



Close Bank (Isle of Man) Limited

Report and Financial Statements

31 July 2008



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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A R Brindley
P A O'Shea
A Henton
L Steyn
J L Quirke
R C Gell, Non Executive
L J Corlett

REGISTERED OFFICE

St George's Court
Upper Church Street
Douglas
Isle of Man

AUDITORS

Deloitte & Touche
Chartered Accountants
Douglas
Isle of Man

Close 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.



BUSINESS REVIEW

I am pleased to report that Profit on ordinary activities before taxation rose to £2.48m compared to £2.07 in the previous trading year. This growth is approx 20% which represents steady growth.

Deposit balances have continued to be erratic over the period, affected by some large, low margin balances which have moved in or out. Overall our client balances peaked at £374m and have decreased from the previous year end position of £306m - now standing at £299m. However, we have been effective in positively managing our interest margin and therefore net interest income rose by some £0.3m to £3.65m.

Lending balances have seen a steadier pace of growth during the year. The opening position was £5.69m and the current year end balance stood at £6.66m. Facilities remain generally short term in nature, the majority being repayable "on demand" and hence balances will vary during the course of the year. We remain keen to develop our lending portfolio, particularly providing liquidity funding to existing clients who already maintain asset portfolios within the Close Wealth Management Group and this will remain a priority for the coming year. Facilities are normally fully secured and continue to be funded from available shareholder funds.

Our monthly transactional income has been adversely impacted by the loss of the Derbyshire (IOM) Ltd business following its sale to Kaupthing Singer & Friedlander at the end of December 2007.

We have continued to develop ways to streamline our operating processes and completed a major upgrade of our core computer system at the end of May 2008. Whilst there have been a few teething problems, the system is now stable and we intend to derive benefits from the enhanced specification over the coming years. In June 2008, we launched our new private client range "Advantage" and will be promoting the benefits of this new product range actively over the next financial year.

We have continued to invest this year in training and personal development for all of our staff. This has assisted in building confidence and efficiency as well as enhancing skill capabilities. The team have worked hard throughout the year to deliver high standards of service to all our clients and I know that we have an excellent group of people and I thank them sincerely for their contribution this past year.

P A O'SHEA
MANAGING DIRECTOR



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 July 2008.

1. Activities

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

- (i) the receipt of money on deposit and current accounts in sterling and other currencies
- (ii) the provision of cheque book facilities
- (iii) the granting of loans and other commitments
- (iv) the provision of debit cards
- (v) treasury management services
- (vi) the provision of managed bank services

2. Review of developments

The Bank 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

	31 July 2008 £	31 July 2007 £
Profit on ordinary activities before taxation	2,481,013	2,069,115
Profit on ordinary activities after taxation	2,270,470	1,888,944

An interim dividend of £5,000,000 was paid to the immediate parent company during the financial year (2007 - £ nil). The directors do not recommend payment of a final dividend (2007 - £ nil).

4. Directors

The present membership of the Board is set out on page 2.

In accordance with the Company's Articles of Association, Mr L Steyn and Mr A Henton retire and, being eligible, offer themselves for re-election.

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



DIRECTORS' REPORT - Continued

5. Auditors

Messrs Ernst & Young LLC retired from office during the financial year. The Board of Directors exercised their right to appoint auditors to fill the vacancy that arose as a result, and accordingly Deloitte and Touche were appointed as auditors. At the Annual General Meeting, Deloitte and Touche will be reappointed as auditors, and 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

Richard Brindley

Director 16 September 2008



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Isle of Man Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year. 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 applicable accounting standards have been followed; 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 which 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 Isle of Man Companies Acts 1931 to 2004. They are also responsible for the systems of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BANK (ISLE OF MAN) LIMITED

We have audited the financial statements of Close Bank (Isle of Man) Limited for the year ended 31 July 2008 which comprise the profit and loss account, the balance sheet and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant Isle of Man legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts 1931 to 2004. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Company is not disclosed.

We read the Directors' Report and other information contained in the annual report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 July 2008 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004.



PROFIT AND LOSS ACCOUNT
for the year ended 31 July 2008

	Note	31 July 2008 £	31 July 2007 £
Interest receivable	1c	16,906,284	14,999,695
Interest payable	1c	<u>(13,255,979)</u>	<u>(11,648,449)</u>
Net interest income		<u>3,650,305</u>	<u>3,351,246</u>
Fees and commissions receivable	1c, 24	820,440	725,244
Fees and commissions payable	1c	(62,421)	(65,386)
Dealing profits		<u>720,480</u>	<u>601,559</u>
Total other income		<u>1,478,499</u>	<u>1,261,417</u>
Operating income		<u>5,128,804</u>	<u>4,612,663</u>
Administration expenses	2	2,537,571	2,451,547
Depreciation	10	<u>110,220</u>	<u>92,001</u>
Total operating expenses		<u>2,647,791</u>	<u>2,543,548</u>
Profit on ordinary activities before taxation	3	2,481,013	2,069,115
Taxation on profit on ordinary activities	4	<u>(210,543)</u>	<u>(180,171)</u>
Profit on ordinary activities after taxation		<u>2,270,470</u>	<u>1,888,944</u>
Retained reserves brought forward		8,432,713	6,543,769
Dividends paid		(5,000,000)	-
Retained reserves carried forward		<u>5,703,183</u>	<u>8,432,713</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

The notes on pages 11 to 27 form part of these financial statements.

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



BALANCE SHEET

31 July 2008

	Note	2008 £	2007 £
Assets			
Loans and advances to banks	6	206,568,920	237,167,995
Debt securities - certificates of deposit	7	105,000,000	80,000,000
Loans and advances to customers	8	6,658,855	5,687,193
Equity shares - investments	9	2	2
Tangible fixed assets	10	307,711	344,379
Other assets		42,635	41,917
Amounts due from non-CBL group entities		-	86,827
Prepayments and accrued Income		1,206,696	1,207,297
Total assets		319,784,819	324,535,610
Liabilities			
Deposits by banks	11	600,000	600,000
Customer accounts	12	298,954,907	305,727,809
Overdrawn balances with non group entities		5,303,388	-
Amounts owed to group entities		1,957,971	2,507,221
Other liabilities		289,344	254,131
Accruals and deferred Income		1,752,333	1,671,263
Provisions for liabilities and charges :-			
Deferred tax	13	12,372	15,991
Income tax	14	211,321	326,482
Total liabilities		309,081,636	311,102,897
Shareholders' funds			
Called up share capital	15	5,000,000	5,000,000
Profit and loss account		5,703,183	8,432,713
Total equity shareholder's funds	20	10,703,183	13,432,713
Total liabilities and shareholder's funds		319,784,819	324,535,610

These financial statements were approved by the Board of Directors on 16 September 2008.

Director Andrew Henton

Director Richard Brindley



BALANCE SHEET
31 July 2008

Memorandum items	2008	2007
	£	£
Contingent liabilities		
Guarantees and assets pledged as collateral security	1,202,437	925,488
Commitments		
Indemnities issued	63,141	63,141

Forward exchange contracts

At the prior year end the Company had entered into forward exchange contracts to minimise the impact of currency rate changes on its financial assets and liabilities. At the current year end no such forward exchange contracts were in place.

	2008	2007
	£	£
Principal amount	-	105,250,067
Risk weighted exposure	-	445,912
Unrealised gain at balance sheet date	-	215,585
Unrealised loss at balance sheet date	-	204,004

These financial statements were approved by the Board of Directors on 16 September 2008.

Director **Andrew Henton**

Director **Richard Brindley**



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

1. Accounting policies

The financial statements are prepared 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) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

Under the provisions of Section 4 of the Companies Act 1982 the Company has not prepared consolidated financial statements as in the Directors' opinion it would be of no real value to the members of the Company due to the insignificant amounts involved.

The Company has taken advantage of the exemption available to it under FRS 2, Accounting for Subsidiary Undertakings, paragraph 21(b) not to prepare consolidated financial statements. The Company is a wholly-owned subsidiary undertaking and its immediate parent undertaking is established under the law of a member state of the European Union.

(c) Income and expenditure

Income and all expenses are accrued on a day to day basis. Operating lease expense is recognised on a straight line basis over the period of the lease.

(d) Foreign exchange

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

(e) Loans and advances

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. Specific provisions are made for advances which are recognised to be bad or doubtful.

(f) 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 21 years

(g) Investments

Investments in subsidiary companies are stated at cost less provision for impairment.

(h) Taxation

Provision has been made for Isle of Man taxation at the rate of 10% on eligible taxable profits.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2008

1. Accounting policies (continued)

(i) 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.

(j) Debt securities

Debt securities comprise certificates of deposit which are held for liquidity purposes and are normally held to maturity. They are unlisted and due to mature within one year and are valued at amortised cost.

(k) Pensions

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

(l) Share-based payments

Close Brothers Group plc (the "Group"), the ultimate parent undertaking, has 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 after 7 November 2002.

The expenses for share-based incentive schemes is measured by reference to the fair value of the shares or share options granted on the date of grant. Such fair values are determined using option pricing models which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the group's share price over the life of the option/award and other relevant factors. The fair value is expensed in the income statement on a straight line basis over the vesting period. Such fair values are determined at group level and an inter-company charge is made to the Company on account of its share of the group share-based payment expense.

(m) 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.

(n) 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 charges 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.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

2. Administrative expenses

	31 July 2008	31 July 2007
	£	£
Staff costs:		
Wages and salaries	2,951,250	2,663,628
Social security costs	276,806	263,556
Other pension costs	201,099	221,207
Share based awards	13,639	17,889
Other administration expenses	1,195,152	1,114,944
Total expenditure	<u>4,637,946</u>	<u>4,281,224</u>
Recharged to fellow subsidiaries	(2,100,375)	(1,829,677)
Administrative expenses	<u>2,537,571</u>	<u>2,451,547</u>

3. Profit on ordinary activities before taxation

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

	31 July 2008	31 July 2007
	£	£
Audit fees	22,860	36,422
Depreciation	110,220	92,001
Directors' fees	9,000	4,936
Operating lease rentals on property	205,100	113,046

4. Taxation on profit on ordinary activities

The charge for taxation is made up as follows: -

	31 July 2008	31 July 2007
	£	£
Isle of Man income tax	211,321	179,025
Under provision in prior years	2,841	-
Deferred taxation (note 12)	(3,619)	1,146
	<u>210,543</u>	<u>180,171</u>



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

4. Taxation on profit on ordinary activities (continued)

The standard rate of income tax for the year is 10% for profits deriving from banking activities and 0% for other profits (2007 : 10% / 0%). The current tax charge differs from the standard rate of income tax for the reasons set out in the following reconciliation:

	31 July 2008 £	31 July 2007 £
Profit on ordinary activities before taxation	<u>2,481,013</u>	<u>2,069,115</u>
Tax on profit on ordinary activities at standard rate of 10% (2007 : 10%)	248,101	206,912
Factors affecting charge:		
Net income subject to tax at 0%	(39,861)	(27,726)
Capital allowances less than / (more than) depreciation	3,081	359
Non allowable expenses	-	(520)
	<u>211,321</u>	<u>179,025</u>

5. Segmental reporting

The Company has not disclosed its results and net assets on a segmental basis as, in the opinion of the directors, this information would be prejudicial to the Company's business.

6. Loans and advances to banks

As at 31 July 2008 the Company's liquid funds were deployed as follows: -

	Claims on group banks £	Claims on other banks £	2008 £	2007 £
Repayable:				
Between sight and 8 days	84,119,397	61,278,509	145,397,906	202,321,406
Between 8 days and 1 month	22,729,555	17,221,697	39,951,252	31,502,106
Between 1 month and 3 months	12,619,762	-	12,619,762	3,123,030
Between 3 months and 6 months	2,400,000	-	2,400,000	-
Between 6 months and 1 year	1,200,000	-	1,200,000	221,453
Between 1 year and 3 years	5,000,000	-	5,000,000	-
	<u>128,068,714</u>	<u>78,500,206</u>	<u>206,568,920</u>	<u>237,167,995</u>

Netting against claims on other banks is a credit amount of £366,711 (2007 : credit amount £1,246,165) which relates to an internal account from which cheques are drawn. The balance on this account represents un-presented cheques at the year end.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

7. Debt securities – certificates of deposit

	2008	2007
	£	£
Less than 1 month	50,000,000	40,000,000
1 month to less than 3 months	55,000,000	25,000,000
3 months to less than 1 year	-	15,000,000
	<u>105,000,000</u>	<u>80,000,000</u>

8. Loans and advances to customers

Included in loans and advances to customers is an amount of £69,484 (2007 : £33,821) representing the aggregate of all sums advanced to staff as at 31 July 2008. Of this sum, £ nil (2007 : £ nil) had been advanced to directors in the normal course of business as at 31 July 2008.

At 31 July 2008 there was one exposure of £1,318,056 for which the authorised limit of £1,700,000 exceeded 10% of the capital base (2007 – one exposure of £1,713,091).

	31 July	31 July
	2008	2007
	£	£
Repayable in less than one year:		
Secured	131,617	97,429
Unsecured	<u>6,527,238</u>	<u>5,589,764</u>
	<u>6,658,855</u>	<u>5,687,193</u>

9. Equity shares - investments

The Company owns the whole of the issued ordinary share capital of the following Company which is unlisted and registered in the Isle of Man.

	2008	2007
	Ordinary Shares of £1 each £	Ordinary Shares of £1 each £
Leysend Nominees Limited	<u>2</u>	<u>2</u>
	<u>2</u>	<u>2</u>

Leysend Nominees Limited acts as a nominee company, has net assets of £2 and makes neither a profit nor a loss.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

10. Tangible fixed assets

	Leasehold improvements £	Office equipment £	Total £
Cost or valuation			
At 1 August 2007	239,480	612,425	851,905
Additions	-	73,552	73,552
At 31 July 2008	239,480	685,977	925,457
Depreciation			
At 1 August 2007	65,573	441,953	507,526
Charge for the year	11,404	98,816	110,220
At 31 July 2008	76,977	540,769	617,746
Net book value			
At 31 July 2008	162,503	145,208	307,711
At 1 August 2007	173,907	170,472	344,379

11. Deposits by banks

	Group banks £	Other banks £	2008 £	2007 £
On demand	600,000	-	600,000	600,000
	600,000	-	600,000	600,000

12. Customer accounts

	2008 £	2007 £
Repayable:		
Between sight and 8 days	201,840,004	214,831,402
Between 8 days and 1 month	65,066,353	80,448,833
Between 1 month and 3 months	22,958,800	8,229,297
Between 3 months and 6 months	2,446,844	1,434,156
Between 6 months and 1 year	1,642,906	784,121
Between 1 year and 3 years	5,000,000	-
	298,954,907	305,727,809

Customer accounts include an amount of £3,106,286 (2007 : £4,445,961) held as security for loans and advances, guarantees and similar obligations.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

13. Deferred tax

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

	2008	2007
	£	£
Balance at 1 August	15,991	14,845
Current year (debit) / credit	<u>(3,619)</u>	<u>1,146</u>
Balance at 31 July	<u>12,372</u>	<u>15,991</u>

14. Income tax

	2008	2007
	£	£
Income tax payable 1 August 2009	211,321	-
Income tax payable 1 August 2008	-	147,457
Income tax payable 1 January 2008	<u>-</u>	<u>179,025</u>
	<u>211,321</u>	<u>326,482</u>

15. Called up share capital

Authorised share capital	2008	2007
	£	£
Ordinary equity shares of £1 each	10,000,000	10,000,000
Called up and issued share capital		
5,000,000 shares – fully paid	5,000,000	5,000,000

16. Pensions

The Company operates a non-contributory money-purchase pension scheme. The net pension cost charge for the year including related life assurance costs amounted to £201,099 (2007 : £221,207). £114,147 (2007 : £117,056) of this amount has been recharged to Close Trustees (Isle of Man) Limited ("CTIOM") as a number of employees of the Company work solely on CTIOM business. This amount, together with other salary costs, is charged to CTIOM via a management recharge.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

17. Other financial commitments

a) Operating leases

Under a 21-year lease for premises, the Company was committed to the following annual lease payments as at 31 July 2008. At the tenant's option, the lease is subject to a break clause on 1 August 2013 subject to 12 months' notice.

	31 July 2008	31 July 2007
	£	£
Operating leases which expire		
- In over 5 years	243,504	226,300

b) Capital commitments

As at 31 July 2008, the Company had neither approved nor committed to any capital expenditure (2007 - £ nil).

18. Capital management

Capital is defined as the total of share capital, share premium and retained earnings. Total capital at 31 July 2008 was £10,703,183 (2007 : £13,432,713). 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;
- 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.

19. Risk management and control of financial instruments

(a) Fair value of financial assets and liabilities

	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
	£	£	£	£
Debt securities:-				
Certificates of deposit	<u>105,000,000</u>	<u>105,000,230</u>	<u>80,000,000</u>	<u>79,999,971</u>

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.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(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 offshore 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 July 2008 is disclosed in the respective notes below.

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 18(g) shows the interest rate sensitivity gap as at 31 July 2008 and 2007. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

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 currently comprises risk weighted assets of the lending portfolio (£4.5m), Treasury activities (£62m) and other assets (£1.5m). The credit risk requirement as defined by the FSC is currently £13m.

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.

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.

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.

The table in note 18(f) shows the company's exposure to major currencies as at 31 July 2008 and 2007.

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



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(c) Credit risk

Before taking account of collateral the maximum exposure to credit risk at 31st July was:

	2008	2007
	£	£
Loans and advances to customers	6,658,855	5,687,193
Loans and advances to banks	206,568,920	237,167,995
Certificates of deposit	105,000,000	80,000,000
Other receivables	1,249,331	1,336,041
Derivative financial instruments	-	215,585
Undrawn commitments	1,141,404	882,980
Guarantees and indemnities	1,265,578	988,629

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, certificates of deposit and floating rate notes, for which a rating is available, over 70% have a Moody's rating of Aaa to Aa3, and over 95% have a Moody's rating of Aaa 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:

At 31 July 2008	Fall	Rise
125 basis movement on interest rates	69,355	(69,355)
At 31 July 2007	Fall	Rise
125 basis movement on interest rates	109,725	(109,725)

(e) Liquidity risk

Many financial instruments are settled earlier than their contractual maturity dates.

The Company closely monitors its liquidity position against the board'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.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(e) Liquidity risk (continued)

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

	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	Total
At 31 July 2008						
Customer deposits	129,185,203	161,412,961	2,518,021	1,730,078	6,154,388	301,000,651
Bank loans and overdrafts	5,303,388	-	-	-	-	5,303,388
Other financial liabilities	1,376,681	-	-	-	-	1,376,681
Total	135,865,272	161,412,961	2,518,021	1,730,078	6,154,388	307,680,720
Off-balance sheet						
Undrawn commitments	1,141,404	-	-	-	-	1,141,404
Guarantees	-	360,000	-	-	342,437	702,437
	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	Total
At 31 July 2007						
Customer deposits	144,034,541	160,159,904	1,480,319	823,723	-	306,498,487
Bank loans and overdrafts	-	-	-	-	-	-
Other financial liabilities	1,377,464	-	-	-	-	1,377,464
Total	145,412,005	160,159,904	1,480,319	823,723	-	307,875,951
Off-balance sheet						
Undrawn commitments	882,980	-	-	-	-	882,980
Guarantees	-	136,751	-	-	488,737	625,488

The above amounts differ from the balance sheet carrying values because those are based upon discounted cash flows, while the above amounts show associated future cash flows including interest. Future interest payments have been estimated based on the Bank of England base rate at 31 July 2008 of 5% (2007 : 5.75%).



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(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 matching all material assets in a particular currency with liabilities in the same currency.

At 31 July 2008

	Sterling	US Dollar	Euro	Other	Total
Assets					
Loans and advances to banks	80,260,494	84,630,149	27,893,867	13,784,410	206,568,920
Debt securities - certificates of deposit	105,000,000	-	-	-	105,000,000
Loans and advances to customers	4,393,689	311,967	1,953,199	-	6,658,855
Other financial assets	1,249,333	-	-	-	1,249,333
Non financial assets	307,711	-	-	-	307,711
Total assets	191,211,227	84,942,116	29,847,066	13,784,410	319,784,819
Liabilities					
Deposits by banks	600,000	-	-	-	600,000
Customer accounts	170,742,052	84,723,204	29,672,392	13,817,259	298,954,907
Overdrawn balances with non group entities	5,175,028	128,361	-	-	5,303,389
Amounts owed to group entities	1,957,971	-	-	-	1,957,971
Other financial liabilities	1,893,123	61,122	71,526	15,905	2,041,676
Non financial liabilities	10,926,876	-	-	-	10,926,876
Total liabilities	191,295,050	84,912,687	29,743,918	13,833,164	319,784,819
Net on balance sheet (liabilities) / assets	(83,823)	29,429	103,148	(48,754)	-
Off balance sheet assets					
Foreign exchange contracts	-	-	-	-	-
Forward dated items	-	-	-	-	-
Off balance sheet liabilities					
Foreign exchange contracts	-	-	-	-	-
Forward dated items	-	-	-	-	-
Total net currency exposure	(83,823)	29,429	103,148	(48,754)	-



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(f) Currency Risk (continued)

At 31 July 2007

	Sterling	US Dollar	Euro	Other	Total
Assets					
Loans and advances to banks	124,067,732	81,171,654	27,736,810	4,191,799	237,167,995
Debt securities - certificates of deposit	80,000,000	-	-	-	80,000,000
Loans and advances to customers	4,657,379	204,216	825,598	-	5,687,193
Other financial assets	1,336,043	-	-	-	1,336,043
Non financial assets	344,379	-	-	-	344,379
Total assets	210,405,533	81,375,870	28,562,408	4,191,799	324,535,610
Liabilities					
Deposits by banks	600,000	-	-	-	600,000
Customer accounts	191,672,340	81,523,069	28,374,034	4,158,366	305,727,809
Overdrawn balances with non group entities	-	-	-	-	-
Amounts owed to group entities	2,507,221	-	-	-	2,507,221
Other financial liabilities	1,908,273	11,253	5,868	-	1,925,394
Non financial liabilities	13,775,186	-	-	-	13,775,186
Total liabilities	210,463,020	81,534,322	28,379,902	4,158,366	324,535,610
Net on balance sheet assets / (liabilities)	(57,487)	(158,452)	182,506	33,433	-
Off balance sheet assets					
Foreign exchange contracts	14,999,629	23,857,700	7,161,160	-	46,018,489
Forward dated items	41,826,945	1,363,246	16,041,387	-	59,231,578
Off balance sheet liabilities					
Foreign exchange contracts	(29,537,449)	(12,554,746)	(3,926,294)	-	(46,018,489)
Forward dated items	(13,844,978)	(25,328,937)	(20,057,663)	-	(59,231,578)
Total net currency exposure	13,386,660	(12,821,189)	(598,904)	33,433	-

(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 Bank'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 £11,411,509 (2007 : £14,020,158) 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
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(g) Interest rate exposure (continued)

At 31 July 2008

	Within 3 months £	Between 3 and 6 months £	Between 6 months and 1 year £	Between 1 and 5 years £	Non-interest bearing £	Total £
Assets						
Loans and advances to banks	197,968,920	2,400,000	1,200,000	5,000,000	-	206,568,920
Certificates of deposit	105,000,000	-	-	-	-	105,000,000
Loans and advances to customers	6,658,855	-	-	-	-	6,658,855
Equity shares - investments	-	-	-	-	2	2
Tangible fixed assets	-	-	-	-	307,711	307,711
Other assets	-	-	-	-	42,635	42,635
Prepayments and accrued income	-	-	-	-	1,206,696	1,206,696
	309,627,775	2,400,000	1,200,000	5,000,000	1,557,044	319,784,819
Liabilities						
Deposits by banks	600,000	-	-	-	-	600,000
Customer accounts	289,865,158	2,446,843	1,642,906	5,000,000	-	298,954,907
Overdrawn balances with non group entities	5,303,388	-	-	-	-	5,303,388
Amounts owed to group entities	1,957,971	-	-	-	-	1,957,971
Other liabilities	-	-	-	-	289,344	289,344
Accruals and deferred income	-	-	-	-	1,752,333	1,752,333
Deferred tax	-	-	-	-	12,372	12,372
Income tax	-	-	-	-	211,321	211,321
Total equity shareholders' funds	-	-	-	-	10,703,183	10,703,183
	297,726,517	2,446,843	1,642,906	5,000,000	12,968,553	319,784,819
Interest rate sensitivity gap	11,901,258	(46,843)	(442,906)	-	(11,411,509)	
Cumulative gap	11,901,258	11,854,415	11,411,509	11,411,509	-	



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(g) Interest rate exposure (continued)

At 31 July 2007	Within 3 months £	Between 3 and 6 months £	Between 6 months and 1 year £	Between 1 and 5 years £	Non-interest bearing £	Total £
Assets						
Loans and advances to banks	236,946,542	-	221,453	-	-	237,167,995
Certificates of deposit	65,000,000	10,000,000	5,000,000	-	-	80,000,000
Loans and advances to customers	5,687,193	-	-	-	-	5,687,193
Equity shares - investments	-	-	-	-	2	2
Tangible fixed assets	-	-	-	-	344,379	344,379
Other assets	-	-	-	-	41,917	41,917
Amounts due from non-CBL group entities	-	-	-	-	86,827	86,827
Prepayments and accrued income	-	-	-	-	1,207,297	1,207,297
	307,633,735	10,000,000	5,221,453	-	1,680,422	324,535,610
Liabilities						
Deposits by banks	600,000	-	-	-	-	600,000
Customer accounts	303,509,532	1,434,156	784,121	-	-	305,727,809
Amounts owed to group entities	2,507,221	-	-	-	-	2,507,221
Other liabilities	-	-	-	-	254,131	254,131
Accruals and deferred income	-	-	-	-	1,671,263	1,671,263
Deferred tax	-	-	-	-	15,991	15,991
Income tax	-	-	-	-	326,482	326,482
Total equity shareholders' funds	-	-	-	-	13,432,713	13,432,713
	306,616,753	1,434,156	784,121	-	15,700,580	324,535,610
Interest rate sensitivity gap	1,016,982	8,565,844	4,437,332	-	(14,020,158)	
Cumulative gap	1,016,982	9,582,826	14,020,158	14,020,158	-	

(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 Banking Committee 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 Fitch 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.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

19. Risk management and control of financial instruments (continued)

(h) Other risks (continued)

iv) Operational Risk

This is the risk of 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 £570,000.

(i) Asset and liability classification

At 31 July 2008

	Fair value through P&L	Loans and receivables	Other financial	Non financial	Total
Assets					
Loans and advances to banks	-	206,568,920	-	-	206,568,920
Debt securities - certificates of deposit	-	105,000,000	-	-	105,000,000
Loans and advances to customers	-	6,658,855	-	-	6,658,855
Other assets	-	-	1,249,333	307,711	1,557,044
Total assets	-	318,227,775	1,249,333	307,711	319,784,819
Liabilities					
Deposits by banks	-	-	600,000	-	600,000
Customer accounts	-	-	298,954,907	-	298,954,907
Overdrawn balances with non group entities	-	-	5,303,388	-	5,303,388
Amounts owed to group entities	-	-	1,957,971	-	1,957,971
Other liabilities	-	-	2,041,677	10,926,876	12,968,553
Total liabilities	-	-	308,857,943	10,926,876	319,784,819
Net assets / (liabilities)	-	318,227,775	(307,608,610)	(10,619,165)	-

At 31 July 2007

	Fair value through P&L	Loans and receivables	Other financial	Non financial	Total
Assets					
Loans and advances to banks	-	237,167,995	-	-	237,167,995
Debt securities - certificates of deposit	-	80,000,000	-	-	80,000,000
Loans and advances to customers	-	5,687,193	-	-	5,687,193
Derivative financial instruments	22,159	-	-	-	22,159
Other assets	-	-	1,313,884	344,379	1,658,263
Total assets	22,159	322,855,188	1,313,884	344,379	324,535,610
Liabilities					
Deposits by banks	-	-	600,000	-	600,000
Customer accounts	-	-	305,727,809	-	305,727,809
Overdrawn balances with non group entities	-	-	-	-	0
Amounts owed to group entities	-	-	2,507,221	-	2,507,221
Derivative financial instruments	1,196	-	-	-	1,196
Other liabilities	-	-	1,924,198	13,775,186	15,699,384
Total liabilities	1,196	-	310,759,228	13,775,186	324,535,610
Net assets / (liabilities)	20,963	322,855,188	(309,445,344)	(13,430,807)	-



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 July 2008

20. Reconciliation of movements in Shareholder's funds

	31 July 2008	31 July 2007
	£	£
Profit for the financial year	2,270,470	1,888,944
Dividends paid	(5,000,000)	-
Shareholder's funds brought forward	<u>13,432,713</u>	<u>11,543,769</u>
Shareholder's funds carried forward	<u>10,703,183</u>	<u>13,432,713</u>

21. Cashflow statement

A cash flow statement has not been prepared as the ultimate holding company is established under the law of a member of the European Union and publishes consolidated financial statements which include a consolidated cash flow statement in accordance with FRS1. Copies of the consolidated group financial statements are available from Close Brothers Group plc, 10 Crown Place, London.

22. Related party transactions

The Company is included within the consolidated accounts of Close Brothers Group plc and has taken advantage of the exemption under FRS 8 paragraph 3(c) in not disclosing transactions with entities that are part of the group.

23. Controlling party and ultimate controlling party

The immediate parent and controlling party is Close International Bank Holdings Limited, registered in Guernsey. The ultimate parent and controlling party is Close Brothers Group Plc., a listed company registered in England and Wales.

24. Fees and commissions receivable

Included within fees and commissions receivable is an amount of £473,761 (2007 : £437,139) which relates to the income received for services provided to The Derbyshire (Isle of Man) Limited. On 21 December 2007, The Derbyshire (Isle of Man) Limited was sold to Kaupthing Singer and Friedlander (Isle of Man) Limited and moving forward no such fees will be receivable.
