recognised when received.

- Impairment will be recognised when there is objective evidence that an event has occurred which will result in reduced future cash flows. Once an impairment event has occurred, an amended amortised cost will be calculated by discounting the revised expected future cash flows by the original effective interest rate. Under UK GAAP, a specific provision is made against the principal amount of any loan whose value is impaired or uncertain.

- Under IFRS, shares are classified as available-for-sale assets and warrants are included as derivatives (see below). Shares will be measured at fair value when this can be reliably determined. Movements in their value will be taken to reserves until realisation or impairment, at which point they will be recycled through the income statement. Under UK GAAP, investments are largely recorded at cost less provisions for impairment and gains or losses are recorded only on realisation.

- All derivatives, including warrants, will be recorded on the balance sheet at fair value (unless fair value cannot be reliably measured). Movements in fair value will be recorded directly in the income statement. Under UK GAAP, derivatives are held at either the same basis as the underlying hedged item or valued at cost.

These differences are explained more fully in Section 4.

Statutory Consolidated Balance Sheet at 1 February 2005 (including IAS 32 and IAS 39)

	UK GAAP As at 31 January 05 (Audited) £m	Effect of transition to IFRS (excl IAS 32 and IAS 39) £m	Notes	Effects of implementing IAS 32 and IAS 39 £m	Notes	IFRS As at 1 February 05 (incl IAS 32 and 39) (Audited) £m
Non current assets						
Property, plant and equipment	**1.3**	-		-		**1.3**
Financial assets; loans and Investments	**1,182.8**	-		70.7	3, 5, 6, 7	**1253.5**
Current assets						
Trade and other receivables	**20.2**	-		(9.8)	3	**10.4**
Financial assets; loans and Investments	**40.9**	-		1.0	3	**41.9**
Cash and cash equivalents	**55.6**	-		-		**55.6**
	116.7	-		(8.8)		**107.9**
Total assets	**1,300.8**	-		61.9		**1,362.7**
Capital and reserves						
Called up share capital	**13.9**	-		-		**13.9**
Share premium account	**172.5**	-		-		**172.5**
Capital redemption reserve	**1.4**	-		-		**1.4**
Equity reserve	**-**	0.7	1	-		**0.7**
Retained earnings	**171.7**	19.7	1, 2	20.1	9	**211.5**
Equity shareholders' funds	**359.5**	20.4		20.1		**400.0**
Non current liabilities						
Financial liabilities	**711.4**	-		25.5	4, 7	**736.9**
Deferred tax liabilities	**-**	(0.8)	1	16.8	8	**16.0**
	711.4	(0.8)		42.3		**752.9**
Current Liabilities						
Trade and other payables	**78.5**	(19.6)	2	3.1	4	**62.0**
Financial liabilities	**131.5**	-		(3.6)	4, 7	**127.9**
Liabilities for current tax	**19.9**	-		-		**19.9**
Total capital and liabilities	**1,300.8**	-		61.9		**1,362.7**

Notes

Non IAS 32 and 39 amendments

1. Under UK GAAP no charge has been made to profit for the cost of share options, as ICG grants all such options at the then ruling market price. IFRS 2 requires the fair value of share option awards to be expensed in the income statement over the vesting period of the options, with a corresponding amount recorded in the 'Reserve for share-based payments'. Deferred tax has been calculated on the taxable value of the share options.

2. Under UK GAAP, dividends are recorded in the year to which they relate. IAS 10 requires that dividends are recorded in the year that they are declared.

IAS 32 and 39 amendments

EIR calculation

3 Accrued cash interest receivable forms part of the EIR calculation under IFRS and, therefore, is now included in the value of loans and investments. EIR calculations have increased the value of mezzanine loans in comparison to the recognition of assets under UK GAAP.

4 Accrued cash interest payable forms part of the EIR calculation under IFRS and, therefore, is now included in the value of financial liabilities; . Also includes the net impact of EIR calculations on borrowings and IFRS 1 fair value hedging adjustment relating to the hedging of borrowings for currency and interest rate risk.

Valuation of investments
5 Increase in fair value of warrants and the fair value of quoted and unquoted investments;

Impairment of assets
6.The difference between the effect of discounting the expected future cash flows on impaired assets under IFRS and provisions made under UK GAAP**.**

Derivatives
7. IFRS requires that derivatives are recorded at fair value rather than being accounted for in the same way as the underlying hedged item.

Taxation and reserves
8 Impact of IFRS on deferred tax provision
9 The reconciliation of reserves as detailed on page 12

Reconciliation of Retained Earnings from UK GAAP to IFRS including IAS 32 and 39

	31 January 2005 £m		Notes
Retained Earnings under UK GAAP	**171.7**		
Share based payments	(0.7)		9
Proposed dividend	19.6		10
Deferred taxation	0.8		
Retained Earnings under IFRS (excl IAS 32/39)	**191.4**		
EIR effect on mezzanine loans	9.3		1
EIR effect on borrowings	(8.0)		2
MTIS on non-cash interest	(2.7)		3
Impairment of loans and investments	(0.5)		4
MTIS on increased value of warrants	(2.0)		5
Fair value and EIR effect on investments	18.7		6
Increased value of warrants	13.0		7
Fair value of derivatives	9.1		8
Tax effect of above adjustments	(16.8)		11
Retained Earnings under IFRS	**211.5**		

Notes

EIR calculation
1. The increase in value of mezzanine loans is due to the change in income recognition policy as part of the EIR calculation.
2. Net impact of EIR calculations on borrowings and IFRS 1 fair value hedging adjustment relating to the hedging of borrowings for currency and interest rate risk.
3. As the value of non-cash interest has increased under IFRS, an increase in the accrual for bonus on the non-cash interest is required.

Impairment of assets
4.The difference between the effect of discounting the expected future cash flows on impaired assets under IFRS and provisions made under UK GAAP**.**

Valuation of investments
5. The increased charge for the Medium Term Incentive Scheme due to increase in warrants in the year
6. Investments are held at their fair value or on an amortised cost basis under IFRS rather than cost. This increase relates primarily to quoted shares.
7. Under IFRS warrants (and warrants now held as shares) previously valued at cost are now fair valued where this can be reliably measured.

Derivatives
8. IFRS requires that derivatives are recorded at fair value rather than being accounted for in the same way as the underlying hedged item.

Non IAS 32/IAS 39 adjustments
9. IFRS 2 requires the fair value of share option awards to be expensed in the income statement over the vesting period of the options, with a corresponding amount recorded in the 'Reserve for share-based payments'.
10. Under UK GAAP, dividends are recorded in the year to which they relate. IAS 10 requires that dividends are recorded in the year that they are declared.

Taxation
11. The net impact on taxation of the above adjustments

SECTION 3
Pro-forma Income Statement under IFRS for the year to 31 January 2005

This section contains a pro-forma income statement for the year to 31 January 2005 as if IFRS, including both IAS 32 and IAS 39, had been in force throughout the period. This has been prepared to provide a more meaningful comparison of the full effects of IFRS, compared to the statutory results for the full year 2005. The impact of any volatility arising from derivatives, other than warrants, being recorded at fair value has not been shown in the income statement for the year ended 31 January 2005.

Pro-forma Income Statement for the year to 31 January 2005 under IFRS

	Notes	UK GAAP Year ended 31 January 2005 (Audited) £m	Effective Interest rate £m	Impairment £m	Other £m	IFRS Year ended 31 January 2005 (Unaudited) £m
Interest and dividend income	1, 2	**101.6**	13.7	-	-	**115.3**
Realised capital gains and changes in warrant valuations	7	**62.9**	-	-	10.5	**73.4**
Fee and other operating income	3	**27.4**	(3.6)	-	-	**23.8**
		191.9	10.1	-	10.5	**212.5**
Interest payable and similar charges	4	**(26.5)**	(0.3)	-	-	**(26.8)**
Impairment of loans and investments	5	**(28.2)**	-	(3.5)	-	**(31.7)**
Administrative expenses	6, 8	**(41.7)**	(2.7)	-	(2.6)	**(47.0)**
Profit on ordinary activities before taxation		**95.5**	7.1	(3.5)	7.9	**107.0**
Tax on profit on ordinary activities	9	**(33.5)**	(2.8)	1.0	(3.2)	**(38.5)**
Profit on ordinary activities after taxation		**62.0**	4.3	(2.5)	4.7	**68.5**
Earnings per share		**89.4p**	-	-	-	**98.7p**
Diluted earnings per share		**88.7p**	-	-	-	**98.0p**

Notes

EIR calculation

1 The application of EIR calculations has increased mezzanine loan related income and investment income on loan stock.

2 Write back of prior year provision against interest has increased interest income as this is now included as part of the impairment calculations.

3 Write back of underwriting fee income in the year, which is now included in EIR calculations.

4 Increase in interest expense due to EIR calculation of private placements and securitisation notes.

Impairment of assets

5 Increase in provisions owing to inclusion of interest in impairment calculation, formerly netted within interest income.

Valuation of investments

6 Impact on MTIS of applying new IFRS policies.

7 Increase in fair value of warrants where the value can be reliably measured.

Non IAS 32/IAS 39 adjustments

8 Increase in administrative expenses relating to the fair valuing of share option awards using the Black Scholes model.

Taxation
9 Increase in tax charge for IFRS adjustments.

Dividends
10 Difference between the May 2004 declared dividend and May 2005 declared dividend

Reconciliation of Pro-Forma Income Statement for the year ended 31 January 2005

CORE INCOME

Year ended 31.01.05	UK GAAP (Note) £m	Effective interest rate £m	Impairment £m	Other £m	IFRS Proforma £m
Interest and dividend income	101.6	12.5	(5.2)	1.2	110.1
Fee and other operating income	27.4	(3.6)	-	-	23.8
	129.0	8.9	(5.2)	1.2	133.9
Less:related expenses					
Interest payable and similar charges	(26.5)	(0.3)	-	-	(26.8)
Administrative expenses-salaries and benefits	(12.8)	-	-	(0.5)	(13.3)
Operating expenses	(8.3)	-	-	-	(8.3)
Medium Term Incentive Scheme	(6.3)	(2.7)	-	-	(9.0)
Core Income	**75.1**	**5.9**	**(5.2)**	**0.7**	**76.5**

Core Income is the key component of ICG's profitability and consists of net interest income plus fees less related administrative expenses.

CAPITAL RELATED ITEMS

The other component of ICG's profitability consists of items of a capital nature which are shown below:-

Year ended 31.01.05	UK GAAP (Note) £m	Effective interest rate £m	Impairment £m	Other £m	IFRS Proforma £m
Realised capital gains and changes in warrant valuations	62.9	-	-	10.5	73.4
Medium Term Incentive Scheme	(14.3)	-	-	(2.1)	(16.4)
Net capital gains	48.6	-	-	8.4	57.0
Provisions for impairment of assets	(28.2)	-	1.7	-	(26.5)
Net capital profits	**20.4**	**-**	**1.7**	**8.4**	**30.5**

Profit before tax	**95.5**	**5.9**	**(3.5)**	**9.1**	**107.0**

SECTION 4
Key differences for ICG between UK GAAP and IFRS

This section includes additional information on the key impacts of IFRS on us as detailed previously in Sections 1, 2 and 3 and provides a comparison to the current accounting treatment under UK GAAP. This information has not been audited and is provided for information purposes only.

1) Share Based Payments

Under UK GAAP no charge has been made to profit for the cost of share options, as ICG grants all such options at the then ruling market price.

Under IFRS, IFRS 2 has been applied to all grants of options after 7 November 2002 that had not vested by 31 January 2005. The options have been valued using the Black Scholes pricing model. The fair value of the options expected to vest is expensed on a straight line basis over the vesting period.

2) Loans and Investments

There are a number of different elements of mezzanine finance and to the income that it produces.

At the commencement of a transaction, a fee is normally charged which is, in part, an arranging fee (if we arrange the transaction) and, in part, an underwriting/participation fee. Where ICG is the mezzanine agent, it also is entitled to receive an annual agency fee.

The mezzanine loan normally has a cash interest element and a rolled-up interest element (which is not payable until the repayment of the loan), although not all loans have both features. As part of the mezzanine transaction, ICG usually receives an equity interest in the borrower which may be in the form of warrants, shares and / or (convertible) loan stock. Virtually all of the companies to which ICG lends are private companies.

The main differences between UK GAAP and IFRS as they relate to the lending activities are set out below:-

(i) Mezzanine loans and loan stock recognition of interest income

UK GAAP

Mezzanine Loans
Loans are held in the balance sheet at cost, plus capitalised interest accrued to date, less provisions.

All interest is accounted for on the accruals basis. Where it is considered unlikely that interest will be received on the due date, a reserve is made against such interest.

Loan Stock and Convertible Loan Stock
Loan stock and convertible loan stock are considered to be quasi-equity and therefore interest is generally reserved against and not recognised until such time as the cash is received.

IFRS

Mezzanine loans and (convertible) loan stock are measured on the amortised cost basis.

Under amortised cost accounting, interest is not accrued for separately from the loan. Expected cash flows on the loan, including all costs and fees integral to the loan, are recognised on an effective yield basis with the carrying value of the loan being the present value of these cash flows discounted at this effective yield.

(ii) Mezzanine loans and loan stock - Provisions and Impairment

UK GAAP

Under UK GAAP, a provision is made in whole or in part against the principal of a loan if, in the opinion of the directors, the value of that loan is impaired and ICG will not receive back its original investment in full.

IFRS

Under IFRS, a provision for impairment may only be made following the identification of objective evidence of an event which causes a decrease in the expected cash flows on an asset. Once an impairment event has occurred, the revised future expected cash flows, and an amended fair value is calculated using the EIR model and the same discount rate as the original model.

The reduction in the fair value of the asset as a result of its impairment is taken through the income statement under the heading of impairment with no differentiation between principal and interest.

(iii) Mezzanine loans and loan stock - fee income

UK GAAP
Arranging and underwriting fees, which are received at the commencement of the transaction, are taken to profit when received. Agency fees are accounted for on the accruals basis.

IFRS
The arranging portion of the fee is taken to profit at the commencement of the transaction. The underwriting fee and the agency fee are included in the Effective Interest Rate ("EIR") calculation and are taken to profit over the expected life of the loan.

(iv) Valuation of shares and warrants and Capital Gains

ICG holds a portfolio of unquoted shares and warrants as an integral part of its business, from which is derived the capital profit on each transaction. Such shares or warrants are usually granted as part of the overall mezzanine loan transaction and, although some of these instruments could technically be traded, ICG has never traded them.

UK GAAP
Capital Gains
Capital gains upon the sale of investment are accounted for when received.

Shares in listed companies
Unsold shares acquired as the result of a flotation of an investee company are held in the balance sheet at cost less provisions for impairment. Profits and losses are only taken when the shares have been sold.

Unquoted shares and warrants
Unquoted shares and warrants are held in the balance sheet at cost which in most cases, is nominal, less provisions for impairment. A directors' valuation utilising the guidelines from the BVCA is carried out on a semi-annual basis and this is shown as a note to the annual accounts. Capital gains are only taken to the profit and loss account as and when the shares and/or warrants are realised and cash has been received.

IFRS

Under IFRS, shares and warrants are valued, where a reliable valuation is possible, at fair value, with the movements being accounted for as follows:-

Shares in listed companies
These are marked to market, with the movement going through reserves. Once the shares are sold, or there is objective evidence of impairment, the profit or loss is recycled through the income statement.

Shares in unquoted companies
These are valued at their fair value where it is considered possible to reasonably measure this value, otherwise these are held at cost. As with listed shares, movements in fair value are taken to reserves, with any profit or loss on realisation, or where there is objective evidence of impairment, being recycled through the income statement.

Warrants in unquoted companies
Warrants are shown at their fair value although, in common with shares in unquoted companies, such value can be difficult to establish and where these cannot be reliably measured they are held at cost. All movements in fair value are taken through the income statement.

3) Derivatives

As part of the funding of its mezzanine activities, the company enters into various financial derivatives, primarily interest rate swaps and forward foreign exchange contracts, to ensure that it is not exposed to interest rate or currency movements on its asset or liability base.

UK GAAP

Under UK GAAP, interest on interest rate swaps and the premium/discount on forward foreign exchange contracts are accounted for on the accruals basis in line with the underlying hedged item.

All forward foreign exchange contracts are revalued into Sterling at the end of each month, with any resulting profit or loss being taken to the profit and loss account. This will be equal and opposite to the profit or loss on the revaluation of the hedged asset or liability.

IFRS

Although ICG is hedged economically, we are unable to obtain hedge accounting under IFRS on the majority of derivatives. This is because these hedges are denominated in US Dollars and swapped into Euros, neither of which are sterling, our functional currency, and therefore hedge accounting is not permitted.

The impact of any volatility arising from certain financial liabilities being recorded at amortised cost with the associated derivatives being recorded at fair value has not been shown in the proforma income statement for the year ended 31 January 2005.

4) Debt funding – recognition of interest expense

UK GAAP
Interest expense has been accounted for on the accruals basis. Upfront fees on the arrangement of such debt are amortised over the expected maturity period of the debt.

IFRS
All interest expense, including upfront fees, is accounted for using the EIR method.

5) Consolidation

This transitional statement covers ICG and its subsidiary companies. It does not include third party funds managed by the group as ICG does not have the power to control such funds with a view to obtaining benefits from their activities.

6) Taxation

A provisional tax calculation has been made of the effect of all the adjustments to reserves of IFRS.

APPENDIX 1
PRINCIPAL IFRS ACCOUNTING POLICIES

Basis of preparation
The preliminary consolidated comparative financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The accounting policies and disclosures adopted reflect our current view of best practice, and the accounting standards that will be in force and endorsed by the EU for the period commencing 1 February 2005. They are therefore subject to change.

The date of transition to IFRS and the date of the opening IFRS balance sheet was 1 February 2004. On initial adoption of IFRS, the following exemptions were applied from the requirements of IFRS and from their retrospective application as permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards' (IFRS 1):

Implementation of IAS 32, IAS 39 and IFRS 4 – as allowed by IFRS 1, our 2004 consolidated income statement and balance sheet has not been restated to comply with IAS 32 and IAS 39.
Derecognition –the derecognition requirements of IAS 39 to transactions occurring on or after 1 February 2005 has been applied.
Share based payments – IFRS 2 'Share-based Payment' has been applied to equity instruments granted after 7 November 2002.

Accounting convention
The Group prepares its accounts under the historical cost convention, except for the revaluation of loans and investments, available-for-sale financial assets, financial assets at fair value through profit or loss and all derivative contracts.

Basis of consolidation
The group financial statements incorporate the financial statements of the company and its subsidiaries.

Interest income and expenses
Interest income and expense on financial assets and liabilities held at amortised cost are measured using the effective interest rate ("EIR") method, which allocates the interest income or interest expense over the relevant period. The EIR is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Fee and commission income
Arrangement fees are generally recognised at the time they are received. Underwriting and agency fees form part of the EIR calculation.

Fees from fund management are recognised on an accruals basis.

Fees payable
Arrangement fees on Balance Sheet funding are recognised in interest expense as part of the EIR calculation.
Other fees are expensed as incurred.

Share-based payments
The group issues equity-settled share options to certain employees. These are measured at fair value at date of grant using a Black Scholes option pricing model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest.

Dividends
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Pension costs
Pension liabilities are provided by payments to insurance companies or to individuals for employees' private pension plans. The amount charged to the profit and loss account represents a percentage of the current payroll cost paid to defined contribution schemes.

Value added tax
Irrecoverable VAT is written off on items of expenditure relating to the profit and loss account. VAT on tangible fixed assets is capitalised and written off over a similar period to the asset to which it relates.

Foreign currencies
Foreign currency monetary transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are re-translated at year end exchange rates. Foreign exchange gains and losses are recognised in the income statement.

Taxation

Provision is made for taxation at the current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

Property, plant and equipment and depreciation
Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful live as follows:
Furniture and Equipment – 20% - 33% per annum
Leasehold Premises – Over the term of the lease

Financial assets
Financial assets are classified into the following categories, as determined at initial recognition:
(a) Financial assets at fair value through profit or loss
Derivative assets are categorised as 'at fair value through profit or loss' unless they are designated as hedges. We have no other assets classified as fair value through profit or loss.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Available-for-sale
Available-for-sale assets are financial assets not classified in (a)-(b) above.

Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate ("EIR") method.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market then fair value is determined, where possible, using valuation techniques.

Impairment of financial assets
A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of a fall in value of that asset as a result of events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has occurred, 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 discounted at the financial asset's effective interest rate.

Shares and Warrants
Where management can reliably measure the value, shares and warrants are valued at their fair value. If the fair value cannot be reliably measured, the assets are held at cost.
Gains and losses arising from changes in the fair value of warrants are recognised in the income statement. Gains and losses arising from changes in the fair value of shares are recognised directly in equity, until the shares are de-recognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Assets held for the Short Term
Investments which are held for sale in the short term as current assets are measured at fair value i.e. cost plus accrued interest.

Financial liabilities
All Balance Sheet funding liabilities are held at amortised cost. Derivative liabilities are categorised as at fair value through profit or loss unless they are designated as hedges.

Derivative financial instruments and hedge accounting
Derivatives, including embedded derivatives which are not considered to be closely related to the host contract, 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.

Derivatives can be designated as either cash flow or fair value hedges.

Cash flow hedges
A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in equity, and recycled to the income statement in the periods when the hedged item will affect profit or loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Fair value hedges
A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

APPENDIX 2
REPORTS OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF INTERMEDIATE CAPITAL GROUP PLC ON THE PRELIMINARY FULL YEAR COMPARATIVE IFRS FINANCIAL INFORMATION

We have audited the preliminary full year comparative International Financial Reporting Standards (IFRS) consolidated financial information of Intermediate Capital Group PLC ("the Company") and its subsidiaries (together, "the Group"); which comprises: the Statutory consolidated balance sheets as at 1 February 2004, 31 January 2005 and 1 February 2005 (as set out on pages 5, 6 and 7) and the Statutory consolidated income statement for the year ended 31 January 2005 (as set out on page 8); and the Principal IFRS accounting policies set out on pages 20 to 22 (together "the full year comparative IFRS financial information").

This report is made solely to the Board of Directors, in accordance with our engagement letter dated 4 April 2005 and solely for the purpose of assisting with the transition to IFRS. Our audit work has been undertaken so that we might state to the Company's board of directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the Company for our audit work, for our report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Company's directors are responsible for ensuring that the Company and the Group maintains proper accounting records and for the preparation of the preliminary full year comparative IFRS financial information on the basis set out in the Principal IFRS accounting policies, which describe how IFRS will be applied under IFRS 1, including the assumptions the directors have made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when the Group prepares its first complete set of IFRS financial statements as at 31 January 2006. Our responsibility is to audit the preliminary full-year comparative IFRS financial information in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards and report to you our opinion as to whether the preliminary full year comparative IFRS financial information is prepared, in all material respects, on the basis set out in the Principal IFRS accounting policies.

We read the other information contained in the preliminary full year comparative IFRS financial information for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary full year comparative IFRS financial information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the preliminary full year comparative IFRS financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the preliminary full year comparative IFRS financial information and of whether the accounting policies are appropriate to the circumstances of the Group, 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 preliminary full year comparative IFRS financial information is 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 preliminary full year comparative IFRS financial information.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Principal IFRS accounting policies explain that there is a possibility that the accompanying preliminary full year comparative IFRS financial information may require adjustment before constituting the final full year comparative IFRS financial information. Moreover, we draw attention to the fact that, under IFRSs, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRSs.

Opinion

In our opinion the preliminary full year comparative IFRS financial information has been prepared, in all material respects, on the basis set out in the Principal IFRS accounting policies which describe how IFRS will be applied under IFRS 1, including the assumptions the directors have made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when the Group prepares its first complete set of IFRS financial statements as at 31 January 2006.

Deloitte & Touche LLP
Chartered Accountants
London
15 September 2005

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF INTERMEDIATE CAPITAL GROUP PLC ON THE PRELIMINARY INTERIM COMPARATIVE IFRS FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 31 JULY 2004

We have reviewed the preliminary interim comparative International Financial Reporting Standards (IFRS) consolidated financial information of Intermediate Capital Group PLC ("the Company") and its subsidiaries (together "the Group") for the six months ended 31 July 2004 which comprises: the Statutory consolidated balance sheet as at 31 July 2004 (as set out on page 6) and the Statutory consolidated income statement for the six months ended 31 July 2004 (as set out on page 8); and the Principal IFRS accounting policies set out on pages 20 to 22 (together "the interim comparative IFRS financial information").

This preliminary interim comparative IFRS financial information is the responsibility of the Company's directors. It has been prepared as part of the Group's conversion to IFRS in accordance with the basis set out in the Principal IFRS accounting policies which describe how IFRSs have been applied under IFRS 1, including the assumptions the directors have made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when the Group prepares its first complete set of IFRS financial statements as at 31 January 2006. Our responsibility is to express an opinion on this preliminary interim comparative IFRS financial information based on our review.

Our review report is made solely to the Board of directors in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Review work performed

We conducted our review in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the preliminary interim comparative IFRS financial information and underlying financial data and, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of control and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the preliminary interim comparative IFRS financial information.

Emphasis of matter

Without modifying our review conclusion, we draw attention to the fact that the Principal IFRS accounting policies explain that there is a possibility that the accompanying preliminary interim comparative IFRS financial information may require adjustment before constituting the final interim comparative IFRS financial information for the six months ended 31 July 2004. Moreover, we draw attention to the fact that, under IFRSs, only a complete set of financial statements comprising an income statement, balance sheet, statement of changes in equity, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRSs.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the preliminary interim comparative IFRS financial information for the six months ended 31 July

2004 which has been prepared in accordance with the basis set out in the note on Principal IFRS accounting policies.

Deloitte & Touche LLP
Chartered Accountants
London
15 September 2005