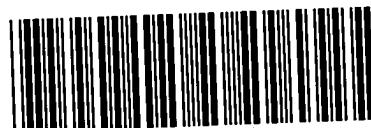


Harrods Bank Limited

Directors' Report and Financial Statements
for the period ended 31 January 2015

Registered Number 0955491

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Harrods Bank Limited

Directors' Report and Financial Statements

for the period ended 31 January 2015

Contents

Officers and Professional Advisers	2
Directors' report for the period ended 31 January 2015.....	3
Strategic report for the period ended 31 January 2015.....	6
Independent auditors' report to the members of Harrods Bank Limited.....	9
Profit and Loss Account for the period ended 31 January 2015.....	11
Statement of total recognised gains and losses.....	12
Balance sheet as at 31 January 2015.....	13
Cash flow statement for the period ended 31 January 2015	14
Notes to the financial statements	15

HARRODS BANK LIMITED

Officers and Professional Advisers

Chairman	The Hon J B Soames
Directors	The Hon J B Soames (Chairman) M Mazzuchelli D J S Dixon P S Ball C J Hoare J P Edgar R M Young Ebtesam Saleh Al-Mannai
Secretary	R Lovesy
Registered Office	87-135 Brompton Road Knightsbridge London SW1X 7XL
Auditors	Ernst and Young 1 More London Place London SE1 2AF
Bankers	Barclays Bank plc Royal Bank of Scotland plc

HARRODS BANK LIMITED

Directors' Report

Directors' report for the period ended 31 January 2015

The Directors have pleasure in submitting their annual report and the audited financial statements of Harrods Bank Limited ("the Bank") for the period ended 31 January 2015.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accountancy Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors

The Directors who served during the year and up to the date of signing the financial statements were:

The Hon J B Soames (Chairman)

D Cathie FCIBS MBA (resigned 20 May 2014)

M Mazzuchelli MBA ACIB WCIB ECHLEG (resigned 31 March 2015)

D J S Dixon ACIB (resigned 31 January 2015)

P S Ball (appointed 23 May 2014)

C J Hoare (appointed 1 October 2014)

J P Edgar (appointed 1 October 2014)

R M Young (appointed 1 October 2014)

Ebtesam Saleh Al-Mannai (appointed 1 February 2015)

In accordance with the Articles of Association, no director is required to seek re-election at the forthcoming Annual General Meeting

HARRODS BANK LIMITED

Directors' Report

Directors' Interests

None of the Directors in office at 31 January 2015 held any interest in the shares of the Bank at that date or at 31 January 2014.

No Director has had an interest directly or indirectly at any time during the period in any contract significant to the business of the Bank.

Donations

During the financial year the Bank made charitable donations totalling £Nil (2014: £Nil). No donations have been made and no expense has been incurred to any registered UK political party or other EU political organisation.

Dividends

No dividend is proposed in respect of 'A' voting shares (2014: £Nil) and no dividend is proposed in respect of the 'B' shares (2014: £Nil).

Regulation

The Bank complies with all the requirements of its regulatory authorities, as a consequence of being authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and Prudential Regulatory Authority. The Bank is also covered by the Financial Services Compensation Scheme and the Financial Ombudsman Service.

The Bank also subscribes to the Lending Code, is a member of the British Bankers' Association, and is licensed by the Office of Fair Trading (No 0006286).

The Bank is registered in England and Wales under registration number 0955491.

Going Concern

The accounts have been prepared on the basis that the Bank remains a going concern, and this is dependent, in the short term at least, on continued parental support for the Capital required to support the Business Plan necessary to change the Bank's business model and return the Bank to profitability.

Post Balance sheet events

There are no post balance sheet events to report.

Independent Auditors

Ernst and Young LLP have expressed their willingness to continue in office as Auditors. A resolution to appoint the Auditors will be proposed at the Annual General Meeting.

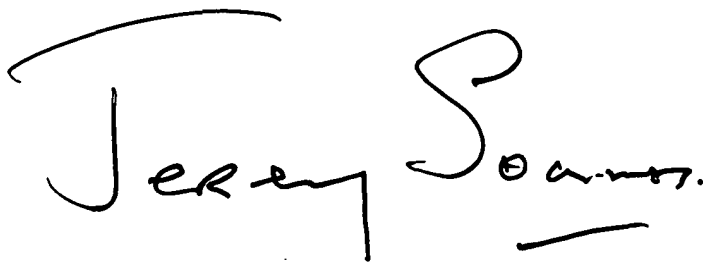
HARRODS BANK LIMITED

Directors' Report

Statement of Disclosure of Information to Auditors

Each person who is a director at the date of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Bank's auditors are unaware and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 2006.

On behalf of the Board

A handwritten signature in black ink, reading "The Hon J B Soames". The signature is written in a cursive, flowing style. The first part "The Hon J B" is written in a smaller, more compact script, while "Soames" is written in a larger, more prominent cursive script. A horizontal line is drawn under the name "Soames".

The Hon J B Soames
Chairman

12 MAY 2015

HARRODS BANK LIMITED

Strategic Report

Business Review and Principal Activity

Harrods Bank Limited operates in the business of retail banking. This will remain the principal activity in the immediate future.

The results of the Bank show a pre-tax loss of £4,570,858 (2014: pre-tax loss £5,367,193) for the period ended 31 January 2015.

Whilst 2013 was a year of formulating a new strategy and business plan, 2014 was a year of putting the plans into action. During late 2013 and 2014, a new management team was put in place comprising a Chief Executive Officer, a Chief Finance Officer, a Chief Risk Officer, a Chief Operating Officer and a Director of Distribution. A largely new senior management team was also put in place underneath the executive officers.

The Bank started new lending activity in mid-year 2014 and, towards the end of this financial year, commenced taking new deposits. The loss for 2014/2015 was as a result of investment in operational capability whilst building the business.

Business Environment

The Bank provides banking services to both personal and business customers who value high levels of personal service commensurate with the Harrods Brand. During this financial year, the bank has re-entered the mortgage market and provides a tailored underwriting service to primarily high net worth clients. The Bank, its Directors and ultimate owners are risk averse and financing is provided on conservative lending terms, with very limited unsecured exposure. Towards the end of this financial year, the Bank successfully re-launched a number of new savings products. Deposit accounts vary from Call accounts to Fixed Term Deposit accounts with various tenures at competitive interest rates. Current accounts, and associated overdraft arrangements, with a service fee structure are provided, with the support of a VISA debit card.

Strategy

The strategic objective of the Bank continues to be to offer straightforward Banking products with high levels of customer service, and to consequently return to a sustainable level of growth, and restore profitability. The Bank has and will continue to invest significant sums on new systems and processes, and will continue to benefit from the launch of additional products and services. The Bank does not seek to compete on price, but offers very high service levels to customers who value this. This translates into healthy margins for the Bank and strong customer loyalty.

Principal Risks and Uncertainties

The Bank in the execution of its strategy is exposed to a number of risks, some of which have been described in note 25 of these financial statements. The bank has a low risk appetite and maintains commensurately strong capital and liquidity ratios. In addition, the Bank has considerably strengthened its governance framework with the introduction of additional Board and Executive sub-committees to monitor and manage risk. The Directors consider that the key business risks affecting the Bank are:

HARRODS BANK LIMITED

Strategic Report

Reputational Risk

The Directors are aware of potential damage to confidence that could arise from bad publicity relating to failings by the Bank or the Harrods Group and are satisfied that there are strategies in place to deal with this. The Directors continue to focus on maintaining the safety of our customers' deposits and on following policies and procedures that avoid undue risks. This includes rigorous controls and procedures to mitigate incidences of fraudulent transactions, safeguarding of customer information and conduct towards customers.

Credit Risk

The Bank has a low appetite for credit risk and with the commencement of new mortgage lending activities during the financial year, the Bank has significantly increased the number of underwriting and credit control and monitoring personnel. It has introduced a robust set of credit policies and procedures that are overseen and monitored by the Bank's Risk Committee. The Bank's lending book remains good quality.

Operational and Business Risk

The Bank is going through a significant change process, and the Board recognises that this has potential to increase Operational and Business Risk. These risks are effectively managed by the strength of processes that have been put in place to monitor and mitigate them. The Risk Committee and Board are regularly appraised of potential risks and approve the management strategies to minimise them. In addition, the Board considers that there is significant protection afforded by the Bank's strong capital ratio and liquidity position to absorb potential consequences of Operational and Business Risk.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme ("FSCS") is the UK's statutory fund of last resort for customers of authorised financial services firms and it can pay compensation within defined limits if a firm is unable or likely to be unable to pay its depositors. The Bank recognises the importance of depositor protection and the reassurance that our membership of the scheme provides to customers.

HARRODS BANK LIMITED

Strategic Report

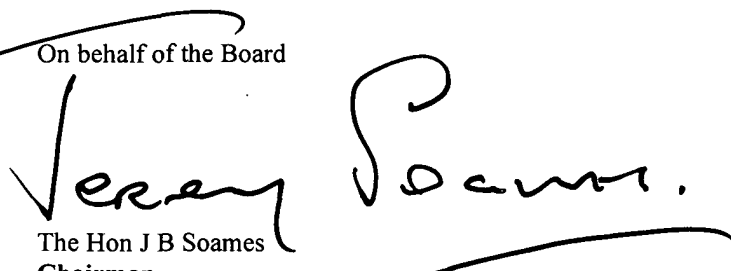
Key Performance Indicators ("KPI's")

The overall progress of the Bank against its targets is monitored at Board meetings. In addition specific risks, individual strategic elements and tactics, are monitored and examined monthly by the Executive Committee and various Executive sub committees both by reference to KPI's and a close knowledge of the Bank's risk exposures. Performance during the year, together with historical trend data, is summarised below:

£000 unless otherwise indicated:

		2015	2014	2013	Definition, method of calculation and analysis
A	Shareholder's Funds	11,654	10,449	9,080	Share Capital and Reserves make up the total Shareholders Funds. The shareholders have injected a further £4.9m of share capital during the year. To conserve the level of reserves, the Bank will not be paying a dividend to the holders of 'A' voting shares and ordinary 'B' shares.
B	Net Income (excluding exceptional items)	1,386	1,098	2,451	This comprises interest received from customers, investment assets and fees less interest payable to account holders. The increase in Net Income reflects higher lending balances during the year from the commencement of new mortgage lending together with fee income earned from new loans.
C	Operating Costs (excluding exceptional items)	6,208	6,625	3,362	Operating costs are the costs of running the business and include staff costs, marketing expense, premises, equipment and depreciation. All controllable costs are subject to rigorous review. Costs have decreased year on year reflecting the reduced investment in strategy development and the move to execution.
D	Operating Cost / Income ratio	446%	603%	137%	Total operating costs measured as a percentage of net income. The decreased ratio from last year reflects that the Bank has both increased income by 26% and decreased costs by 7% in the period. The increase from 2013 reflects that the Bank had invested significantly in personnel and equipment in order to set the Bank up for a successful period of growth and expansion.
E	Loss on ordinary activities before tax	4,571	5,367	1,024	Losses reduced in 2015 as the Bank grew income from the launch of new products and decreased costs despite the continuation of its programme of review, stabilisation and investment in the business.

On behalf of the Board


The Hon J B Soames
Chairman

20 MAY 2015

HARRODS BANK LIMITED

Independent auditors' report to the members of Harrods Bank Limited

We have audited the financial statements of Harrods Bank Limited for the year ended 31 January 2015 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the notes 1 to 28 set out on pages 15 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page three the directors are responsible for the preparation of the financial statements and for being satisfied that they 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 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. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 January 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

HARRODS BANK LIMITED

Independent auditors' report to the members of Harrods Bank Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records 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.

Ernst & Young LLP 26 May 2015

Manprit Dosanjh (Senior statutory auditor)

*for and on behalf of Ernst & Young LLP, Statutory Auditor
London*

Notes:

1. The maintenance and integrity of the Harrods Bank Ltd web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

HARRODS BANK LIMITED

Profit and Loss Account for the period ended 31 January 2015

	Note	Period ended 31 January 2015	Period ended 31 January 2014
		£	£
Interest receivable on loans and advances and similar income		1,093,185	858,713
Interest receivable on debt securities		100,321	156,304
Interest payable and similar charges		(519,729)	(455,087)
Net interest income		673,777	559,930
Fees and commissions receivable		871,975	451,633
Fees and commissions payable		(361,942)	(188,331)
Loss on sale of gilts		(298,368)	-
Other operating income	3	501,421	274,741
Total income		1,386,863	1,097,973
Administrative costs			
Staff costs and other costs	2	(6,208,511)	(6,624,612)
Provision for bad and doubtful debts	8	250,790	159,446
Loss on ordinary activities before taxation		(4,570,858)	(5,367,193)
Tax credit on loss on ordinary activities	5	1,008,250	1,197,313
Loss for the financial period	20	(3,562,608)	(4,169,880)

All of the amounts stated in the profit and loss account for the period relate to continuing operations.

There are no differences between loss on ordinary activities before taxation and the loss for the periods stated and their historical cost equivalents.

Statement of total recognised gains and losses

	Note	Period ended 31 January 2015	Period ended 31 January 2014
		£	£
Loss for the financial period		(3,562,608)	(4,169,880)
Actuarial losses on pension scheme	17	(165,461)	(79,917)
Tax movement on actuarial gains (losses) on pension scheme		33,092	18,509
Total recognised gains and losses relating to the period		<u>(3,694,977)</u>	<u>(4,231,288)</u>
Total recognised gains and losses since last financial statements		<u>(3,694,977)</u>	<u>(4,231,288)</u>

Balance sheet as at 31 January 2015

	Note	As at 31 January 2015	As at 31 January 2014
		£	£
Assets employed			
Cash		124,648	211,217
Loans and advances to banks	7	31,014,031	56,826,050
Loans and advances to customers	8	49,697,929	10,926,465
Debt securities	9	-	5,827,141
Treasury bills and other eligible bills	10	28,158,830	5,999,034
Tangible fixed assets	12	6,562,891	183,866
Other assets	13	3,346,623	1,551,676
Prepayments and accrued income	13	456,181	176,154
		119,361,133	81,701,603
Liabilities			
Customers' current and deposit accounts	15	75,091,461	63,463,404
Subordinated Loan	24	30,000,000	4,900,000
Other liabilities	16	335,770	375,580
Accruals and deferred income	16	2,279,700	2,513,440
		107,706,931	71,252,424
Share capital and reserves			
Called up share capital	18	20,500,100	15,600,100
Retained Reserves	20	(8,845,898)	(5,150,921)
Shareholders' funds including non-equity interests	19/21	11,654,202	10,449,179
		119,361,133	81,701,603
Memorandum items			
Contingent liabilities	23	10,000	10,000
Commitments	23	645,036	677,044

The financial statements were approved by the Board of Directors and signed on its behalf on 20 May 2015 by:


The Hon J B Soames (Chairman)


P Ball (Director and Chief Executive Officer)

Cash flow statement for the period ended 31 January 2015

	Note	Period ended 31 January 2015	Period ended 31 January 2014
		£	£
Net cash (outflow)/inflow from operating activities	22	(34,035,471)	11,104,105
Tax payments received / (payments made)		1,250,427	-
Capital expenditure and financial investment:			
Purchase of tangible fixed assets		(6,747,160)	(42,299)
Purchase of investment securities		-	-
Sale and maturity of investment securities		5,793,412	-
Funding by shareholders:			
Equity and non equity dividends paid		-	-
Issue of new non voting shares		4,900,000	5,600,000
Movement in Subordinated Loan Stock		25,100,000	(5,600,000)
Increase in cash	22	(3,738,790)	11,061,806

Reconciliation of net cash flow to movement in net debt

	Period ended 31 January 2015	Period ended 31 January 2014
	£	£
Increase in cash	(3,738,790)	11,061,806
Cash inflow from increase in current and deposit accounts	(11,628,057)	(6,747,454)
Movement in subordinated debt	<u>(25,100,000)</u>	<u>5,600,000</u>
Movement in net debt	(40,466,847)	(9,914,352)
Net Debt at 1 February	(5,327,103)	(15,241,455)
Net Debt at 31 January	<u>(45,793,950)</u>	<u>(5,327,103)</u>

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

1. Accounting Policies

Basis of preparation of financial statements

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards (UK SSAPs and FRSs as issued by the Accounting Standards Board) and relevant recommendations contained in Statements of Recommended Accounting Practice (SORPs) issued by the British Bankers Association. The going concern basis is dependent on continued parental support for the investment necessary to change the Bank's business model and return the Bank to profitability.

The principal accounting policies are set out below.

No changes have been made to previous policies and no new accounting standards were adopted in the period.

Pension costs

During the year the Bank participated in two pension schemes.

Defined contribution scheme

Pension costs charged within the Profit and Loss Account represent the amount of the contributions payable to the scheme in respect of the accounting period.

Defined benefit scheme

The assets of this scheme are measured at their market value at the balance sheet date. The liabilities are measured using the projected unit method with a discount rate equal to the rate of return on an AA corporate bond of equivalent term and currency. The extent to which the scheme's assets exceed its liabilities is shown as a surplus in the balance sheet to the extent that a surplus is recoverable by the Bank. The extent to which the scheme's assets fall short of its liabilities is shown as a deficit in the balance sheet, net of the related deferred tax asset, to the extent that a deficit represents an obligation of the Bank.

Any increase in the present value of scheme liabilities resulting from benefit improvements is recognised over the period during which such improvements vest.

A credit representing the expected return on the scheme's assets and a charge relating to the increase in the present value of the scheme's liabilities are included in other finance (costs) / income.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Foreign currencies

All transactions denominated in foreign currencies are translated at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities at the period end expressed in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date. All profits and losses arising are taken through the profit and loss account.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

Deferred taxation (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Impairment of loan receivables

Provisions are made against advances when, in the opinion of the Directors, recovery is doubtful. This is done on a case by case basis.

The aggregate provisions which are made during the period (less amounts released and recoveries of bad debts previously written off) are charged against operating profit and are deducted from loans and advances. Loans and advances are written off when, in the opinion of the Directors, there is no realistic prospect of recovery.

If the collection of interest is doubtful, it is credited to a suspense account and excluded from interest income in the profit and loss account. Although it continues to be charged to the customer's account, the suspense account in the balance sheet is netted against the relevant loan. If the collection of interest is considered to be unlikely, interest is no longer applied and suspended interest is written off. Loans on which interest is suspended are not reclassified as accruing interest until interest and principal payments are up-to-date and future payments are reasonably assured.

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation

Fixed assets are depreciated on a straight line basis at rates calculated to write them off over their expected useful lives, which are between two and five years. Consultancy costs incurred in acquiring and developing software for internal use which is directly attributable to the functioning of computer hardware are capitalised as tangible fixed assets where software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset. Where the asset has not entered business use the asset is not depreciated and is held under Fixed Assets as work in progress.

Financial assets and liabilities

The Bank's material financial instruments comprise loans and advances, debt securities, customer accounts and subordinated debt. Loans and advances and customer accounts are held at cost less provision for impairment on the balance sheet.

The amount included in the balance sheet in respect of Debt Securities, where such securities are purchased at a premium, shall be reduced each financial year on a systematic basis so as to write the premium off over the period to the maturity date of the security. The amounts so written off shall be charged to the profit and loss account for the relevant financial years. Where such securities are purchased at a discount, the amount shall be increased each financial year on a systematic basis so as to extinguish the discount over the period to the maturity date of the security. The amounts so increased shall be credited to the profit and loss account for the relevant years.

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

Financial assets and liabilities (continued)

Since the Bank does not measure financial instruments at fair value through profit and loss account, it falls outside of the scope of FRS 26 Financial Instruments: Recognition and Measurement.

Fair value is the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The fair value of financial instruments held at 31 January 2015 approximates to amortised cost which is the amount at which these instruments are reflected in the balance sheet.

The Bank does not use derivatives to reduce its exposure to adverse movements in foreign currency exchange rates and interest rates.

Income recognition

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest on non-performing lending which is taken to income when received (see accounting policy for provision for bad and doubtful debts).

Fees, commissions and other charges relating to loan transactions, foreign exchange transactions and customer transactions on accounts are recognised in the profit and loss account as they accrue.

Service charges are accrued as services are provided but are not charged to the customer's account until a 14 day notice period has elapsed.

Dividends on ordinary shares

Dividends are recognised when declared by the Directors, which in the case of interim dividends is generally the date of payment.

Fixed asset investments

Fixed asset investments are recognised at cost, less provision for permanent impairment in value.

Cash

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts.

Operating leases

Rental costs under operating leases are recognised in the profit and loss account as they accrue on a straight line basis.

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

2. Administrative Costs

	Period ended 31 January 2015	Period ended 31 January 2014
Staff Costs	£	£
• Salaries and accrued incentive payments	3,526,995	2,254,250
• Social security costs	296,197	132,482
• Pension costs - defined contribution plan (note 17)	165,461	79,917
	3,988,653	2,466,649
Other Costs		
• Depreciation	368,135	100,497
• Other administrative costs	1,851,723	4,057,466
Staff Costs and Other Costs	6,208,511	6,624,612
Average number of employees (including executive Director) (excluding Saturday staff)	46	30

Staff costs are paid by Harrods Limited centrally and recharged to the Bank.

Information regarding the Auditor

	Period ended 31 January 2015	Period ended 31 January 2014
Fees Payable	£	£
• Audit of the Bank's annual accounts	85,800	90,000
• Other services	-	-
Audit Costs	85,800	90,000

3. Other Operating Income

	Period ended 31 January 2015	Period ended 31 January 2014
	£	£
Foreign exchange gain	126,342	162,331
Income on sale of gold bullion	50,079	112,410
Sale of shares in Visa	325,000	-
	501,421	274,741

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

4. Directors' Remuneration

The information set out below has been prepared in accordance with regards to the relevant requirements of the FCA Remuneration Code introduced on 31 December 2010 proportional to the Bank.

The Board is responsible for determining the policy and the level of remuneration of the Non-Executive Directors the Executive Director and Senior Management, and for reviewing the general pay levels for all other staff. The Chief Executive is not present when decisions relating to his own remuneration are made. The Board has delegated responsibility for remuneration to the Remuneration Committee.

The Chief Executive, the only Executive Director, presents proposals and supporting evidence of comparative packages within the financial sector as and when required and attends the Remuneration Committee to discuss remuneration at the Board's request

The level of fees for Non-Executive Directors is reviewed each year, using external data of other banks and comparable financial organisations. The Non-Executive Directors are only entitled to fees and do not participate in any performance related pay scheme, pension arrangements or other benefits.

Remuneration Policy for the Chief Executive

The Board's policy is to set remuneration levels in order to attract, retain and motivate the Chief Executive to encourage performance linked to the achievement of the Bank's strategic objectives and for the benefit of Shareholders. The remuneration of the Chief Executive, who is the only Executive Director, is set to take into account job content and responsibilities, annually assessed individual performance and salary levels for similar positions in comparable financial services organisations. The Chief Executive has a Board approved job description, which is used as a basis for the appraisal of performance carried out each year by the Chairman. He is a member of Harrods Group defined contribution pension scheme, Group Life scheme, and is entitled to private medical insurance and a share of the Bank's performance related pay schemes for 2014/15.

Details of directors' fees and remuneration are set out below.

	Period ended 31 January 2015	Period ended 31 January 2014
Emoluments including pension contributions:	£	£
Fees (Non-executive directors)	273,984	144,484
Remuneration including benefits and pension contributions	409,162	214,144
	683,146	358,628

At 31 January 2015 there were no loans outstanding to Directors (2014: £Nil). The maximum outstanding during the period was £Nil (2014: £7,128). During the period total pension contributions paid on behalf of one Director amounted to £10,825 (2014: £17,499).

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

5. Tax on loss on ordinary activities

	Period ended 31 January 2015	Period ended 31 January 2014
	£	£
The taxation (credit) based on the loss for the period comprises:		
Current tax – UK Corporation tax	(980,933)	(1,219,180)
Adjustments with respect to prior years	(28,743)	(31,247)
Total Current tax	(1,009,676)	(1,250,427)
Deferred tax:		
Accelerated Capital Allowances	(32,422)	1,557
Origination and reversal of other timing differences	33,848	20,459
Adjustments in respect of prior years	-	31,097
Total Deferred tax	1,426	53,114
Taxation (credit) on ordinary activities	(1,008,250)	(1,197,313)

The tax for the period differs from the standard rate of corporation tax in the UK of 21.32% (2014: 23.16%). The differences are explained below:

Loss on ordinary activities before taxation	(4,570,858)	(5,367,193)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 21.32% (2014: 24.33%)	(974,657)	(1,243,130)
Depreciation in excess of capital allowances	32,422	4,207
Expenses not deductible for tax purposes	(4,850)	38,252
Income and expenses (relieved) on a cash basis	(33,848)	(18,509)
Adjustment in respect of prior years	(28,743)	(31,247)
Current tax (credit)/charge for the period	(1,009,676)	(1,250,427)

On 3 December 2014 the Chancellor of the Exchequer announced that the UK Government will introduce legislation in the Finance Bill 2015, which will restrict the proportion of banks' annual taxable profit that can be offset by certain carried forward tax losses. The restriction took effect from 1 April 2015 and applies to relevant tax losses arising prior to this date. Tax losses arising in the first 5 years of the bank commencing a banking activity, as well as tax losses arising in an accounting period prior to the one in which the company began undertaking a banking activity are not included within the restriction. The Chancellor's announcement had not been enacted or substantively enacted at the balance sheet date and accordingly does not impact the tax balances of the Bank at 31 January 2015.

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

6. Dividends

	Period ended 31 January 2015	Period ended 31 January 2014	Period ended 31 January 2015	Period ended 31 January 2014
	£ per share	£ per share	£	£
Dividends paid on Ordinary 'A' shares	-	-	-	-

There is no dividend payable for the period ended 31 January 2015 in respect of 'A' shares (2014 £nil) and 'B' shares (2014: £nil).

7. Loans and Advances to Banks

	31 January 2015	31 January 2014
	£	£
- 3 months or less	16,000,000	38,000,000
- Repayable on demand	15,014,031	18,826,050
	31,014,031	56,826,050

8. Loans and Advances to Customers

	31 January 2015	31 January 2014
	£	£
Remaining maturity:		
- Over 5 years	28,240,279	1,307,541
- 5 years or less but over 1 year	16,531,377	3,690,758
- 1 year or less but over 3 months	1,547,495	2,142,866
- 3 months or less	979,464	1,577,212
- Amounts repayable on demand	3,320,143	3,404,387
	50,618,758	12,122,764
Less: provision for bad and doubtful accounts	(920,829)	(1,196,299)
	49,697,929	10,926,465

The gross total of non performing loans as at 31 January 2015 was £1,104,285 (2014: £1,244,686).

The table below details the total secured and unsecured commitments reported as a percentage of total drawn commitments.

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

8. Loans and Advances to Customers
(continued)

	<u>31 January 2015</u>	<u>29 January 2014</u>
	%	%
Fully secured lending	94.2	72.2
Partially secured lending	2.7	16.1
Unsecured lending	3.1	11.7
	<u>100.0</u>	<u>100.0</u>

Movement on provision for bad and doubtful accounts

	2015	2014
	£	£
Opening Balance	1,196,299	1,322,116
Charge for the period	7,714	15,416
Interest suspended in period	44,523	54,479
Provisions relating to debts now written off (including suspended interest)	(51,465)	(4,479)
Provisions released (including suspended interest)	(276,242)	(191,233)
Closing Balance	<u>920,829</u>	<u>1,196,299</u>

Reconciliation to provision for bad and doubtful debts per profit and loss account:

	2015	2014
	£	£
Provisions raised	7,714	15,416
Provisions released	<u>(258,504)</u>	<u>(174,862)</u>
Total charge for the period	<u>(250,790)</u>	<u>(159,446)</u>
Bad debts recovered (relating to prior periods)	-	-
Provision for bad and doubtful debts per profit and loss account	<u>(250,790)</u>	<u>(159,446)</u>

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

9. Debt Securities

	31 January 2015		31 January 2014	
	Carrying value	Market value	Carrying value	Market value
	£	£	£	£
UK Government Listed Securities	-	-	5,827,141	5,506,005
	-	-	5,827,141	5,506,005

The movements during the year of debt securities are analysed as follows:

	2015	2014
	£	£
Opening Balance	5,827,141	5,928,322
Acquisitions	-	-
Maturities and disposals	(5,793,414)	-
Amortisation of premiums	(33,727)	(101,181)
Closing Balance	-	5,827,141

The total unamortised premium on UK Government Listed Securities as at 31 January 2015 was £Nil (2014: £977,144). The amount of debt securities due within one year is £Nil (2014: £Nil). Also, see note 24.

10. Treasury Bills and Other Eligible Bills

	31 January 2015	31 January 2014
	£	£
- 3 months or less	23,176,621	5,999,034
- 1 year or less but over 3 months	4,982,209	-
	28,158,830	5,999,034

The movements during the year of treasury bills are analysed as follows:

	2015	2014
	£	£
Opening Balance	5,999,034	-
Acquisitions	127,418,039	160,446,756
Maturities and disposals	(105,258,243)	(154,447,722)
Closing Balance	28,158,830	5,999,034

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

11. Fixed Asset Investments

The Bank sold its holding of 1,985 class "C" shares of Visa Inc. (see note 3) for £325,000 prior to the year end. It received \$488,769 after the balance sheet date (£321,876). The historic cost of these shares in Visa Inc. was £nil. The Directors' valuation of this holding at 31 January 2014 was £267,569.

12. Tangible Fixed Assets

	Total	Work in Progress	Equipment, fixtures and fittings
Cost	£	£	£
At 31 January 2014	898,529	-	898,529
Additions	6,747,160	4,974,800	1,772,360
Disposals	(554,229)	-	(554,229)
At 31 January 2015	7,091,460	4,974,800	2,116,660
Depreciation			
At 31 January 2014	714,663	-	714,663
Charge for period	368,135	-	368,135
Disposals	(554,229)	-	(554,229)
At 31 January 2015	528,569	-	528,569
Net book value - At 31 January 2015	6,562,891	4,974,800	1,588,091
Net book value - At 31 January 2014	183,866	-	183,866

13. Other Assets

	31 January 2015	31 January 2014
	£	£
Sundry Debtors	2,266,288	250,012
Corporation tax receivable	1,009,676	1,250,427
Deferred tax (note 14)	70,659	51,237
	3,346,623	1,551,676

Prepayments and accrued income are £456,181 (2014:£176,154) and comprise amounts expensed in the normal course of the Bank's business but not yet due in this accounting period.

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

14. Deferred tax

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Capital allowances in excess of depreciation	70,659	38,237
Other timing differences	-	13,000
Total deferred tax (liability)/asset	<u>70,659</u>	<u>51,237</u>

	31 January 2015	31 January 2014
The movement was as follows;		
Asset at beginning of period	51,237	85,842
Opening balance rate change	-	(7,141)
Deferred tax (charge)/credit through profit and loss account:		
Current year	(1,426)	3,663
Adjustments in respect of prior year	-	(31,097)
Deferred tax credit/(charge) through STRGL	20,848	-
(Creditor)/Asset at end of period	<u>70,659</u>	<u>51,237</u>

Deferred tax relating to pension obligations of £12,244 is included in note 17 and is not included here.

Legislation was introduced in the Finance Act 2013 to reduce the main rate of corporation tax from 23% to 21% on 1 April 2014, then to 20% on 1 April 2015. Deferred tax liabilities have been measured at the rate that is expected to apply in the period in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted at the balance sheet date.

At 31 January 2015 the Bank has available losses to carry forward of £2,903,038. (2014: £2,896,278) which at 20% provides a Deferred Tax Asset of £580,608 (2014: DTA £579,256 at 20%) which due to uncertainty over the timing of future profits is not recognised in the accounts.

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

15. Customers' Current and Deposit Accounts

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
With agreed maturity dates or periods of notice, by remaining maturity:		
- Greater than 1 year and less than five years	5,509,458	-
- Greater than 3 months and less than 1 year	1,866,572	-
- 3 months or less but not repayable on demand	33,925,467	34,151,050
- Repayable on demand	33,789,964	29,312,354
	<u>75,091,461</u>	<u>63,463,404</u>

Included in customers' current and deposit accounts at 31 January 2015 is a balance of £189,978 (2014: £250,991) deposited by Harrods Group companies.

16. Other Liabilities

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Other liabilities	335,770	375,580
	<u>335,770</u>	<u>375,580</u>

Accruals and deferred income are £2,279,700 (2014: £2,513,440) and comprise amounts not yet paid but to be charged in the normal course of the Bank's business in this accounting period.

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

17. Retirement benefit liabilities

Pension schemes operated

During the period the group operated the Harrods Group Pension Plan ("the Plan"), an approved defined benefit scheme. This scheme was closed to new membership and new accruals in April 2006.

The funding position of the Plan is monitored by the Trustees and the Harrods Group on a quarterly basis and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

An actuarial valuation of the Plan as at 5 April 2012 on a Scheme Specific Funding basis was carried out by the Scheme Actuary. The deficit on this basis was £77m as at 5 April 2012, a funding level of 85%.

A revised recovery plan was subsequently agreed. In order for the Plan to be fully funded by 31 March 2017, the Trustees and Principal Employer agreed the following on 31 October 2012:

- Annual contributions totalling £15.0m per annum payable in each of 2013, 2014, 2015 and 2016 with a final payment of £4.7m in March 2017.
- Plan expenses (including any insurance premiums and PPF levies) estimated at £1.0m per annum to continue to be met by the Employers.

During the period ended 31 January 2015, the participating employers made total contributions to the plan of £15.9m (2014: £16.0m).

The next full actuarial valuation is scheduled in April 2015.

Defined contribution scheme

The pension cost under the defined contribution scheme amounted to £129,470 (2014: £79,917). No pension accrual (2014: £nil) is included in the balance sheet in relation to this scheme.

Defined benefit scheme

For the period ended 31 January 2015, the Bank has accounted for its defined benefit pension liability in accordance with FRS 17. The Plan was closed to future accrual in April 2006.

The group numbers are apportioned to the various employers participating in the scheme based on allocation to employers of individual members employed by them.

The funding position of the Plan is monitored by the Trustees and the Harrods Group on a quarterly basis and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

The UK Government announced on 8 July 2010 that statutory pension increases or revaluations would be based on the Consumer Price Index (CPI) from 2011. However increases to pension payments continue to be linked to RPI, subject to limits specified in the Plan's Trust Deed and Rules. The impact on the Plan's obligations as a result of the move from RPI to CPI for future revaluation of pensions was a gain of £13m and is included in the actuarial gain for the year ended 31 January 2012.

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

17. Retirement benefit liabilities (continued)

Change in Benefit Obligation

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Benefit obligation at beginning of year	2,313,138	2,236,474
Interest cost	108,459	101,274
Actuarial losses	461,969	45,147
Benefits paid	(75,403)	(69,757)
Transfers	134,826	-
Benefit obligation at end of year	2,942,989	2,313,138

Analysis of Defined Benefit Obligation

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Plans that are wholly or partly funded	2,942,989	2,313,138
Plans that are wholly unfunded	-	-
Benefit obligation at end of year	2,942,989	2,313,138

Change in Plan Assets

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Fair value of plan assets at beginning of year	2,330,682	2,272,873
Expected return on plan assets	128,366	101,274
Actuarial gains	277,943	(53,625)
Transfers	135,848	-
Employer contribution	84,333	79,917
Benefits paid	(75,403)	(69,758)
Fair value of plan assets at end of year	2,881,769	2,330,681
Funded status	(61,220)	18,855
Deferred Tax	12,244	-
Effect of surplus cap	-	(18,855)
Net Amount recognised	(48,976)	-

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

17. Retirement benefit liabilities (continued)

Components of pension costs

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Expected return on pension scheme assets	128,366	101,274
Interest on pension liabilities	(108,459)	(101,274)
Total pension cost recognised in the P&L Account	<u>19,907</u>	<u>-</u>

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Actual return less expected return on pension scheme assets		
	277,943	(53,625)
Changes in assumptions underlying the present value of the scheme liabilities	(461,969)	(45,147)
Changes in assumptions underlying present value of scheme assets	-	-
Actuarial gains / (losses) in pension plan	<u>(184,026)</u>	<u>(98,772)</u>
(Increase) / Decrease in irrecoverable surplus	18,565	18,855
Actuarial gains / (losses) recognised in STRGL	<u>(165,461)</u>	<u>(79,917)</u>

The cumulative actuarial gains and losses recognised in the statement of total recognised gains and losses 31 January 2015 was a loss of £529,882 (2014: £580,737 loss).

Plan assets

The weighted average asset allocation at the period end was as follows:

	<u>31 January 2015</u>	<u>31 January 2014</u>
Asset category		
Equities	32.8%	32.8%
Corporate Bonds	24.2%	24.2%
Government Bonds	15.1%	15.1%
Total Return Investments	19.1%	19.1%
Cash	8.3%	8.3%
Other	0.5%	0.5%
Total	100.0%	100.0%

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

Amounts included in the fair value of assets for:

	31 January 2015	31 January 2014
	£	£
Equities	939,155	763,960
Corporate Bonds	669,634	564,768
Government Bonds	494,782	351,663
Total Return Investments	511,127	446,126
Cash	261,253	193,423
Other	5,819	10,742

To develop the expected long-term rate of return on assets assumption, the following factors were considered: the current level of expected returns on risk free investments (primarily government bonds); the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and; the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.00% assumption.

	31 January 2015	31 January 2014
	£	£
Actual return on plan assets	406,309	47,647

Weighted average assumption used to determine benefit obligation

	31 January 2015	2 February 2014
	% p.a.	% p.a.
Price inflation	2.70	3.40
Pension increases – LPI (5%)	3.20	3.20
Pension increases – LPI (2.5%)	1.90	2.30
Discount rate	3.15	4.50

Weighted average assumption used to determine net pension costs for the year

	31 January 2015	2 February 2014
	% p.a.	% p.a.
Expected long-term return on plan assets	3.60	5.00
Pension increases – LPI (5%)	3.20	3.20
Pension increases – LPI (2.5%)	1.90	2.30
Discount rate	3.15	4.50
Inflation	2.70	3.40

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

17. Retirement benefit liabilities (continued)

Weighted average life expectancy for mortality tables used to determine benefit obligation as at 31 January 2015.

			Male	Female
Member age 60			88.2	90.5
Member age 40			90.7	93.0

History of experience gains and losses	31 January 2015	31 January 2014	31 January 2013	31 January 2012
	£000	£000	£000	£000
Benefit obligation at end of year	(2,942)	(2,313)	(2,236)	(2,112)
Fair value of plan assets at end of year	2,882	2,331	2,273	2,125
(Deficit) / surplus in Plan	(61)	18	37	13
(Deficit) recognised in Company accounts	(61)	-	-	-
Difference between the actual and expected return on scheme assets	(278)	(54)	43	17
Percentage of scheme assets	(9.6%)	(2.3%)	0.5%	0.8%
Experience (losses) on scheme liabilities	-	-	-	-
Percentage of the present value of scheme liabilities	0.0%	0.0%	0.0%	0.0%

Within this disclosure, the value of Plan assets have been stated at estimated bid value.

18. Called Up Share Capital

	31 January 2015	31 January 2014
	£	£
Authorised, allotted, issued and fully paid ordinary shares of £1 each		
100 'A' voting shares	100	100
10,000,000 'B' non-voting shares	20,500,000	15,600,000
	<u>20,500,100</u>	<u>15,600,100</u>

'A' voting shares are non-equity shares and the holders are not entitled to any dividend payment. The 'B' ordinary shares carry no voting rights and dividends are payable from distributable profits at the discretion of the directors having regard to the Bank's capital and liquidity needs for business and regulatory purposes.

On 3 July 2014 an additional 4,900,000 non-voting ordinary shares were purchased by Harrods Ltd at par.

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

19. Shareholders' Funds

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Shareholders' funds – equity	11,654,102	10,449,079
Shareholders' funds – non equity	100	100
	<u>11,654,202</u>	<u>10,449,179</u>

20. Retained Reserves

	<u>Profit & Loss Reserve</u>
	£
As at 1 February 2014	(5,150,921)
Dividend paid relating to current year	-
Loss on ordinary activities after taxation	(3,562,608)
Actuarial losses on pension scheme	(165,461)
Tax movement on pension	33,092
As at 31 January 2015	<u>(8,845,898)</u>

21. Reconciliation of Movements in Shareholders' Funds

	<u>31 January 2015</u>	<u>31 January 2014</u>
	£	£
Opening shareholders' funds	10,449,179	9,080,467
Loss for the financial period	(3,562,608)	(4,169,880)
Dividends	-	-
Actuarial (losses) on pension scheme	(165,461)	(79,917)
Tax movement of pension	33,092	18,509
Issue of New Ordinary Non-Voting Shares	4,900,000	5,600,000
Net increase in shareholders' funds	1,205,023	1,368,712
Closing shareholders' funds	<u>11,654,202</u>	<u>10,449,179</u>

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

22. Notes to the Cash Flow Statement

Reconciliation of loss on ordinary activities before taxation to net cash outflow from operating activities:

	31 January 2015	31 January 2014
	£	£
Loss on ordinary activities before taxation	(4,570,858)	(5,367,193)
Depreciation	368,135	100,497
Amortisation of premium on investments	33,726	101,181
Provision for bad and doubtful debts	(224,005)	(121,338)
Loans and advances written off net of recoveries	(51,465)	(4,479)
Decrease/(Increase) in prepayments and accrued income	(280,027)	74,844
Increase in accruals and deferred income	(233,740)	2,038,770
Net cash outflow from trading activities	(4,958,234)	(3,177,718)
 Net cash outflow from trading activities (from above)	 (4,958,234)	 (3,177,718)
Net increase in current accounts and deposit accounts	11,628,057	6,747,454
Net decrease/(increase) in loans and advances	(38,495,993)	7,270,942
Net decrease/(increase) in other assets	(2,016,276)	159,572
Net increase/(decrease) in other liabilities	(39,810)	165,263
Increase in retirement benefit obligations	(153,217)	(61,408)
Net cash inflow from operating activities	(34,035,471)	11,104,105

Analysis of changes in cash:

	Period ended 31 January 2015	Period ended 31 January 2014
	£	£
Opening balance	63,036,301	51,974,495
Cash (Outflow)/inflow	(3,738,792)	11,061,806
Closing balance	59,297,509	63,036,301

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

22 Notes to the Cash Flow Statement (continued)

Analysis of cash balances:

	31 January 2015	31 January 2014	Change in period
	£	£	£
Cash	124,648	211,217	(86,569)
Loans and advances to banks	16,000,000	38,000,000	(22,000,000)
- Repayable on demand (note 7 and 10)	38,190,652	24,825,084	18,347,777
- Repayable in less than 1 year but more than 3 months	4,982,209	-	-
	59,297,509	63,036,301	3,738,792

23. Contingent liabilities and commitments

There are contingent liabilities for guarantees as at 31 January 2015 of £10,000 (2014: £10,000) none of which are covered by cash.

Total committed but undrawn facilities at the period end are £645,036 (2014: £677,044).

24. Related Party Transactions and Controlling Parties

The Directors consider that the ultimate parent undertaking of the Bank is Qatar Holding LLC and the beneficial shareholder is Harrods Group (Holding) Limited. The FSA approved the Bank's Change of Control application in September 2012. As a result of which the 'A' voting shares were transferred from the Law Debenture Trust Corporation plc, following the winding up of the trust, to Harrods Limited. On the 29 January 2015 Harrods Group (Holding) Limited purchased the 'A' voting shares and 'B' non-voting shares of Harrods Bank from Harrods Limited. Harrods Group (Holding) Limited is therefore a controller by virtue of having sole voting control of the Bank. Harrods Group (Holding) Limited, registered office is 87-135 Brompton Road, Knightsbridge, London SW1X 7XL.

A subordinated loan was issued on 21 May 2010, following the acquisition of Harrods Limited, the parent company, by Qatar Holding LLC. The loan was issued by Qatar Holding Luxembourg II SARL, whose ultimate parent company is Qatar Holding LLC. During the year the Bank repaid the remaining £4.9m of the Subordinated loan. Also during the year a further £30m of subordinated loan was issued by the Bank to Qatar Holding LLC. Interest on this loan is based upon a five year floating swap rate. Included in interest payable and similar charges is an amount of £115,418 (2014: £154,100) for interest on the subordinated loans.

The £30m subordinated loan has been structured in such a way that it can be converted into Tier 1 capital to ensure that the Bank is able to comply with Capital Requirements Directive (CRDIV)

Occupancy fees of £284,546 (2014: £469,092) were charged to the profit and loss during the period. These relate to payments made to Harrods Limited in respect of rent and a trademark fee in accordance with the Bank's agreement with Harrods Limited.

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

24. Related Party Transactions and Controlling Parties (continued)

At the period ended 31 January 2015, the following balances included within prepayments and accrued income were outstanding with other connected companies within the Harrods Group;

- £Nil (2014: £93,248) was owed by Qatar Holding Luxembourg II SARL, in respect of the sale of a portfolio of Certificates of Deposit which was disposed of following the acquisition of the Bank, net of an amount received as a deposit on a gold transaction.
- £Nil (2014: £155,584) was owed to Qatar Holding Luxembourg II SARL, in respect of interest on the subordinated loan.

Further related party disclosures are made in notes 2, 4 and note 14.

At 31 January 2015 there were no loans remaining (2014 Nil) to any Director of a related party and their dependents. The maximum outstanding during the period to related parties, including the maximum outstanding on loan account balances to Directors of related parties, was £Nil (2014: £Nil). Interest receivable on these loans is based on the normal terms and conditions of the Bank.

25. Financial Instruments

Credit risk

Overall responsibility for credit risk rests with the Board of Directors, on whose behalf the Risk Committee, comprising three Directors, one being executive, draw up and monitor the policy. The executive director has the responsibility for implementing the policy and ensuring that annual reviews of all facilities take place. The policy covers all aspects of the business of the Bank dealing with credit exposure.

Liquid assets are managed by use of a combination of UK Government gilt edged securities ("GILTS") and funds placed for periods of up to 12 months. These may be held in Certificates of Deposit issued by approved counterparties or short term Money Market deposits held with approved counterparties. The Bank's policy requires all institutions to be at least investment grade.

Market risk

The bank manages market risk carefully by investing surplus cash in in either Treasury Bills or investment grade placement. The Bank complies with rules on carrying a sufficient liquidity asset buffer.

Liquidity risk

The Bank manages its assets carefully to ensure an adequate margin of liquid resources is maintained to cover depositor withdrawals as these arise, including high levels of demand that might prevail in times of financial uncertainty. Guidelines for this margin of comfort are agreed with the Prudential Regulatory Authority and the Bank has always operated within these parameters with an added self-imposed margin. In addition, the Bank periodically tests its ability to fund a significant increase in withdrawal levels.

Operational risk

Operational risk arises from the potential for inadequate systems (including systems breakdown), errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. Management manages this risk through appropriate risk controls and loss mitigating actions. These actions include a combination of policies, procedures, internal controls and business continuity arrangements.

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

25. Financial Instruments (continued)

Currency risk

Whilst the majority of the Bank's customers are based in the United Kingdom, some are not, and as a result the Bank also maintains a non-trading open currency position in currencies other than Sterling. An analysis of the Currency Assets and Liabilities is provided as part of this note.

Interest rate risk

An analysis of interest bearing assets and liabilities by the earlier of interest re-pricing date or the maturity date is part of this note.

Fair value disclosure

The Directors do not consider the fair value of financial assets or liabilities to be materially different from their carrying value except for Debt Securities. The fair value of debt securities as at the balance sheet date together with the carrying value has been disclosed in Note 9.

Currency Assets and Liabilities analysed by Currency (reported in Sterling)

Foreign Currency Balances

The Bank holds assets denominated in foreign currency at 31 January 2015 of £2,214,392 (2014: £1,407,939) and liabilities of £2,170,893 (2014: £1,384,240).

(Translated to £ at period end rates – all figures in £'000)

	US Dollar	Euro	Other currencies	31 January 2015 Total	31 January 2014 Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Cash	4	3	-	7	12
Loans and advances to banks (Nostro accounts)	19	14	-	33	5
Loans and advances to banks (Money market deposits)	1,727	445	3	2,175	1,391
Total assets	1,750	462	3	2,215	1,408
Liabilities					
Customer accounts	1,725	445		2,170	1,384
Total liabilities	1,725	445		2,170	1,384
Net foreign currency balances	25	17	3	45	24

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

25. Financial Instruments (continued)

**Interest Rate Sensitivity Analysis: Assets / Liabilities analysed by the earlier of interest re-
pricing date or maturity date (all in £'000s). As at 31 January 2015;**

	<u>< 3 mths</u>	<u>3–6 mths</u>	<u>6 mths–1 yr</u>	<u>1 yr–5 yrs</u>	<u>> 5 yrs</u>	<u>Non- interest bearing</u>	<u>Total</u>
Assets							
Loans and advances to banks	49,202	9,972	-	-	-	-	59,174
Loans and advances to customers	20,705	-	-	29,913	-	(921)	49,697
Debt securities	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	10,610	10,610
Total assets	<u>69,907</u>	<u>9,972</u>	<u>-</u>	<u>29,913</u>	<u>-</u>	<u>9,689</u>	<u>119,481</u>
Liabilities							
Customer accounts	68,015	-	1,566	5,510	-	-	75,091
Other liabilities	-	-	-	-	-	2,736	2,736
Subordinated Debt	30,000	-	-	-	-	-	30,000
Shareholders' funds	-	-	-	-	-	11,654	11,654
Total liabilities	<u>98,015</u>	<u>-</u>	<u>1,566</u>	<u>5,510</u>	<u>-</u>	<u>14,390</u>	<u>119,481</u>
Off balance sheet items						645	645
Interest rate sensitivity gap	<u>(28,108)</u>	<u>9,972</u>	<u>(1,566)</u>	<u>24,403</u>	<u>-</u>	<u>(4,701)</u>	
Cumulative gap	<u>(28,108)</u>	<u>(18,136)</u>	<u>(19,702)</u>	<u>4,701</u>	<u>4,701</u>		

HARRODS BANK LIMITED
Notes to the financial statements
for the period ended 31 January 2015

25. Financial Instruments (continued)

**Interest Rate Sensitivity Analysis: Assets / Liabilities analysed by the earlier of interest re-
pricing date or maturity date (all in £'000s). As at 31 January 2014;**

	<u>< 3 mths</u>	<u>3–6 mths</u>	<u>6 mths–1 yr</u>	<u>1 yr–5 yrs</u>	<u>> 5 yrs</u>	<u>Non- interest bearing</u>	<u>Total</u>
Assets							
Loans and advances to banks	63,036	-	-	-	-	-	63,036
Loans and advances to customers	12,122	-	-	-	-	(1,196)	10,926
Debt securities	-	-	-	-	5,827	-	5,827
Other assets	-	-	-	-	-	1,912	1,912
Total assets	75,158	-	-	-	5,827	716	81,701
Liabilities							
Customer accounts	63,463	-	-	-	-	-	63,463
Other liabilities	-	-	-	-	-	2,889	2,889
Subordinated Debt	4,900	-	-	-	-	-	4,900
Shareholders' funds	-	-	-	-	-	10,449	10,449
Total liabilities	68,363	-	-	-	-	13,338	81,701
Off balance sheet items						677	677
Interest rate sensitivity gap	6,795	-	-	-	5,827	(12,622)	
Cumulative gap	6,795	6,795	6,795	6,795	12,622		

HARRODS BANK LIMITED

Notes to the financial statements

for the period ended 31 January 2015

26. Financial Services Compensation Scheme ("FSCS")

All deposit-taking institutions that are members of the UK Financial Services Compensation Scheme (FSCS) are required to contribute to the costs of the FSCS in safeguarding the deposits of savers in financial institutions. The Bank is, and continues to be, a member of the FSCS. Contributions to the FSCS are calculated according to a prescribed formula using the retail savings balances of all deposit-taking institutions who are members of the FSCS. As at 31 January 2015, the Bank held a provision of £80,000 with respect to the estimated FSCS levy for the period 2015/16. The FSCS provision is expected to be utilised in September 2015.

	31 January 2015	31 January 2014
	£	£
FSCS Provision brought forward	81,250	81,250
FSCS Levy paid in the year	(24,750)	(23,854)
FSCS Provision made in the year	23,500	23,854
FSCS Provision carried forward	80,000	81,250

27. Future Operating Leases

	31 January 2015	31 January 2014
	£	£
Less than one year	3,537	241
One year to five years	46,570	147,008
Five years or more	-	-
Total Operating Leases	50,107	147,249

This table contains payments committed for the next year analysed between relevant time periods into which the payments fall.

28. Post Balance Sheet Events

There are no significant post balance sheet events.