



**Kleinwort Benson Bank (Isle of Man) Limited  
(Formerly Close Bank (Isle of Man) Limited)**

**Report and Financial Statements**

**31 December 2011**

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OFFICERS AND PROFESSIONAL ADVISERS

|                  |                         |  |
|------------------|-------------------------|--|
| <b>DIRECTORS</b> | A R Brindley            | <i>Ceased to act 31 October 2011</i>   |
|                  | A Henton                | <i>Ceased to act 3 October 2011</i>    |
|                  | L Steyn                 | <i>Ceased to act 18 January 2012</i>   |
|                  | R C Gell, Non Executive |  |
|                  | L J Corlett             |  |
|                  | G Sheward               | <i>Ceased to act 29 July 2011</i>      |
|                  | M Bright                | <i>Appointed to act 1 June 2011</i>    |
|                  | K F Black               | <i>Appointed to act 1 August 2011</i>  |
|                  | N C R Bolt              | <i>Appointed to act 15 August 2011</i> |

**SECRETARY** K F Black

**REGISTERED OFFICE** St George's Court  
Upper Church Street  
Douglas  
Isle of Man  
IM1 1EE

**AUDITORS** KPMG Audit LLC  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man  
IM99 1HN

*Kleinwort Benson Bank (Isle of Man) Limited is a banking and financial services company which aims to provide its clients with individual attention from experienced professionals who take the time necessary to understand their clients' objectives and to provide an imaginative approach to achieving them.*

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 31 December 2011.

### 1. Activities

The Company is principally engaged in business as private bankers and offers a wide range of services including:

- the provision of multi-currency deposit accounts;
- the provision of foreign exchange and transmission services;
- the granting of short term loans and other commitments;
- the provision of debit cards; and
- treasury management services.

### 2. Review of developments

On 1 June 2011 Kleinwort Benson Channel Islands Holdings Limited acquired the Offshore Business of Close Brothers Group plc. The Company was acquired in this transaction and on 30 September 2011 rebranded to Kleinwort Benson Bank (Isle of Man) Limited. The accounting reference date of all newly acquired entities within the Kleinwort Benson Group (the "Group") was changed from 31 July to 31 December, in order to be consistent with that of the existing Kleinwort Benson entities and a 17 month period of account is reported herein.

The Company continues to refine and develop its range of services, with the objective of providing a first class service targeted on the needs of its customers.

### 3. Results and dividend

|   | 17 month period to<br>31 December 2011 | Year to<br>31 July 2010 |
|---|--|-------------------------|
|   | £                                      | £                       |
| Profit on ordinary activities before taxation | 211,200                                | 25,140                  |
| Profit on ordinary activities after taxation  | 187,159                                | 21,514                  |

There was no interim dividend paid to the immediate parent company during the financial period (year to 31 July 2010 - £nil). The directors do not recommend payment of a final dividend (year to 31 July 2010 - £ nil).

### 4. Going concern

The Company's business activities are set out above. The principal risks and uncertainties the Company currently faces are described in note 24 to the financial statements and this note includes the Company's objectives, policies and procedures for managing those risks.

The Company's performance has been impacted by the difficult trading conditions currently being experienced. However, the Company has proved resilient in previous downturns. The directors further believe the Company has a sound funding and liquidity position and adequate capital resources. As a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries with management and review of cash flow forecasts, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REPORT - Continued

**5. Directors**

The present membership of the Board and all changes during the period and to date are set out on page 2.

None of the directors has had any direct beneficial interest in the share capital of the Company during the period and to date.

**6. Auditors**

Messrs Deloitte LLP retired from office during the financial period. The Board of Directors exercised their right to appoint auditors to fill the vacancy that arose as a result, and accordingly KPMG Audit LLC were appointed as auditors. At the Annual General Meeting, KPMG Audit LLC will be reappointed as auditors, and, being eligible, have expressed their willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

On behalf of the Board  
23 March 2012

**Director**      *Nigel Bolt*

**Director**      *Lesley Corlett*

## 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, which meet the requirements of Isle of Man company law. In addition, the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MEMBERS OF KLEINWORT BENSON BANK (ISLE OF MAN) LIMITED**

We have audited the financial statements of Kleinwort Benson Bank (Isle of Man) Limited for the period from 1 August 2010 to 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with Section 15 of the Companies Act 1982. 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. The financial statements of the Company as of 31 July 2010 were audited by another auditor, whose report, dated 23 September 2010, expressed an unqualified opinion on those financial statements.

### **Respective responsibilities of Directors and Auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the period then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

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

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's balance sheet and profit and loss account are not in agreement with the books of account and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**KPMG Audit LLC**

**26 March 2012**

*Chartered Accountants*

*Douglas*

*Isle of Man*

**PROFIT AND LOSS ACCOUNT**  
for the 17 month period ended 31 December 2011

|   | Note   | 17 month period to<br>31 December 2011<br>£ | Year to<br>31 July 2010<br>£ |
|---|--------|---|------------------------------|
| Interest receivable   | 1b, 3  | 5,772,240                                   | 3,316,457                    |
| Interest payable  | 1b, 3  | (3,079,091)                                 | (1,688,104)                  |
| Net interest income   |        | <u>2,693,149</u>                            | <u>1,628,353</u>             |
| Fees and commissions receivable                               | 1b, 28 | 331,654                                     | 299,459                      |
| Fees and commissions payable                                  | 1b     | (105,330)                                   | (101,078)                    |
| Dealing profits   |        | <u>359,823</u>                              | <u>296,585</u>               |
| Total other income  |        | <u>586,147</u>                              | <u>494,966</u>               |
| Operating income  |        | <u>3,279,296</u>                            | <u>2,123,319</u>             |
| Administration expenses                                       | 2      | 2,785,415                                   | 2,032,413                    |
| Depreciation  | 11     | <u>45,074</u>                               | <u>65,766</u>                |
| Total operating expenses                                      |        | <u>2,830,489</u>                            | <u>2,098,179</u>             |
| <b>Profit on ordinary activities before exceptional items</b> |        | 448,807                                     | 25,140                       |
| Exceptional items:  |        |   |                              |
| Redundancy costs  | 31     | <u>237,607</u>                              | <u>-</u>                     |
| <b>Profit before taxation</b>                                 | 4      | 211,200                                     | 25,140                       |
| Taxation on profit  | 5      | <u>(24,041)</u>                             | <u>(3,626)</u>               |
| Profit after taxation   | 25     | <u>187,159</u>                              | <u>21,514</u>                |

There are no recognised gains or losses for the current period and the prior year other than those shown above.

The notes on pages 9 to 30 form part of these financial statements.

The directors consider that the Company's results are derived from continuing activities.

BALANCE SHEET  
as at 31 December 2011

|  | Note   | 31 December 2011<br>£ | 31 July 2010<br>£  |
|--|--------|-----------------------|--------------------|
| <b>Assets</b>  |        |                       |                    |
| Loans and advances to banks  | 7, 10  | 182,340,540           | 206,254,334        |
| Debt securities - certificates of deposit                                    | 9      | 60,000,000            | 27,560,103         |
| Loans and advances to customers  | 8      | 10,427,304            | 5,510,872          |
| Tangible fixed assets  | 11     | 155,963               | 184,104            |
| Amounts owed by group entities   | 20, 30 | 405,836               | -                  |
| Other assets   | 12     | 32,866                | 36,137             |
| Prepayments and accrued income   | 13     | 1,382,844             | 1,420,848          |
| Deferred tax asset   | 19     | 3,729                 | 52,924             |
| <b>Total assets</b>  | 29     | <b>254,749,082</b>    | <b>241,019,322</b> |
| <b>Liabilities</b>   |        |                       |                    |
| Subordinated loan capital  | 20     | 775,000               | -                  |
| Deposits by non group banks  | 14     | 6,035,641             | 3,157,828          |
| Customer accounts  | 15     | 234,585,258           | 222,875,828        |
| Settlement balances with non group entities                                  |        | 45,192                | 115,844            |
| Amounts owed to group entities   | 30     | 892,310               | 1,552,153          |
| Other liabilities  | 16     | 118,407               | 158,616            |
| Accruals and deferred Income   | 17     | 825,358               | 1,541,051          |
| Provisions for liabilities and charges :-<br>Depositors' Compensation Scheme | 18     | -                     | 333,244            |
| <b>Total liabilities</b>   |        | <b>243,277,166</b>    | <b>229,734,564</b> |
| <b>Shareholders' funds</b>   |        |                       |                    |
| Called up share capital  | 21     | 5,000,000             | 5,000,000          |
| Profit and loss account  | 25     | 6,471,916             | 6,284,758          |
| Total equity shareholders' funds   | 26     | 11,471,916            | 11,284,758         |
| <b>Total liabilities and shareholders' funds</b>                             | 29     | <b>254,749,082</b>    | <b>241,019,322</b> |

The notes on pages 9 to 30 form part of these financial statements.

These financial statements were approved by the Board of Directors on 23 March 2012.

On behalf of the Board:

Director *Nigel Bolt*

Director *Lesley Corlett*

NOTES TO THE FINANCIAL STATEMENTS  
Period ended 31 December 2011

**1. Accounting policies**

The financial statements have been prepared under the historical cost convention as modified for the fair value of derivatives and in accordance with the Statements of Recommended Practice issued by the British Bankers Association, the Statement of Recommended Practice issued by the Isle of Man Society of Chartered Accountants and the Isle of Man Association of Chartered Certified Accountants, applicable Isle of Man law and United Kingdom Accounting Standards. The particular accounting policies adopted by the Company are described below.

**(a) Going concern**

The Company's business activities are set out in the Directors Report on page 3. The principal risks and uncertainties the Company currently faces are described in note 24 to the financial statements and this note includes the Company's objectives, policies and procedures for managing those risks.

The Company's performance has been impacted by the difficult trading conditions currently being experienced. However, the Company has proved resilient in previous downturns. The directors are of the opinion that the Company has a sound funding and liquidity position and adequate capital resources. As a consequence, the directors consider the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries with management and review of cash flow forecasts, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**(b) Income and expenditure**

Income and all expenses are accrued on a day to day basis. Operating lease income and expense is recognised on a straight line basis over the period of the lease. Interest income derived from money market placements, certificates of deposits and loans to customers is accounted for on an accruals basis, as is the interest expense relating to customer deposits. All income and expenditure relates to continuing operations.

**(c) Loans and advances to customers**

Loans and advances are stated net of specific provisions for bad and doubtful debts which are made on the basis of regular review by management.

**(d) Tangible fixed assets**

Tangible fixed assets are initially recorded at cost. Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows : -

- |                          |                         |
|--------------------------|-------------------------|
| • Office equipment       | 20% - 33 1/3% per annum |
| • Leasehold improvements | Lease term of 21 years  |

**(e) Foreign currencies**

All foreign currency balances are translated at the rates ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS  
Period ended 31 December 2011

**1. Accounting policies (continued)**

**(f)** *Forward foreign currency contracts*

Forward foreign currency contracts are valued at the period end market rates applicable to their respective maturities and the resulting gains or losses are reflected in the profit and loss account for the period.

**(g)** *Taxation*

Current tax is the expected tax payable on the taxable income for the period / year, using tax rates enacted or substantially enacted at the reporting date, plus any adjustments to tax payable in respect of previous years.

**(h)** *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**(i)** *Debt securities*

Debt securities comprise certificates of deposit which are valued at cost.

**(j)** *Pensions*

Pension costs relating to the money purchase scheme are charged against profit as monthly contributions become payable to the scheme.

**(k)** *Derivatives*

The Company's foreign currency exposure arises from providing services to customers. The Company's policy is to hedge against these foreign currency exchange risks by engaging in spot and forward currency transactions, where appropriate. These instruments are classified as fair value through profit or loss and are carried on the balance sheet at fair value.

**(l)** *Bad and doubtful debts*

Specific provisions are made against advances when, in the opinion of the directors, credit risks or economic factors make recovery doubtful. The aggregate provisions which are made during the year (less amounts released and recoveries of bad debts previously written off) are charged against operating profit. If the collection of interest is considered to be doubtful, it is suspended and excluded from the interest income in the profit and loss account. Bad debts are written off in part, or in whole, when a loss has been confirmed.

**(m)** *Related party transactions*

Under Financial Reporting Standard No 8, the Company is exempt from disclosing related party transactions because, as at 31 December 2011, it was ultimately wholly owned by RHJ International S.A. (and was previously ultimately wholly owned by Close Brother Group plc until 1 June 2011). The consolidated annual financial statements of these companies, which include the Company's results, are publicly available. Limited disclosure has been included in note 3, to show related party income and expenses only.

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**1. Accounting policies (continued)**

**(n) Cash flow statement**

The Company is a wholly owned subsidiary of a group whose ultimate parent company prepares financial statements that are publicly available. The Company is therefore exempt from presenting a cash flow statement in accordance with Financial Reporting Standard 1.

**(o) Share-based payments**

The former ultimate parent undertaking, Close Brothers Group plc, had for many years operated long term incentive arrangements. The Company has applied FRS20 "Share-based Payment" to all grants of equity instruments under these share based incentive schemes.

The expense for share-based incentive schemes, recorded up to the date of acquisition by Kleinwort Benson Channel Islands Holdings Limited, was measured by reference to the fair value of the shares or share options granted on the date of grant. Such fair values were determined using option pricing models which took into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the Close Group's share price over the life of the option/award and other relevant factors. The fair value was expensed in the profit and loss account on a straight line basis over the vesting period. Such fair values were determined at Group level and an inter-company charge was made to the Company on account of its share of the former Group share-based payment expense.

The liability under the Close Brothers Group plc arrangement was extinguished upon acquisition and awards were not replaced in under the new parent.

**2. Administrative expenses**

|                                  | <b>17 month period to<br/>31 December 2011</b> | <b>Year to<br/>31 July 2010</b> |
|----------------------------------|--|---------------------------------|
|                                  | £  | £                               |
| Staff costs:                     |  |                                 |
| Wages and salaries               | 3,122,764                                      | 2,460,015                       |
| Social security costs            | 334,503  | 231,375                         |
| Other pension costs              | 311,940  | 246,629                         |
| Share based awards               | 14,138   | 14,329                          |
| Other administration expenses    | 1,214,025                                      | 964,344                         |
| Total expenditure                | <u>4,997,370</u>                               | <u>3,916,692</u>                |
| Recharged to fellow subsidiaries | <u>(2,211,955)</u>                             | <u>(1,884,279)</u>              |
| Administrative expenses          | <u>2,785,415</u>                               | <u>2,032,413</u>                |

Total expenditure is / was allocated to companies in the current / former group based on utilisation of services by these entities.

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**3. Related parties**

The following is a summary of income and expenses in respect of transactions with other group companies. All intra-group loans are transacted at market rates.

|  | <b>17 month period to<br/>31 December 2011</b> | <b>Year to<br/>31 July 2010</b> |
|--|--|---------------------------------|
| Interest receivable:                                       | £  | £                               |
| Former parent company                                      | 3,532,030                                      | 2,744,615                       |
| Fellow subsidiaries  | 37,160   | 6,103                           |
| Seconded staff charges receivable from fellow subsidiaries | 225,900  | -                               |
| Interest payable to fellow subsidiaries                    | 40,331   | 56,499                          |
| Commission payable to fellow subsidiaries                  | 41,369   | 42,516                          |

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**4. Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is arrived at after charging:

|                                     | <b>17 month period to<br/>31 December 2011</b> | <b>Year to<br/>31 July 2010</b> |
|-------------------------------------|--|---------------------------------|
|                                     | £  | £                               |
| Audit fees                          | 33,790   | 24,748                          |
| Depreciation                        | 45,074   | 65,766                          |
| Directors' fees                     | 15,662   | 11,496                          |
| Operating lease rentals on property | 282,318  | 187,269                         |

Substantially all income, profits and net assets are attributable to activities which are located in the Isle of Man and relate to private banking services.

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**5. Taxation on profit on ordinary activities**

The Company has made full provision for taxation, based upon taxation rates applicable to the Company, on its current year taxable profits.

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**5. Taxation on profit on ordinary activities (continued)**

|                               | <b>17 month period to<br/>31 December 2011</b> | <b>Year to<br/>31 July 2010</b> |
|-------------------------------|--|---------------------------------|
|                               | £  | £                               |
| Isle of Man income tax        | -  | -                               |
| Over provision in prior years | (25,154)                                       | (4,380)                         |
| Deferred taxation (note 19)   | 49,195   | 8,006                           |
|                               | <b>24,041</b>                                  | <b>3,626</b>                    |

The standard rate of income tax for the year is 10% for profits deriving from banking activities and 0% for other profits (2010 : 10% / 0%). The current tax charge differs from the standard rate of income tax for the reasons set out in the following reconciliation:

|   | <b>17 month period to<br/>31 December 2011</b> | <b>Year to<br/>31 July 2010</b> |
|---|--|---------------------------------|
|   | £  | £                               |
| Profit on ordinary activities before taxation                             | 211,200  | 25,140                          |
| Tax on profit on ordinary activities at standard rate of 10% (2010 : 10%) | 21,120   | 2,514                           |
| Factors affecting charge:   |  |                                 |
| Net income subject to tax at 0%   | (353)  | (286)                           |
| Losses carried forward for use in future periods                          | 9,403  | 24,985                          |
| Capital allowances less than depreciation                                 | 2,790  | 5,829                           |
| Disallowed expenditure  | 364  | 282                             |
| Short term timing differences   | (33,324)                                       | (33,324)                        |
|   | -  | -                               |

**6. Pensions**

The Company operates a non-contributory money-purchase pension scheme. The net pension cost charge for the period including related life assurance costs amounted to £311,940 (year to 31 July 2010 : £246,629). £66,138 (year to 31 July 2010 : £148,043) of this amount has been recharged to Kleinwort Benson Trustees (Isle of Man) Limited ("KBTIOM") as a number of employees of the Company work solely on KBTIOM business. This amount, together with other salary costs, is charged to KBTIOM via a management recharge (see note 2)

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**7. Loans and advances to banks**

As at 31 December 2011 the Company's liquid funds were deployed as follows: -

|                               | Claims on<br>group banks<br>£ | Claims on<br>other banks<br>£ | Total claims<br>31 December 2011<br>£ | Claims on<br>group banks<br>£ | Claims on<br>other banks<br>£ | Total claims<br>31 July 2010<br>£ |
|-------------------------------|-------------------------------|-------------------------------|---------------------------------------|-------------------------------|-------------------------------|-----------------------------------|
| Repayable:                    |                               |                               |                                       |                               |                               |                                   |
| Between sight and 8 days      | 7,272,479                     | 99,661,405                    | 106,933,884                           | 53,293,191                    | 27,441,934                    | 80,735,125                        |
| Between 8 days and 1 month    | -                             | 1,310,000                     | 1,310,000                             | 25,882,711                    | -                             | 25,882,711                        |
| Between 1 month and 3 months  | -                             | 7,611,149                     | 7,611,149                             | 1,492,241                     | 578,102                       | 2,070,343                         |
| Between 3 months and 6 months | -                             | 66,360,508                    | 66,360,508                            | 70,885,276                    | -                             | 70,885,276                        |
| Between 6 months and 1 year   | -                             | -                             | -                                     | 23,470,059                    | 578,102                       | 24,048,161                        |
| Between 1 year and 3 years    | -                             | 125,000                       | 125,000                               | 2,632,718                     | -                             | 2,632,718                         |
|                               | <b>7,272,479</b>              | <b>175,068,061</b>            | <b>182,340,540</b>                    | <b>177,656,196</b>            | <b>28,598,138</b>             | <b>206,254,334</b>                |

Netting against claims on other banks is a credit amount of £26,361 (2010 : credit amount £187,566) which relates to an internal account from which cheques are drawn. The balance on this account represents un-presented cheques at the year end.

**8. Loans and advances to customers**

Included in loans and advances to customers is an amount of £25,256 (year to 31 July 2010 : £115,968) representing the aggregate of all sums advanced to staff as at 31 December 2011. Of this sum, £8,106 (year to 31 July 2010 : £ nil) had been advanced to directors in the normal course of business as at 31 December 2011.

At 31 December 2011 there were two exposures: one of £1,960,039 and one of £1,261,731 for which the authorised limit exceeded 10% of the capital base (year to 31 July 2010 – one exposure of £2,098,689).

|   | 31 December<br>2011<br>£ | 31 July<br>2010<br>£ |
|---|--------------------------|----------------------|
| Repayable in more than one year and secured | 4,738,227                | -                    |
| Repayable in less than one year:            |                          |                      |
| Staff loans                                 | 17,150                   | 115,968              |
| Loans to directors                          | 8,106                    | -                    |
| Other secured                               | 5,572,760                | 5,382,870            |
| Other unsecured                             | 91,061                   | 12,034               |
|   | <b>10,427,304</b>        | <b>5,510,872</b>     |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**9. Debt securities – certificates of deposit**

|                               | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|-------------------------------|-----------------------------|-------------------------|
|                               | £                           | £                       |
| Less than 1 month             | -                           | -                       |
| 1 month to less than 3 months | 10,000,000                  | 22,560,103              |
| 3 months to less than 1 year  | 50,000,000                  | 5,000,000               |
|                               | <b>60,000,000</b>           | <b>27,560,103</b>       |

The fair value of certificates of deposit as at 31 December 2011 was £60,020,328 (fair value of certificates of deposit held at 31 July 2010: £27,559,954)

**10. Loans and advances to banks: Bonds**

Included within loans and advances to banks are bonds as follows:

|                 | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|-----------------|-----------------------------|-------------------------|
|                 | £                           | £                       |
| Bond principal  | 6,434,385                   | -                       |
| Bond premium    | 45,684                      | -                       |
| Bought interest | 35,532                      | -                       |
|                 | <b>6,515,602</b>            | <b>-</b>                |

The three year bonds had a maturity date of 2 April 2012 and a fair value of £6,512,370 as at 31 December 2011.

**11. Tangible fixed assets**

|                            | Leasehold<br>improvements<br>£ | Office<br>equipment<br>£ | Total<br>£     |
|----------------------------|--------------------------------|--------------------------|----------------|
| <b>Cost or valuation</b>   |                                |                          |                |
| At 1 August 2010           | 249,229                        | 520,131                  | 769,360        |
| Additions                  | -                              | 16,933                   | 16,933         |
| Disposals                  | -                              | (4,961)                  | (4,961)        |
| <b>At 31 December 2011</b> | <b>249,229</b>                 | <b>532,103</b>           | <b>781,332</b> |
| <b>Depreciation</b>        |                                |                          |                |
| At 1 August 2010           | 100,402                        | 484,854                  | 585,256        |
| Charge for the period      | 16,813                         | 28,261                   | 45,074         |
| Disposals                  | -                              | (4,961)                  | (4,961)        |
| <b>At 31 December 2011</b> | <b>117,215</b>                 | <b>508,154</b>           | <b>625,369</b> |
| <b>Net book value</b>      |                                |                          |                |
| <b>At 31 December 2011</b> | <b>132,014</b>                 | <b>23,949</b>            | <b>155,963</b> |
| At 1 August 2010           | 148,827                        | 35,277                   | 184,104        |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**12. Other assets**

|                                | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|--------------------------------|-----------------------------|-------------------------|
|                                | £                           | £                       |
| VAT asset                      | 31,748                      | 17,011                  |
| Unrealised gain on derivatives | -                           | 457                     |
| Sundry debtors                 | 1,118                       | 18,669                  |
|                                | <u>32,866</u>               | <u>36,137</u>           |

**13. Prepayments and accrued income**

|   | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|---|-----------------------------|-------------------------|
|   | £                           | £                       |
| Accrued interest - group counterparties     | -                           | 1,256,233               |
| Accrued interest - non group counterparties | 1,264,555                   | 52,768                  |
| Prepayments                                 | 118,290                     | 111,847                 |
|   | <u>1,382,844</u>            | <u>1,420,848</u>        |

**14. Deposits by banks**

|                               | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|-------------------------------|-----------------------------|-------------------------|
|                               | £                           | £                       |
| On demand                     | 1,432,746                   | 3,157,828               |
| Less than 1 month             | 2,259,603                   | -                       |
| 1 month to less than 3 months | 2,343,292                   | -                       |
|                               | <u>6,035,641</u>            | <u>3,157,828</u>        |

**15. Customer accounts**

Customer accounts include an amount of £3,534,727 (year to 31 July 2010 : £4,283,301) held as security for loans and advances, guarantees and similar obligations.

|                               | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|-------------------------------|-----------------------------|-------------------------|
|                               | £                           | £                       |
| Repayable:                    |                             |                         |
| Between sight and 8 days      | 75,229,452                  | 104,492,024             |
| Between 8 days and 1 month    | 23,405,985                  | 37,777,918              |
| Between 1 month and 3 months  | 43,770,173                  | 1,867,679               |
| Between 3 months and 6 months | 79,031,097                  | 64,407,130              |
| Between 6 months and 1 year   | 11,187,038                  | 12,763,359              |
| Between 1 year and 3 years    | 1,961,512                   | 1,567,718               |
|                               | <u>234,585,258</u>          | <u>222,875,828</u>      |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**16. Other liabilities**

|                            | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|----------------------------|-----------------------------|-------------------------|
|                            | £                           | £                       |
| Withholding taxes          | 9,493                       | 6,444                   |
| Salary related liabilities | 75,298                      | 118,083                 |
| Other liabilities          | 33,616                      | 34,089                  |
|                            | <u>118,407</u>              | <u>158,616</u>          |

**17. Accruals and deferred income**

|  | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|--|-----------------------------|-------------------------|
|  | £                           | £                       |
| Accrued interest - fellow subsidiaries | 3,622                       | 28,274                  |
| Accrued interest - non group customers | 665,131                     | 925,817                 |
| Accruals                               | 156,605                     | 586,960                 |
|  | <u>825,358</u>              | <u>1,541,051</u>        |

**18. Liability under the Isle of Man Depositors' Compensation Scheme**

The Company is required to participate in the Isle of Man Depositors' Compensation Scheme (the "Scheme"), as set out in the Compensation of Depositors Regulations 2008 (as amended).

On 8 October 2008, the Board of Kaupthing Singer and Friedlander (Isle of Man) Limited ("KSF IOM") declared that it was unable to pay its debts. At a hearing in the Isle of Man High Court on 27 May 2009, a winding up order was made placing KSF IOM into liquidation.

During the course of the period and pursuant to Regulation 14 (l) (a) of the Scheme, the Scheme Manager (as defined by Regulation 5 (l)) gave the requisite notice to levy a third amount from Kleinwort Benson Bank (Isle of Man) Limited. The first two levies having been levied in prior periods to the sum of £666,756. The third levy was £333,378 and was paid during the period to 31 December 2011. Based upon the most recent available information, it is estimated that there will not be any further costs to the Company in respect of the Scheme.

**19. Deferred tax**

The actual provision and full potential liability for deferred taxation are in respect of accelerated capital allowances.

|   | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|---|-----------------------------|-------------------------|
|   | £                           | £                       |
| Deferred tax asset at 1 August                  | (52,924)                    | (60,930)                |
| Deferred tax charge in profit and loss (note 5) | 49,195                      | 8,006                   |
| Deferred tax asset at 31 December / 31 July     | <u>(3,729)</u>              | <u>(52,924)</u>         |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**19. Deferred tax (continued)**

|   | <b>31 December<br/>2011<br/>£</b> | <b>31 July<br/>2010<br/>£</b> |
|---|-----------------------------------|-------------------------------|
| Accelerated capital allowances                                  | 5,674                             | 5,392                         |
| Short term timing differences - Depositors' Compensation Scheme | -                                 | (33,331)                      |
| Tax losses at 10%   | (9,403)                           | (24,985)                      |
| Deferred tax asset at 31 December / 31 July                     | <u>(3,729)</u>                    | <u>(52,924)</u>               |

**20. Subordinated loan capital and subordinated debt due from group**

The Company entered into an unsecured long term subordinated loan agreement, as Borrower, with Close International Bank Holdings Limited on 18 January 2011. The agreement was novated, on the same terms, to Kleinwort Benson Channel Islands Holdings Limited on 1 June 2011. The agreement makes provision for a loan facility of up to £1,000,000 to be drawn by the Company, at an interest rate equivalent to London Interbank Offered Rate for one-month money. Amounts drawn down against this facility were £775,000 as at 31 December 2011. The repayment of any amounts drawn down against the facility is due 18 January 2021.

The Company also entered into an unsecured long term subordinated loan agreement, as Lender, with Kleinwort Benson Trustees (Isle of Man) Limited on 25 November 2011. The agreement makes provision for the Company to make available a loan facility of up to £300,000 to be drawn by Kleinwort Benson Trustees (Isle of Man) Limited at an interest rate equivalent to London Interbank Offered Rate for one-month money. Amounts drawn down against this facility were £200,000 as at 31 December 2011 (note 30). The repayment of any amounts drawn down against the facility is due 25 November 2021.

**21. Called up share capital**

|                                   | <b>31 December<br/>2011<br/>£</b> | <b>31 July<br/>2010<br/>£</b> |
|-----------------------------------|-----------------------------------|-------------------------------|
| <b>Authorised share capital</b>   |                                   |                               |
| Ordinary equity shares of £1 each | 10,000,000                        | 10,000,000                    |
| <b>Issued share capital</b>       |                                   |                               |
| 5,000,000 shares – fully paid     | 5,000,000                         | 5,000,000                     |

**22. Other financial commitments**

**a) Operating leases**

Under a 21-year lease for premises, the Company was committed to annual lease payments of £242,508 as at 31 December 2011 (£234,004 as at 31 July 2010). At the tenant's option, the lease is subject to a break clause on 1 August 2013, subject to 12 months notice.

**b) Capital commitments**

As at 31 December 2011, the Company had neither approved nor committed to any capital expenditure (2010 - £ nil).

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**23. Capital management**

Capital is defined as the total of share capital, share premium and retained earnings. Total capital at 31 December 2011 was £11,471,916 (year to 31 July 2010 £11,284,758). Regulatory capital is determined in accordance with the requirements of the regulator, the Isle of Man Financial Supervision Commission (FSC). The Company's objectives when managing capital are: -

- to comply with the capital requirements set by the regulator at all times;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of the business.

**24. Risk management and control of financial instruments**

**(a) Fair value of financial assets and liabilities**

|                         | 31 December 2011 |                 | 31 July 2010    |                 |
|-------------------------|------------------|-----------------|-----------------|-----------------|
|                         | Book Value<br>£  | Fair Value<br>£ | Book Value<br>£ | Fair Value<br>£ |
| Debt securities:        |                  |                 |                 |                 |
| Certificates of deposit | 60,000,000       | 60,020,328      | 27,560,103      | 27,559,954      |

Certificates of Deposit are normally held to maturity and are purchased for liquidity purposes. The fair values have been obtained from independent, open market sources.

**(b) Review of the Company's risk profile**

The Company has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The Company's financial instruments (other than derivatives), comprise deposits, money market assets and liabilities, and various other items that arise directly from its operations. The Company also enters into derivatives transactions (exclusively forward foreign currency contracts) on behalf of its customers. The Company does not enter into derivatives transactions for proprietary trading purposes.

The Company is responsible for the management of liquidity, interest rate and foreign exchange risks within guidelines specified by the Group. The Company's risk profile is reviewed monthly by the Asset and Liability Committee ("ALCO"). The Company's maturity analysis of assets and liabilities is monitored daily. Its policy throughout the year has been to ensure liquidity by maintaining at all times sufficient high quality liquid assets to cover all anticipated net cash outflows. The maturity analysis of the assets and liabilities as at 31 December 2011 is disclosed in the respective notes below.

The Company categorises its financial risk into the following categories:

i) Credit risk

This is the largest component of the Bank's regulatory capital charge and, as at 31 December 2011, comprised risk weighted assets of the lending portfolio (£4,012,445), treasury activities (£77,459,598) and other assets (£882,002). The capital required, as defined by the FSC, for credit risk is currently £9,882,485.

ii) Liquidity risk

The Company's position is highly liquid with prudent liquidity management practices such that no economic capital is required. All liabilities are met as they fall due from maturing assets without relying on renewing customer deposits or bank facilities. As a principal element of this, the Company funds its loan portfolio with shareholders funds and unsecured committed facilities.

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(b) Review of the Company's risk profile (continued)**

iii) Interest rate risk

This arises primarily as a result of the mismatch of repricing of assets and liabilities in the banking book. The Company has a long established policy of matching, within specified guidelines, interest rate assets and liabilities associated with its lending activities in order to lock in margins. These positions are monitored monthly by the Board and at group level. Interest rate positions can be taken by the Treasury department. These positions are within conservative limits and are not in place to encourage a trading culture.

Interest rate derivatives, mainly interest rate swaps, are used solely for hedging purposes and mainly to hedge client transactions.

The Company's policy is to maintain interest rate risk at a minimum level, and this is also monitored daily. Management may invest the shareholders' funds in floating rate instruments in response to market conditions.

The table in note 24(g) shows the interest rate sensitivity gap as at 31 December 2011 and 31 July 2010. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

iv) Currency risk

The Company's foreign currency exposure arises from providing services to customers. The Company's policy is to hedge against these foreign currency exchange risks by engaging in forward currency transactions, where appropriate.

**Forward exchange contracts**

At the period ended 31 December 2011, the Company had not entered into any forward exchange contracts to hedge against those currency exchange exposures arising through the provision of foreign currency services to customers.

|                                       | <b>31 December<br/>2011</b> | <b>31 July<br/>2010</b> |
|---------------------------------------|-----------------------------|-------------------------|
|                                       | £                           | £                       |
| Principal amount                      | -                           | 621,663                 |
| Risk weighted exposure                | -                           | 10,593                  |
| Unrealised gain at balance sheet date | -                           | 17,343                  |
| Unrealised loss at balance sheet date | -                           | 16,886                  |

The table in note 24(f) shows the Company's exposure to major currencies as at 31 December 2011 and 31 July 2010.

v) Other risks (including concentration risk, reputational risk, strategic risk and operational risk).

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(c) Credit risk**

Before taking account of collateral the maximum exposure to credit risk at 31 December 2011 was:

|                                  | <b>31 December 2011</b> | <b>31 July 2010</b> |
|----------------------------------|-------------------------|---------------------|
|                                  | <b>£</b>                | <b>£</b>            |
| Loans and advances to customers  | 10,427,304              | 5,510,872           |
| Loans and advances to banks      | 182,340,540             | 206,254,334         |
| Certificates of deposit          | 60,000,000              | 27,560,103          |
| Other receivables                | 1,415,710               | 1,456,985           |
| Derivative financial instruments | -                       | 17,343              |
| Undrawn commitments              | 32,602                  | 116,428             |
| Guarantees and indemnities       | 226,263                 | 308,674             |
|                                  | <u>254,442,419</u>      | <u>241,224,739</u>  |

Loans and advances to customers are largely secured against portfolios, cash and property. As a result, recovery levels are high. For loans and advances to banks and certificates of deposit, for which a rating is available, 55% have a Moody's rating of Aaa to Aa3 or P1, and 41% have a Moody's rating of A1 to A3.

No loans and advances have been impaired or are past due.

**(d) Market risk**

The sensitivity on the Company as a result of changes in interest rates is shown below:

|  | <b>Net interest income increase / (decrease)</b> |           |
|--|--|-----------|
|  | <b>£</b>   | <b>£</b>  |
| <b>At 31 December 2011</b>                 | Fall   | Rise      |
| 125 basis point movement on interest rates | 154,540  | (154,540) |
| <b>At 31 July 2010</b>                     | Fall   | Rise      |
| 125 basis point movement on interest rates | 56,429   | (56,429)  |

**(e) Liquidity risk**

The Company closely monitors its liquidity position against the Group's liquidity policy. The policy sets out elements of available and required liquidity through reference to and modelling of net lending commitment, liquidity reserves, deposit growth and the requirement for other payments (e.g. dividends and tax). From this, minimum and target liquidity levels are established. Furthermore, liquidity is also measured in proportion to the total balance sheet and is subject to trigger levels; these determine the appropriate levels of escalation in order to address any actual or forecast shortfalls. The liquidity policy also requires stress testing through modelling and assessment of any emerging and potentially extreme funding conditions.

The Company's contractual undiscounted cash flows associated with financial liabilities were as follows:

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(e) Liquidity risk (continued)**

|                             | On demand          | In not more than 3 months | In more than 3 months but not more than 6 months | In more than 6 months but not more than 1 year | In more than 1 year but not more than 5 years | In more than 5 years | Total              |
|-----------------------------|--------------------|---------------------------|--|--|---|----------------------|--------------------|
| <b>At 31 December 2011</b>  | £                  | £                         | £  | £  | £   | £                    | £                  |
| Subordinated loan capital   | -                  | -                         | -  | -  | -   | 827,097              | 827,097            |
| Customer deposits           | 202,006,898        | 21,243,771                | 3,944,154  | 5,760,562                                      | 2,139,109                                     | -                    | 235,094,493        |
| Deposits by Banks           | 1,432,745          | 4,612,169                 | -  | -  | -   | -                    | 6,044,914          |
| Bank loans and overdrafts   | -                  | -                         | -  | -  | -   | -                    | -                  |
| Other financial liabilities | 332,893            | -                         | -  | -  | -   | -                    | 332,893            |
| <b>Total</b>                | <b>203,772,536</b> | <b>25,855,940</b>         | <b>3,944,154</b>                                 | <b>5,760,562</b>                               | <b>2,139,109</b>                              | <b>827,097</b>       | <b>242,299,396</b> |

**Off-balance sheet**

|                     |        |   |   |         |   |   |         |
|---------------------|--------|---|---|---------|---|---|---------|
| Undrawn commitments | 32,602 | - | - | -       | - | - | 32,602  |
| Guarantees          | -      | - | - | 226,263 | - | - | 226,263 |

|                             | On demand          | In not more than 3 months | In more than 3 months but not more than 6 months | In more than 6 months but not more than 1 year | In more than 1 year but not more than 5 years | In more than 5 years | Total              |
|-----------------------------|--------------------|---------------------------|--|--|---|----------------------|--------------------|
| <b>At 31 July 2010</b>      | £                  | £                         | £  | £  | £   | £                    | £                  |
| Customer deposits           | 103,770,221        | 40,418,093                | 64,435,900                                       | 14,245,019                                     | 1,709,602                                     | -                    | 224,578,835        |
| Deposits by Banks           | 3,157,828          | -                         | -  | -  | -   | -                    | 3,157,828          |
| Bank loans and overdrafts   | -                  | -                         | -  | -  | -   | -                    | -                  |
| Other financial liabilities | 907,379            | -                         | -  | -  | -   | -                    | 907,379            |
| <b>Total</b>                | <b>107,835,428</b> | <b>40,418,093</b>         | <b>64,435,900</b>                                | <b>14,245,019</b>                              | <b>1,709,602</b>                              | <b>-</b>             | <b>228,644,042</b> |

**Off-balance sheet**

|                     |                |          |          |          |                |          |                |
|---------------------|----------------|----------|----------|----------|----------------|----------|----------------|
| Undrawn commitments | 116,428        | -        | -        | -        | -              | -        | 116,428        |
| Guarantees          | -              | -        | -        | -        | 308,674        | -        | 308,674        |
| <b>Total</b>        | <b>116,428</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>308,674</b> | <b>-</b> | <b>425,102</b> |

The balances in the undiscounted cash flow tables will not agree directly to the balances in the balance sheet as at 31 December 2011 and 31 July 2010 as the tables incorporate all cash flows, on an undiscounted basis, relating to both principal and those associated with all future interest payments. Future interest payments have been estimated based on Bank of England base rate as at 31 December 2011.

**(f) Currency Risk**

Since the Company prepares its financial statements in sterling, its balance sheet is affected by movements in the exchange rates between sterling and other currencies. The Company mitigates the effects of currency risk exposures by maintaining a policy of matching all material assets in a particular currency with liabilities in the same currency.

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(f) Currency Risk (continued)**

At 31 December 2011

|   | Sterling           | US Dollar         | Euro              | Other            | Total              |
|---|--------------------|-------------------|-------------------|------------------|--------------------|
|   | £                  | £                 | £                 | £                | £                  |
| <b>Assets</b>                               |                    |                   |                   |                  |                    |
| Loans and advances to banks                 | 79,841,194         | 78,503,198        | 19,394,480        | 4,601,666        | 182,340,540        |
| Debt securities - certificates of deposit   | 60,000,000         | -                 | -                 | -                | 60,000,000         |
| Loans and advances to customers             | 8,283,557          | 303,225           | 1,840,523         | -                | 10,427,304         |
| Other financial assets                      | 1,677,182          | 3,005             | 608               | 22,461           | 1,703,255          |
| Non financial assets                        | 277,982            | -                 | -                 | -                | 277,982            |
| <b>Total assets</b>                         | <b>150,079,915</b> | <b>78,809,427</b> | <b>21,235,611</b> | <b>4,624,128</b> | <b>254,749,082</b> |
| <b>Liabilities</b>                          |                    |                   |                   |                  |                    |
| Subordinated loan capital                   | 775,000            | -                 | -                 | -                | 775,000            |
| Deposits by banks                           | 1,231,145          | -                 | 4,804,496         | -                | 6,035,641          |
| Customer accounts                           | 134,962,339        | 78,639,084        | 16,387,855        | 4,595,980        | 234,585,258        |
| Overdrawn balances with non group entities  | -                  | 45,192            | -                 | -                | 45,192             |
| Amounts owed to group entities              | 892,310            | -                 | -                 | -                | 892,310            |
| Other financial liabilities                 | 456,091            | 172,907           | 28,789            | 20,458           | 678,245            |
| Non financial liabilities                   | 11,737,436         | -                 | -                 | -                | 11,737,436         |
| <b>Total liabilities</b>                    | <b>150,054,321</b> | <b>78,857,183</b> | <b>21,221,140</b> | <b>4,616,438</b> | <b>254,749,082</b> |
| Net on balance sheet (liabilities) / assets | 25,595             | (47,755)          | 14,471            | 7,690            | -                  |
| <b>Off balance sheet assets</b>             |                    |                   |                   |                  |                    |
| Foreign exchange contracts                  | -                  | -                 | -                 | -                | -                  |
| Forward dated items                         | -                  | -                 | -                 | -                | -                  |
| <b>Off balance sheet liabilities</b>        |                    |                   |                   |                  |                    |
| Foreign exchange contracts                  | -                  | -                 | -                 | -                | -                  |
| Forward dated items                         | -                  | -                 | -                 | -                | -                  |
| Total net currency exposure                 | 25,595             | (47,755)          | 14,471            | 7,690            | -                  |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(f) Currency Risk (continued)**

At 31 July 2010

|   | Sterling<br>£      | US Dollar<br>£    | Euro<br>£         | Other<br>£       | Total<br>£         |
|---|--------------------|-------------------|-------------------|------------------|--------------------|
| <b>Assets</b>                               |                    |                   |                   |                  |                    |
| Loans and advances to banks                 | 124,870,046        | 53,037,378        | 23,555,415        | 4,791,495        | 206,254,334        |
| Debt securities - certificates of deposit   | 10,000,000         | 17,560,103        | -                 | -                | 27,560,103         |
| Loans and advances to customers             | 4,213,210          | 276,713           | 1,020,949         | -                | 5,510,872          |
| Other financial assets                      | 1,310,501          | 21,819            | 3,973             | 8,845            | 1,345,138          |
| Non financial assets                        | 348,875            | -                 | -                 | -                | 348,875            |
| <b>Total assets</b>                         | <b>140,742,632</b> | <b>70,896,013</b> | <b>24,580,337</b> | <b>4,800,340</b> | <b>241,019,322</b> |
| <b>Liabilities</b>                          |                    |                   |                   |                  |                    |
| Deposits by banks                           | 1,352,793          | 943,058           | 842,807           | 19,170           | 3,157,828          |
| Customer accounts                           | 124,541,489        | 69,805,587        | 23,750,640        | 4,778,112        | 222,875,828        |
| Overdrawn balances with non group entities  | -                  | 115,844           | -                 | -                | 115,844            |
| Amounts owed to group entities              | 1,552,153          | -                 | -                 | -                | 1,552,153          |
| Other financial liabilities                 | 2,020,165          | 752               | 914               | 10,070           | 2,031,901          |
| Non financial liabilities                   | 11,285,768         | -                 | -                 | -                | 11,285,768         |
| <b>Total liabilities</b>                    | <b>140,752,368</b> | <b>70,865,241</b> | <b>24,594,361</b> | <b>4,807,352</b> | <b>241,019,322</b> |
| Net on balance sheet (liabilities) / assets | (9,736)            | 30,772            | (14,024)          | (7,012)          | -                  |
| <b>Off balance sheet assets</b>             |                    |                   |                   |                  |                    |
| Foreign exchange contracts                  | 302,389            | 319,275           | -                 | -                | 621,664            |
| Forward dated items                         | -                  | -                 | -                 | -                | -                  |
| <b>Off balance sheet liabilities</b>        |                    |                   |                   |                  |                    |
| Foreign exchange contracts                  | (302,389)          | (319,275)         | -                 | -                | (621,664)          |
| Forward dated items                         | -                  | -                 | -                 | -                | -                  |

**(g) Interest rate exposure**

Interest rate gaps represent the positional difference between commitments in a ladder of all interest bearing transactions sorted by interest due dates. The Bank is exposed to interest rate movements when it has an interest positional difference between its assets and liabilities.

The ALCO is responsible for monitoring the Company's exposure to unfavourable and favourable interest rate movements created by world economic conditions and adjusting the deployment policy accordingly. To fulfil its responsibility, the Committee applies a mismatch versus limit approach to measure the resultant financial risk for Sterling, US Dollars, Euros and all other currencies.

The Company's interest rate exposure is summarised below in the form of an interest rate repricing table. The table reflects the repricing profile of the Company's assets and liabilities as at the year end. The table shows the sensitivity of the Company's net assets to interest rate movements. The cumulative gap of interest bearing net assets of £11,409,443 (year to 31 July 2010 : £11,623,656) broadly equates to the Company's capital and reserves, which are subject to interest rate fluctuations and as a matter of policy are not hedged.

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(g) Interest rate exposure (continued)**

At 31 December 2011

|                                  | Within 3<br>months<br>£ | Between 3<br>and 6 months<br>£ | Between 6<br>months and 1<br>year<br>£ | Between 1<br>and 5 years<br>£ | Non-interest<br>bearing<br>£ | Total<br>£         |
|----------------------------------|-------------------------|--------------------------------|--|-------------------------------|------------------------------|--------------------|
| <b>Assets</b>                    |                         |                                |  |                               |                              |                    |
| Loans and advances to banks      | 180,189,793             | 2,025,747                      | -                                      | 125,000                       | -                            | 182,340,540        |
| Certificates of deposit          | 30,000,000              | -                              | 30,000,000                             | -                             | -                            | 60,000,000         |
| Loans and advances to customers  | 10,427,304              | -                              | -                                      | -                             | -                            | 10,427,304         |
| Tangible fixed assets            | -                       | -                              | -                                      | -                             | 155,963                      | 155,963            |
| Amounts owed by group entities   | 200,000                 | -                              | -                                      | -                             | 205,836                      | 405,836            |
| Other assets                     | -                       | -                              | -                                      | -                             | 32,866                       | 32,866             |
| Prepayments and accrued income   | -                       | -                              | -                                      | -                             | 1,382,844                    | 1,382,844          |
| Deferred tax asset               | -                       | -                              | -                                      | -                             | 3,729                        | 3,729              |
|                                  | <b>220,817,097</b>      | <b>2,025,747</b>               | <b>30,000,000</b>                      | <b>125,000</b>                | <b>1,781,238</b>             | <b>254,749,082</b> |
| <b>Liabilities</b>               |                         |                                |  |                               |                              |                    |
| Subordinated loan capital        | 775,000                 | -                              | -                                      | -                             | -                            | 775,000            |
| Deposits by banks                | 6,035,641               | -                              | -                                      | -                             | -                            | 6,035,641          |
| Customer accounts                | 223,169,796             | 3,864,363                      | 5,589,587                              | 1,961,512                     | -                            | 234,585,258        |
| Overdrawn balances               | 45,192                  | -                              | -                                      | -                             | -                            | 45,192             |
| Amounts owed to group entities   | 792,310                 | -                              | -                                      | 100,000                       | -                            | 892,310            |
| Other liabilities                | -                       | -                              | -                                      | -                             | 118,407                      | 118,407            |
| Accruals and deferred income     | -                       | -                              | -                                      | -                             | 825,358                      | 825,358            |
| Total equity shareholders' funds | -                       | -                              | -                                      | -                             | 11,471,916                   | 11,471,916         |
|                                  | <b>230,817,939</b>      | <b>3,864,363</b>               | <b>5,589,587</b>                       | <b>2,061,512</b>              | <b>12,415,681</b>            | <b>254,749,082</b> |
| Interest rate sensitivity gap    | (10,000,842)            | (1,838,616)                    | 24,410,413                             | (1,936,512)                   | (10,634,443)                 |                    |
| <b>Cumulative gap</b>            | <b>(10,000,842)</b>     | <b>(11,839,458)</b>            | <b>12,570,955</b>                      | <b>10,634,443</b>             | <b>-</b>                     |                    |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(g) Interest rate exposure (continued)**

At 31 July 2010

|                                  | Within 3<br>months<br>£ | Betw een 3<br>and 6 months<br>£ | Betw een 6<br>months and<br>1 year<br>£ | Betw een 1<br>and 5<br>years<br>£ | Non-interest<br>bearing<br>£ | Total<br>£         |
|----------------------------------|-------------------------|---------------------------------|---|-----------------------------------|------------------------------|--------------------|
| <b>Assets</b>                    |                         |                                 |   |                                   |                              |                    |
| Loans and advances to banks      | 190,748,904             | 775,000                         | 12,097,712                              | 2,632,718                         | -                            | 206,254,334        |
| Certificates of deposit          | 22,560,103              | 5,000,000                       | -                                       | -                                 | -                            | 27,560,103         |
| Loans and advances to customers  | 5,510,872               | -                               | -                                       | -                                 | -                            | 5,510,872          |
| Equity shares - investments      | -                       | -                               | -                                       | -                                 | -                            | -                  |
| Tangible fixed assets            | -                       | -                               | -                                       | -                                 | 184,104                      | 184,104            |
| Other assets                     | -                       | -                               | -                                       | -                                 | 36,137                       | 36,137             |
| Prepayments and accrued income   | -                       | -                               | -                                       | -                                 | 1,420,848                    | 1,420,848          |
| Deferred tax asset               | -                       | -                               | -                                       | -                                 | 52,924                       | 52,924             |
|                                  | <b>218,819,879</b>      | <b>5,775,000</b>                | <b>12,097,712</b>                       | <b>2,632,718</b>                  | <b>1,694,013</b>             | <b>241,019,322</b> |
| <b>Liabilities</b>               |                         |                                 |   |                                   |                              |                    |
| Deposits by banks                | 3,157,828               | -                               | -                                       | -                                 | -                            | 3,157,828          |
| Customer accounts                | 207,687,046             | 857,705                         | 12,763,359                              | 1,567,718                         | -                            | 222,875,828        |
| Overdraw n balances              | 115,844                 | -                               | -                                       | -                                 | -                            | 115,844            |
| Amounts ow ed to group entities  | 552,153                 | -                               | -                                       | 1,000,000                         | -                            | 1,552,153          |
| Other liabilities                | -                       | -                               | -                                       | -                                 | 158,616                      | 158,616            |
| Accruals and deferred income     | -                       | -                               | -                                       | -                                 | 1,874,295                    | 1,874,295          |
| Income tax                       | -                       | -                               | -                                       | -                                 | -                            | -                  |
| Total equity shareholders' funds | -                       | -                               | -                                       | -                                 | 11,284,758                   | 11,284,758         |
|                                  | <b>211,512,871</b>      | <b>857,705</b>                  | <b>12,763,359</b>                       | <b>2,567,718</b>                  | <b>13,317,669</b>            | <b>241,019,322</b> |
| Interest rate sensitivity gap    | 7,307,008               | 4,917,295                       | (665,647)                               | 65,000                            | (11,623,656)                 |                    |
| <b>Cumulative gap</b>            | <b>7,307,008</b>        | <b>12,224,303</b>               | <b>11,558,656</b>                       | <b>11,623,656</b>                 | <b>-</b>                     |                    |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(h) Other risks**

i) Concentration risk

The Company has counterparty concentration risk within its treasury assets in that exposure is to a number of similar credit institutions. The ALCO actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in the light of adverse market information, for example in anticipation of or in response to any formal agency rating downgrade. This may happen in relation to specific banks or banks within a particular country or sector.

ii) Reputational Risk

It is held that this risk would only crystallise as a consequence of failure in managing the Company's other key risks.

iii) Strategic Risk

This is the risk of failing to achieve strategic objectives. The overall strategy is reviewed at least annually and risks of internal and external changes are reflected in a detailed budget and three year plan by stress testing. It has been found that even under extreme conditions, the Company's business model and risk management strategies remain robust and within the Group's risk appetite.

iv) Operational Risk

This is the risk of a material adverse impact resulting from inadequate or failed internal processes, caused by people or processes, or from external events. The operational risk capital requirement as calculated under Basel 2 reporting guidelines is currently £426,000.

**(i) Asset and liability classification**

At 31 December 2011

|  | Fair value<br>through<br>P&L<br>£ | Loans and<br>receivables<br>£ | Other financial<br>£ | Non financial<br>£  | Total<br>£         |
|--|-----------------------------------|-------------------------------|----------------------|---------------------|--------------------|
| <b>Assets</b>                              |                                   |                               |                      |                     |                    |
| Loans and advances to banks                | -                                 | 182,340,540                   | -                    | -                   | 182,340,540        |
| Debt securities - certificates of deposit  | -                                 | 60,000,000                    | -                    | -                   | 60,000,000         |
| Loans and advances to customers            | -                                 | 10,427,304                    | -                    | -                   | 10,427,304         |
| Other assets                               | -                                 | -                             | 1,703,255            | 277,983             | 1,981,238          |
| <b>Total assets</b>                        | -                                 | <b>252,767,844</b>            | <b>1,703,255</b>     | <b>277,983</b>      | <b>254,749,082</b> |
| <b>Liabilities</b>                         |                                   |                               |                      |                     |                    |
| Deposits by banks                          | -                                 | -                             | 6,035,641            | -                   | 6,035,641          |
| Customer accounts                          | -                                 | -                             | 234,585,258          | -                   | 234,585,258        |
| Overdrawn balances with non group entities | -                                 | -                             | 45,192               | -                   | 45,192             |
| Amounts owed to group entities             | -                                 | -                             | 1,667,310            | -                   | 1,667,310          |
| Other liabilities                          | -                                 | -                             | 678,245              | 11,737,436          | 12,415,681         |
| <b>Total liabilities</b>                   | -                                 | -                             | <b>243,011,646</b>   | <b>11,737,436</b>   | <b>254,749,082</b> |
| <b>Net assets / (liabilities)</b>          | -                                 | <b>252,767,844</b>            | <b>(241,308,391)</b> | <b>(11,459,453)</b> | -                  |

NOTES TO THE FINANCIAL STATEMENTS  
 Period ended 31 December 2011

**24. Risk management and control of financial instruments (continued)**

**(i) Asset and liability classification (continued)**

At 31 July 2010

|  | Fair value<br>through<br>P&L | Loans and<br>receivables | Other financial      | Non financial       | Total              |
|--|------------------------------|--------------------------|----------------------|---------------------|--------------------|
|  | £                            | £                        | £                    | £                   | £                  |
| <b>Assets</b>                              |                              |                          |                      |                     |                    |
| Loans and advances to banks                | -                            | 206,254,334              | -                    | -                   | 206,254,334        |
| Debt securities - certificates of deposit  | -                            | 27,560,103               | -                    | -                   | 27,560,103         |
| Loans and advances to customers            | -                            | 5,510,872                | -                    | -                   | 5,510,872          |
| Other assets                               | 457                          | -                        | 1,344,681            | 348,875             | 1,694,013          |
| <b>Total assets</b>                        | <b>457</b>                   | <b>239,325,309</b>       | <b>1,344,681</b>     | <b>348,875</b>      | <b>241,019,322</b> |
| <b>Liabilities</b>                         |                              |                          |                      |                     |                    |
| Deposits by banks                          | -                            | -                        | 3,157,828            | -                   | 3,157,828          |
| Customer accounts                          | -                            | -                        | 222,875,828          | -                   | 222,875,828        |
| Overdrawn balances with non group entities | -                            | -                        | 115,844              | -                   | 115,844            |
| Amounts owed to group entities             | -                            | -                        | 1,552,153            | -                   | 1,552,153          |
| Other liabilities                          | -                            | -                        | 2,031,901            | 11,285,768          | 13,317,669         |
| <b>Total liabilities</b>                   | <b>-</b>                     | <b>-</b>                 | <b>229,733,554</b>   | <b>11,285,768</b>   | <b>241,019,322</b> |
| <b>Net assets / (liabilities)</b>          | <b>457</b>                   | <b>239,325,309</b>       | <b>(228,388,873)</b> | <b>(10,936,893)</b> | <b>-</b>           |

**25. Profit and loss account**

|                                    | £                | £                |
|------------------------------------|------------------|------------------|
| At 1 August 2010 / 1 August 2009   | 6,284,758        | 6,263,244        |
| Profit for the period / year       | 187,159          | 21,514           |
| At 31 December 2011 / 31 July 2010 | <b>6,471,916</b> | <b>6,284,758</b> |

**26. Reconciliation of movements in Shareholder's funds**

|  | 31 December<br>2011<br>£ | 31 July<br>2010<br>£ |
|--|--------------------------|----------------------|
| Profit for the financial period / year     | 187,159                  | 21,514               |
| Dividends paid                             | -                        | -                    |
| Equity Shareholder's funds brought forward | 11,284,758               | 11,263,244           |
| Equity Shareholder's funds carried forward | <b>11,471,916</b>        | <b>11,284,758</b>    |

**27. Controlling party and ultimate controlling party**

On 1 June 2011 Kleinwort Benson Channel Islands Holdings Limited acquired the Offshore Business of Close Brothers Group plc. The Company was acquired in this transaction and on 30 September 2011 rebranded to Kleinwort Benson Bank (Isle of Man) Limited.

The immediate parent and controlling party is Kleinwort Benson Channel Islands Holdings Limited, registered in Guernsey. The ultimate parent company is RHJ International S.A, a holding company based in Belgium and listed on the Euronext pan-European stock exchange.

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**28. Fees and commissions receivable**

Included within fees and commissions receivable is an amount of £7,768 (31 July 2010: £10,455) which relates to the income received in respect of services provided to The Derbyshire (Isle of Man) Limited ("TDIOM"). On 21 December 2007, TDIOM was sold to Kaupthing Singer and Friedlander (Isle of Man) Limited ("KSF IOM"). At a hearing in the Isle of Man High Court on 27 May 2009, a winding up order was made placing KSF IOM into liquidation (see note 18).

An application was made to the Liquidator of KSF IOM for the final invoice, totalling £20,644 plus VAT, to be admitted in full to rank for a dividend as an unsecured non-preferential claim. The amount of £17,176 plus VAT had been received by way of a dividend as at the balance sheet date.

**29. Geographical analysis of assets and liabilities**

|                                 | Assets             |                    | Liabilities and Shareholder's funds |                    |
|---------------------------------|--------------------|--------------------|-------------------------------------|--------------------|
|                                 | 31 December 2011   | 31 July 2010       | 31 December 2011                    | 31 July 2010       |
|                                 | £                  | £                  | £                                   | £                  |
| Channel Islands and Isle of Man | 8,658,865          | 11,079,546         | 137,046,383                         | 131,478,922        |
| United Kingdom                  | 141,871,935        | 226,946,965        | 29,148,200                          | 25,581,355         |
| Other                           | 104,218,282        | 2,992,811          | 88,554,499                          | 83,959,045         |
|                                 | <u>254,749,082</u> | <u>241,019,322</u> | <u>254,749,082</u>                  | <u>241,019,322</u> |

**30. Amounts owed by / to group entities**

**Amounts owed by group entities**

|  | 31 December 2011 | 31 July 2010 |
|--|------------------|--------------|
|  | £                | £            |
| Staff secondment fees receivable from Kleinwort Benson (Channel Islands) Limited | 205,836          | -            |
| Subordinated loan to KBTIOM (note 20)  | 200,000          | -            |
|  | <u>405,836</u>   | <u>-</u>     |

**Amounts owed to group entities**

|  | 31 December 2011 | 31 July 2010     |
|--|------------------|------------------|
|  | £                | £                |
| Group recharges in respect of shared IT services | 57,881           | -                |
| Amounts owed to KBTIOM                           | 834,429          | 1,552,153        |
|  | <u>892,310</u>   | <u>1,552,153</u> |

**31. Exceptional items: Redundancy costs**

Redundancy costs incurred during the period amounted to £237,607 (year to 31 July 2010 : £nil). These redundancy costs were allocated to the Company based on the utilisation of shared services by the Company.

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**32. Post balance sheet events**

There were no post balance sheet events noted subsequent to the period end.