Kleinwort Benson

Kleinwort Benson Bank Limited

Directors' report and financial statements

31 December 2011

Company No 2056420

Contents

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2011

Principal activity

Kleinwort Benson Bank Limited ("the Company"), which operates under the trading name of Kleinwort Benson, has a banking heritage dating back to 1786 It has established a sound reputation for wealth management and merchant banking services in the UK The Company is authorised and regulated by the Financial Services Authority for banking and investment business under the Financial Services and Markets Act 2000 and is a member of the London Stock Exchange

The principal activity of the Company is the provision of wealth management and merchant banking services

Business strategy and objectives of the organisation

The purchase of the Company by Kleinwort Benson Group Limited ("Kleinwort Benson Group"), a wholly owned subsidiary of RHJ International S A ("RHJI"), was completed on 1 July 2010 RHJI enjoys a strong financial position and is engaged in transforming its business model to become a dynamic financial services group, seeing significant medium-term opportunities in the financial services market for a merchant banking strategy that is focused on a client service approach to banking

Kleinwort Benson Group intends to exploit these growth areas with the development of its independent merchant banking model based on three pillars Wealth Management, Asset Management and Merchant Banking Kleinwort Benson Bank Limited is the driving force in delivering these ambitions for Wealth Management and Merchant Banking, the Kleinwort Benson brand is well-known and trusted and is the cornerstone of this strategy

Results and dividends

	2011 GBP'm	2010 GBP'm
Operating income	26 8	27 2
Administrative and restructuring expenses	(43 5)	(43 5)
Depreciation & amortisation	(0 8)	(0 2)
Impairment charges	(-)	(2 7)
Loss before tax	(17 5)	(19 2)
Items included above		
Fair value movement on the treasury book	4 5	0 9
Restructuring and integration costs	2 7	5 9
Impairment on intangible fixed assets	-	2 7
Investment in fixed income initiative	5 7	2 6
Loss before tax excluding items above	**(4.6)**	**(7.1)**
Assets under management (GBP'm)	2,386	2,643
Assets under control (GBP'm)	2,411	2,669

Results and dividends (continued)

For the year ended 31 December 2011, the Company reported a loss of GBP 17 5 million (2010 loss GBP 19 2 million)

The results for the year include the following items

- fair value movement on the treasury book of GBP 4 5 million (2010 GBP 0 9 million),
- restructuring and integration costs of GBP 2 7 million (2010 GBP 5 9 million), and
- investment in fixed income initiative of GBP 5 7 million (2010 GBP 2 6 million)

Fair value movement on the treasury book of GBP 4 5 million were incurred during the year The Company continues to apply a prudent treasury policy, with a very substantial liquidity buffer and an investment portfolio restricted to relatively short dated liquid investment grade instruments Significant fair value movements were incurred during the second half of the year, reflective of the volatility in the financial markets where even the highest quality financial instruments experienced significant movements in market prices

Restructuring and integration costs of GBP 2 7 million incurred in the year mainly reflect the redundancy payments to staff as the Company has reduced headcount

Investments of GBP 5 7 million in an initiative aimed at developing a fixed income intermediation platform have been made in the year The development of the fixed income intermediation platform included the establishment of a branch of the Company in Munich in February 2011 to facilitate this business, with clients also introduced through a Singaporean subsidiary

In addition, during the year, investments in new initiatives have been made which primarily focus on generating revenue growth over the medium term These include banker hires, investment in a new corporate advisory team and the acquisition of a Family Office with focus on ultra high net worth clients

At a headline level, the Company recorded operating income of GBP 26 8 million during the year ending 31 December 2011, marginally lower than the operating income of GBP 27 2 million earned a year earlier

Excluding the fair value movement on the treasury book there was an increase in operating income to GBP 31 3 million (2010 GBP 28 1 million) This was despite the low interest rate environment and competition for deposits continuing to affect banking activities

Administrative expenses in total remained static at GBP 43 5 million

The loss before tax excluding these items was GBP 4 6 million (2010 loss GBP 7 1 million)

Assets under control include deposits, loans and investing activities arising from client discretionary and advisory mandates Total assets under control decreased slightly from GBP 2 7 billion as at 31 December 2010 to GBP 2 4 billion as at 31 December 2011, mainly due to market movements during the period

The Company has maintained a strong and liquid balance sheet with no exposure to Portuguese, Irish, Greek, Italian or Spanish sovereign debt, with the majority of assets maturing in less than one year and denominated in Sterling and US Dollars

During the year, RHJ International S A , the ultimate parent undertaking, voluntarily injected GBP 10 million of Tier 1 capital into the Company through the Company's parent undertaking, Kleinwort Benson Group Limited, with the intention of maintaining an internal capital buffer in excess of regulatory required capital and to facilitate the investment in the new initiatives that will maintain momentum in execution of the strategy to build an independent merchant banking group

Results and dividends (continued)

At December 31, 2011 the Company had a strong Tier 1 ratio of 18% During the year the Company maintained its Moody's rating of Baa2

The Company's policy is to maintain a capital base which preserves investor and creditor confidence and to sustain future development of the business Since the Company has a degree of flexibility regarding its capital usage and associated regulatory requirement, due to the liquid nature of its asset base, management believes it would be able to maintain suitable Tier 1 and solvency ratios even in the event of stresses to the profit and loss account and balance sheet

The directors do not recommend the payment of a final dividend (2010 GBP nil)

Risk and uncertainties

Market conditions during 2011 remained difficult However, the directors are comfortable that the Company is a robust and stable organisation, which is particularly focused on the efficient preservation and growth of client assets

The Board has approved a Risk Framework, including risk appetite, within which the bank is managed

Limited lending facilities are offered to clients (mainly UK-based mortgages) When money is lent, it is on a cautious basis The Company's investment policy is to lend only to high credit quality institutions The lending is focussed on institutions that are considered to be banks of national importance in their home markets, having due consideration to the standing of the home market

Outside of the clearing banks, the Company's client portfolio is diversified, with loans to any one individual institution comprising a low percentage of the total book These placements are with leading national institutions and banks and are spread over the major western democracies and G20 countries

Capital, market, liquidity and credit risks are monitored regularly to ensure exposure remains within limits set internally and by the regulator Operational risks are also assessed regularly and, where appropriate, mitigating actions taken

Measurement and performance

As a wholly owned subsidiary, Kleinwort Benson provides performance data to RHJI on a monthly basis

Future plans, trends and developments

The Company is committed to implement legislative and regulatory changes in a timely manner and was in line with regulatory developments during 2011 Preparations are underway to enable the Company to comply with the Retail Distribution Review which comes into effect at the end of 2012

At a time when many major firms have seen their brand equity eroded and when much greater importance is attached to reputation and integrity, clients are increasingly looking for wealth management solutions provided by wealth management experts Working with our shareholder, the directors intend to build upon Kleinwort Benson's tradition and values to fully realise the ambition of becoming the UK's leading independently owned private and merchant banking group

On 12 July 2011, the Company authorised and issued 10,000,000 ordinary shares of GBP 1 each for a consideration of GBP 10,000,000, settled in cash A further 10,000,000 ordinary shares of GBP 1 each for a consideration of GBP 10,000,000, were issued and settled in cash in February 2012 These capital injections will serve to further enhance the Company's balance sheet strength and capital ratios

Financial instruments

The Company uses financial instruments as set out in notes 1 and 31 to the financial statements

Directors and directors' interests

The following directors have held office since 31 December 2010

Name	Relationship with the Company
L H Fischer	Leonhard Fischer was appointed as non-executive Chairman on 1 July 2010 and is also Chairman of the Kleinwort Benson Group Nomination and Remuneration Committee He is currently Chief Executive Officer of RHJ International S A and prior to this he held senior positions within the banking and financial services industry
Dr M D Bockenfeld	Dr Martha Bockenfeld was appointed a non-executive director of the Company on 1 July 2010 She is the Chief Financial Officer of RHJ International S A and has over 14 years of financial services industry experience
D A Hanlon	Duncan Hanlon is the Group Chief Financial Officer and was appointed a director of the Company on 26 January 2011 He is a Certified Accountant and has wide experience at a senior level within the financial services sector He is a member of the Company's Strategic Executive Committee
J P Henwood MBE	John Henwood has been an independent non-executive director of the Company since June 2006 and is a member of the Kleinwort Benson Group Nomination and Remuneration Committee He is a member of the States of Jersey Review Panel on the Machinery of Government and President of the Jersey Branch of the Chartered Institute of Marketing
H Linz	Heinrich Linz was appointed a non-executive director of the Company on 1 July 2010 He holds the position of Managing Director with RHJI and has over 25 years of banking and financial services experience He is Chairman of the Kleinwort Benson Group Strategic Risk Committee
K N Graf von Schweinitz	Konstantin Graf von Schweinitz was appointed an independent non-executive director of the Company on 8 July 2010 He has over 25 years investment and commercial banking experience principally in capital markets and risk management and is currently an independent advisor to hedge funds, banks and private equity companies He is Chairman of the Kleinwort Benson Group Audit Committee and a member of the Kleinwort Benson Group Strategic Risk Committee
M A Taylor	Angus Taylor resigned as an executive director on 11 April 2011
S J Tennant	Sally Tennant was appointed as an executive director on 11 April 2011, following her appointment as Chief Executive Officer in January 2011 She was previously Chief Executive at Lombard Odier Darier Hentsch in the UK and of Schroders Private Banking She is a member of the Company's Strategic Executive Committee

None of the directors had an interest in the share capital of the Company, nor any disclosable interests in the shares or debentures of any group company The directors are exempt from disclosing their interests in the shares or debentures of the ultimate parent company, RHJ International S A , as it is incorporated outside the UK

Directors and directors' interests (continued)

None of the directors benefited from qualifying third party indemnity provisions during the year or at the date of this report

Corporate governance

The Board of Directors comprises of two executive directors and five non-executive directors Two of the non-executive directors are fully independent and all are considered to be independent in character and judgement The non-executive directors participate fully with their executive colleagues in Board Meetings and have access to any information they need to perform their duties

The roles of Chairman and Chief Executive are separated and are clearly defined The Chairman is primarily responsible for the working of the Board and the Chief Executive for the running of the business and implementation of Board strategy and policy

The appointment of directors is considered by the Nomination and Remuneration Committee and approved by the Board and the shareholder Directors need not retire by rotation or stand for re-election by the shareholder

The Board has approximately four substantive meetings each year with a further number of at least six Board teleconference calls during the year A programme is prepared, and agreed each year, which ensures that the directors are able regularly to discharge their duties Matters reserved for the attention of the Board include determination of the Company's strategy, reviews of budgets and financial statements, company acquisitions and disposals and major capital expenditure

Every director is offered training upon appointment and as necessary during their appointment All directors have access to the advice and services of the Company Secretary and may seek independent professional advice, if necessary, at the Company's expense

The Board has appointed the following committees and each of them has formal terms of reference covering its authority and duties, which are regularly reviewed by the Board

Strategic Executive Committee

The purpose of the Strategic Executive Committee is to consider the strategic and planning issues for the Company and make appropriate recommendations to the Board The Strategic Executive Committee establishes reporting lines, requests reports and information and facilitates the conduct of the business and the effective monitoring and review thereof, including reviewing budgets, business plans and financial performance and the monitoring of risk

On 31 December 2011, the members of the Strategic Executive Committee were Sally Tennant, Duncan Hanlon, Danny Vogt and Guy McGlashan

The parent company, Kleinwort Benson Group Limited, has established the following prudential committees, whose remit includes Kleinwort Benson Bank Limited Each of them has formal terms of reference covering its authority and duties, which are regularly reviewed

Kleinwort Benson Group Audit Committee ("Audit Committee")

On 31 December 2011, the members of the Audit Committee were Konstantin Graf von Schweinitz (Chairman), Jonathan Hooley and Sheriff and Alderman Alan Yarrow Sheriff and Alderman Alan Yarrow resigned from the Audit Committee on 1 February 2012, on which date Andrew Adcock was appointed

The Audit Committee reviews the adequacy of the accounting systems and internal controls of the Company, the financial statements and the Company's accounting policies

The Audit Committee is responsible for reviewing the external auditors' independence, the nature of non-audit services supplied and non-audit fee levels relative to the audit fee

The Committee has at least three substantive meetings each year On invitation, the Chairman, the Chief Executive, the Chief Financial Officer, the Chief Risk Officer, the Head of Internal Audit and the external auditors attend meetings to assist the committee to fulfil its duties

Kleinwort Benson Group Strategic Risk Committee ("Strategic Risk Committee")

The members of the Strategic Risk Committee are Heinrich Linz (Chairman), Peter Neville and Konstantin Graf von Schweinitz

The Strategic Risk Committee assesses the business's strategies and plans from a risk perspective and, in particular, the tolerance for risk and potential risk exposure The Committee also reviews and recommends actions in respect of oversight, management and control of risk

The Committee has at least three substantive meetings each year

Kleinwort Benson Group Nomination and Remuneration Committee ("Nomination and Remuneration Committee")

The members of the Nomination and Remuneration Committee are Leonhard Fischer (Chairman) and John Henwood

The Nomination and Remuneration Committee sets the strategy regarding the remuneration policy for the Kleinwort Benson group companies, determines specific terms and compensation levels above an agreed threshold and reviews and recommends main Board appointments and key hiring

The Committee has at least two substantive meetings each year

Employees

It is the Company's policy to give full and fair consideration to employees, workers and potential employees without regard to race, colour, nationality or national origin, sex, gender reassignment, marriage, disability, age, sexual orientation, religion or belief All Company policies, practices and procedures relating to resourcing, training, development and promotion are administered equally and in accordance with all applicable laws

It is the Company's policy to provide equal opportunities in all aspects of employment from the sourcing and selection of candidates, recruitment and training of employees to terms and conditions of employment and reasons for termination of employment and to ensure that any employment decisions are taken without reference to irrelevant or discriminatory criteria

Communication with employees has continued through presentations, intranet announcements and e-mails, so all employees are aware of the key priorities for the business, the financial and economic performance of their business units and of the Company as a whole

Policy statement on payment of creditors

The Company's policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of their terms and to settle accounts in accordance with them The number of creditor days in relation to suppliers' balance outstanding at year-end was 28 (2010 29)

Political and charitable contributions

The Company made no political contributions during the year Staff are encouraged to participate in charitable activities and, in certain circumstances, receive matching donations Charitable contributions were made in 2011 of GBP 4,952 (2010 GBP 6,520)

Disclosure of information to auditors

In accordance with the provisions of section 418 of the Companies Act 2006, the directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information Words and phrases used in this confirmation should be interpreted in accordance with section 418 of the Companies Act 2006

Auditors

Pursuant to Section 487(2) of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 judgments and 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, 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 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 its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Approved by the Board of Directors

Signed on behalf of the Board

J C Boait Secretary	
Kleinwort Benson Bank Limited Company No 2056420 14 St George Street, London W1S 1FE	29 March 2012

Independent auditors' report to the members of Kleinwort Benson Bank Limited

We have audited the financial statements of Kleinwort Benson Bank Limited for the year ended 31 December 2011 set out on pages 13 to 55 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company'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 company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with UK 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 for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Nicholas J Edmonds (Senior Statutory Auditor) For and on behalf of KPMG Audit Plc, Statutory Auditor Chartered Accountants	N J Ed
15 Canada Square London E14 5GL United Kingdom	29 March 2012

Profit and loss account

For the year ended 31 December 2011	Notes	2011 GBP '000	2010 GBP '000
Interest receivable:			
Interest receivable and similar income arising from debt and other fixed income securities		5,276	4,018
Other interest receivable and similar income		1,247	2,889
Less interest payable		(2,168)	(3,630)
Net interest income	3	**4,355**	**3,277**
Fees and commissions receivable	4	26,624	23,666
Fees and commissions payable	4	(875)	(733)
Net losses from financial instruments carried at fair value		(4,528)	(899)
Other operating income	5	1,203	1,865
Operating income		**26,779**	**27,176**
Administrative expenses	6	(40,969)	(40,350)
Restructuring expenses – redundancy costs	24	(2,432)	(3,148)
Depreciation and amortisation	17, 18	(825)	(195)
Impairment on intangible fixed assets	18	-	(2,630)
Allowance for impairment losses on financial assets	12	(5)	(17)
Loss on ordinary activities before tax	7	**(17,452)**	**(19,164)**
Tax on loss on ordinary activities	8	-	-
Loss on ordinary activities after tax for the year		**(17,452)**	**(19,164)**

All income and profits are in respect of continuing operations

The accounting policies and notes on pages 17 to 55 form part of these accounts

Statement of total recognised gains and losses

For the year ended 31 December 2011	Notes	2011 GBP '000	2010 GBP '000
Loss for the year		(17,452)	(19,164)
Net change in fair value of available-for-sale financial assets	26	394	(88)
Total recognised losses relating to the year		**(17,058)**	**(19,252)**

The accounting policies and notes on pages 17 to 55 form part of these accounts

Balance sheet

As at 31 December 2011	Notes	2011 GBP '000	2010 GBP '000
Assets			
Cash and balances with the Bank of England		152,082	2,009
Loans and advances to banks	10	42,500	34,727
Loans and advances to customers	11	25,760	22,833
Debt and other fixed income securities	13	213,696	259,896
Unlisted investments	14	5,522	4,132
Derivative financial instruments	15	580	559
Investments in group undertakings	16	646	422
Tangible fixed assets	17	10,034	2,238
Intangible fixed assets	18	13	23
Other assets	19	18,506	21,910
Prepayments and accrued income		4,848	4,560
Total assets		**474,187**	**353,309**
Liabilities			
Deposits by banks	21	99,524	11,889
Customer accounts	22	311,299	260,207
Derivative financial instruments	15	1,791	1,191
Other liabilities	23	801	689
Provisions for liabilities	24	8,043	20,747
Accruals and deferred income		13,933	13,516
Total liabilities		**435,391**	**308,239**

Balance sheet (continued)

As at 31 December 2011	Notes	*2011* GBP '000	*2010* GBP '000
Shareholders' funds			
Called up share capital	25	79,783	69,783
Share premium account	26	167	167
Available-for-sale revaluation reserve	26	891	497
Share-based payment reserve	26	784	-
Profit and loss account	26	(42,829)	(25,377)
Total shareholders' funds		**38,796**	**45,070**
Total liabilities and shareholders' funds		**474,187**	**353,309**

Memorandum items			
Contingent liabilities:			
Guarantees and assets pledged as collateral security	27	1,151	1,188
Commitments:			
Other commitments	27	1,460	6,264

Approved and authorised for issue by the Board of Directors on 29 March 2012 and signed on its behalf by

L Fischer Chairman		S J Tennant Director	

The accounting policies and notes on pages 17 to 55 form part of these accounts

Notes to the financial statements

1 Accounting policies

(a) Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as explained in note 1(b) below

Kleinwort Benson Bank Limited (the "Company") is a company incorporated and domiciled in the United Kingdom The financial statements have been prepared in accordance with the special provisions of Schedule 2 of SI2008 No 410 of the Companies Act 2006 relating to banking companies, Statements of Recommended Accounting Practices ('SORP') issued by the British Bankers' Association and applicable accounting standards The financial statements have been prepared on a basis consistent with the prior year, except where otherwise disclosed

Taking advantage of section 400 of the Companies Act 2006, group accounts have not been prepared since the Company's ultimate parent undertaking, RHJ International S A , prepares group accounts that are publicly available (see note 32)

The financial statements have been prepared on a going concern basis This decision was reached after the Directors considered future business plans and the ability of the company to cope with a series of stress scenarios These considerations included regulatory capital requirements, liquidity and the outlook for future profitability Risks and uncertainties facing the business, trends and developments in the private wealth market are considered in the Directors' Report

(b) Changes in accounting policies

There have been no changes in accounting policies during the current year

(c) Portfolio asset management fees, commission, investment management fees, structured product fees and real estate fees

Commissions charged to clients on securities transactions are credited to the profit and loss account and collected as they fall due

Portfolio asset management fees in excess of commission already charged are accounted for on an accruals basis

Investment management fees are recognised as the related services are performed

Fees from structured products transactions are credited to the profit and loss account as they fall due

(d) Interest

Interest income and expense are recognised in the profit and loss account using the effective interest method The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently Interest income and expense presented in the profit and loss account include interest on financial assets and liabilities at amortised cost on an effective interest rate basis

1 Accounting policies (continued)

(e) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities in foreign currencies are translated into sterling at mid-market closing rates of exchange ruling at the balance sheet date All foreign exchange translation differences are recognised in the profit and loss account

(f) Financial instruments

Recognition

The Company uses settlement date accounting, in accordance with FRS 26 'Financial Instruments Measurement' regarding regular way purchase and sale of financial assets for customers FRS 26 38 allows the Company to use either trade date accounting or settlement date accounting

The company initially recognises loans and advances, and deposits on the date that they are originated Derivative financial instruments are recognised at the trade date All other financial assets and liabilities (including assets and liabilities designated at fair value through profit and loss) are initially recognised on the settlement date at which the company receives the cash flows of the instrument

Derecognition

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred

The company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously

Income and expenses are presented on a net basis only when permitted by the accounting standards

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets For all other financial instruments fair value is determined by using valuation techniques Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models The company uses widely recognised valuation models to determine the fair value of common financial instruments like options and interest rate and currency swaps For these financial instruments, inputs into models are market observable

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit and loss, are presented in net gains/losses from financial instruments carried at fair value in the profit and loss account

1 Accounting policies (continued)

(f) Financial instruments (continued)

Identification and measurement of impairment

At each balance sheet date the company assesses whether there is objective evidence that financial assets not carried at fair value through profit and loss are impaired Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably

The Company considers the evidence of impairment at both a specific asset and collective level All individually significant financial assets are assessed for specific impairment All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics

For the year ended 31 December 2011, individual provisions against bad and doubtful debts are made on the basis of regular reviews of exposures Provisions are charged directly to the profit and loss account Debts are written off when it is considered that there is no realistic prospect of recovery Interest income that is considered doubtful is excluded from the profit and loss account and credited to the balance sheet When there is no realistic prospect of recovery the balance is written off

Designation at fair value through profit and loss

The company has designated financial assets at fair value through profit and loss when either

- the assets are managed, evaluated and reported internally on a fair value basis,
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract

Note 9 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit and loss A description of the basis for each designation is set out in the note for the relevant asset or liability class

Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as financial assets held at fair value through profit or loss, held-to-maturity financial assets or loans and receivables

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except in the case of investments where no market value can be reliably obtained and of monetary items such as debt securities, for impairment losses and foreign exchange gains and losses

When an investment is derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit and loss Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit and loss

1 Accounting policies (continued)

(g) Derivatives

The Company uses derivative financial instruments to hedge both exposures to fluctuations in interest and foreign exchange rates and to enter into strategic interest rate risk investment positions Derivative instruments utilised by the Company are forward rate agreements, forward foreign exchange contracts, interest rate swaps and options Derivatives may be embedded in another contractual arrangement (a "host contract") The Company accounts for embedded derivatives separately from the host contract when the host contract is itself not carried at fair value through profit and loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract

(h) Cash and cash equivalents

The Company holds money either as Banker or as client money in accordance with the Client Money Rules of the Financial Services Authority Client monies are not shown on the face of the balance sheet as the Company is not beneficially entitled thereto

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Company chooses to carry the loans and advances at fair value through profit and loss as described in accounting policy (f)

(j) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years

Full provision for deferred tax is made for timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, using appropriate tax rates The Company does not discount these balances

Deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised

(k) Interests in associated undertakings and subsidiary undertakings

Interests in associated undertakings and shares in subsidiary undertakings are stated at cost less provision for impairment in value

(l) Investments in debt and equity securities

Debt securities and equity shares are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as fair value through profit and loss Equity shares are included in the balance sheet at market value, or if shares are not readily transferable, at directors' valuation

1 Accounting policies (continued)

(m) Tangible fixed assets and depreciation

Tangible fixed assets are shown at cost less accumulated depreciation Depreciation is provided at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life

Property improvements - life of lease

Fixtures and fittings - 2 to 5 years

Computer hardware - 3 years

Fixed assets are periodically reviewed for impairment Where the carrying amount is greater than its estimated recoverable amount, the asset is written down to its recoverable amount Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate

Assets under construction are not depreciated until they are brought into economic use

(n) Intangible assets and amortisation

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful economic life Internally developed software is stated at capitalised cost less accumulated amortisation and impairment

Amortisation is recognised in the profit and loss account on a straight-line basis over the estimated useful life of the software, from the date that it is available for use The estimated useful life of software is 3 years Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate

(o) Leased assets

All leases are classified as operating leases and the annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease The ultimate parent undertaking, RHJ International S A , has fully indemnified the Company for the additional costs arising from the move to new premises

(p) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

A provision for restructuring is recognised when the company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly Future operating costs are not provided for

1 Accounting policies (continued)

(q) Significant estimates and judgements

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or accounting estimate to be followed could materially affect the reported results or net position of the Company, should it later be determined that a different choice be more appropriate

(r) Cash flow statement

The Company has taken advantage of the exemption in Financial Reporting Standard No 1 (revised) not to prepare a cash flow statement, as the ultimate parent undertaking, RHJ International S A , prepares consolidated accounts which are publicly available

(s) Post retirement benefits

Until 1 July 2010, in accordance with FRS 17 'Retirement Benefits', the Company applied the multi-employer exemption as the Company was unable to identify its share of the underlying assets and liabilities of the defined benefit section of the Dresdner Kleinwort Pension Plan (formerly the Dresdner Kleinwort Wasserstein Pension Plan) and the Post Retirement Healthcare Plan (PRHC) Therefore the Company accounted for the schemes as if they were defined contribution schemes As a result of the acquisition of the Company by RHJ International S A from Commerzbank AG on 1 July 2010, the Company ceased to be a member of the Dresdner Kleinwort Pension Plan, including the defined benefit section, as those current employees that had been members were transferred into a new defined contribution scheme The Company also ceased to be a member of the PRHC Commerzbank AG has retained all liabilities in relation to these schemes Details of the schemes can be found in note 6

(t) Share-based payments

RHJ International S A , the ultimate parent company, extended a share-based payments scheme during the year for selected employees of the Company

Expense is recognised in accordance with the provisions of FRS 20 (Share-based payments) The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding credit to reserves, over the period that the employees unconditionally become entitled to the awards The vesting period is the period during which all the specified vesting conditions are to be satisfied

(u) Functional and presentation currency

These financial statements are presented in GBP, which is the Company's functional currency Except as indicated, financial information presented in GBP has been rounded to the nearest thousand

(v) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment If any such indication exists, then the asset's recoverable amount is estimated

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset In determining fair value less costs to sell, an appropriate valuation model is used

1 Accounting policies (continued)

(v) Impairment of non-financial assets (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or CGU)

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount Impairment losses are recognised in profit and loss Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis

2 Segmental information

The Company's business in the current and prior year related to the provision of private banking services (including wealth management, fiduciary, advisory and banking services) for high net worth individuals, which the directors consider to constitute one business segment During the year, the Company began operating through a branch in Germany as well as the United Kingdom The operating income attributable to the branch in Germany was not sufficiently significant to require disclosure as a separate geographical segment

3 Net interest income

	2011 GBP '000	2010 GBP '000
Interest receivable		
Loans and advances to banks	99	515
Loans and advances to customers	656	626
Debt and other fixed income securities	5,276	4,018
Derivative financial instruments	492	1,748
	6,523	**6,907**

Interest payable		
Deposits by banks	994	1,004
Customer accounts	736	882
Derivative financial instruments	438	1,744
	2,168	**3,630**
Net interest income	**4,355**	**3,277**

4 Net fee and commission income

	2011 GBP '000	2010 GBP '000
Fees and commissions receivable		
Portfolio management fees	14,173	14,119
Corporate commissions	5,490	5,664
Financial advisory fees	2,803	2,044
Investment product fees	301	256
Other	3,857	1,583
	26,624	**23,666**
Fees and commissions payable		
Brokerage	76	186
Other	799	547
	875	**733**

5 Other operating income

	2011 GBP '000	2010 GBP '000
Foreign exchange gains	1,083	1,196
Gain on disposal of debt and fixed income securities	103	396
Gain on disposal of unlisted investments	-	273
Other	17	-
Other operating income	**1,203**	**1,865**

6 Administrative expenses

As a result of the acquisition of the Company by RHJ International S A from Commerzbank AG on 1 July 2010, the Company ceased to be a member of the Dresdner Kleinwort Pension Plan, including the defined benefit section, as those current employees that had been members were transferred into a new defined contribution scheme Commerzbank AG has retained all liabilities for deferred and retired members

The unfunded arrangements in place to provide subsidised healthcare to some of the pensioners and staff have transferred from the Company to the former parent undertaking, Commerzbank AG At 31 December 2010 no liability in respect of the defined benefit pension schemes or the post retirement health care plan (PRHC) remained with the Company

In the prior year, the Company took advantage of the multi-employer exemption under FRS 17 to account for the schemes as if they were defined contribution schemes, since it was not possible to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis The figures shown in this note for the plan (the defined benefit section and Reference Scheme Test underpinning the defined contribution section) and the PRHC cover the full membership of these plans

The contribution payable in 2011 by the Company was GBP nil in respect of the defined benefit section (2010 GBP 275,001) and GBP 2,133,926 in respect of the defined contribution scheme (2010 GBP 2,060,452)

Directors' remuneration	**2011 GBP '000**	**2010 GBP '000**
Aggregate emoluments	906	297
Company pension contributions to money purchase schemes	77	19
Compensation for loss of office	152	554
Share-based payments	143	-
	1,278	**870**

Retirement benefits are accruing to 2 directors (2010 1) under the money purchase scheme

Highest paid director	**2011 GBP '000**	**2010 GBP '000**
Aggregate emoluments	423	225
Company pension contributions to money purchase schemes	36	19
Compensation for loss of office	-	554
Share-based payments	69	-
	528	**798**

6 Administrative expenses (continued)

Staff costs (including directors)	**2011 GBP '000**	**2010 GBP '000**
Wages and salaries	20,194	18,270
Social security costs	2,849	2,344
Other pension costs	2,134	2,335
Share-based payments	784	-
	25,961	**22,949**

Average number of employees (including directors) for the year	**222**	**258**

7 Loss on ordinary activities before tax

Loss on ordinary activities before taxation is stated after charging	**2011 GBP '000**	**2010 GBP '000**
Operating lease charges	1,616	1,598

Auditors' remuneration (excluding VAT) for the year ended 31 December 2011 is set out below

	2011 GBP '000	**2010 GBP '000**
Audit of these financial statements and those of the Company's subsidiaries	194	162
Fees payable to the Company's auditors and its associates for other services		
- Other services relating to taxation	-	21
- Other services	24	47
Total fees paid to the auditors	**218**	**230**

8 Tax on loss on ordinary activities

Factors affecting current tax charge for the year	**2011 GBP '000**	**2010 GBP '000**
Loss on ordinary activities before tax	(17,452)	(19,164)
Loss on ordinary activities at standard rate of corporation tax in the UK of 26 5% (2010 28%)	(4,625)	(5,366)
Effects of		
Expenses not deductible for tax purposes	647	489
Losses available for carry-forward	5,509	5,549
Utilisation of losses brought forward	-	-
Depreciation in excess of capital allowances	(1,499)	(538)
Other short term timing differences	(32)	(134)
Current tax charge for year	-	-

9 Financial instruments classification summary

Financial assets and liabilities are classified based on four recognition principles at fair value through profit and loss, available-for-sale, loans and receivables and other amortised cost The Company's classification of its principal financial assets and liabilities at 31 December 2011 is summarised below

Financial assets	**Financial assets at fair value through profit and loss GBP '000**	**Loans and receivables GBP '000**	**Available-for-sale GBP '000**	**Other amortised cost GBP '000**	**Total GBP '000**
Cash and balances held with the Bank of England	-	152,082	-	-	152,082
Loans and advances to banks	-	42,500	-	-	42,500
Loans and advances to customers	-	25,760	-	-	25,760
Debt and other fixed income securities	213,696	-	-	-	213,696
Derivative financial instruments	580	-	-	-	580
Unlisted investments	-	-	5,522	-	5,522
Investments in group undertakings	-	-	-	646	646
Accrued interest income	-	-	-	1,400	1,400
Other financial assets	-	-	-	930	930
Total financial assets at 31 December 2011	**214,276**	**220,342**	**5,522**	**2,976**	**443,116**

Financial liabilities	**Financial liabilities at fair value through profit and loss GBP '000**	**Loans and receivables GBP '000**	**Available-for-sale GBP '000**	**Other amortised cost GBP '000**	**Total GBP '000**
Deposits by banks	-	-	-	99,524	99,524
Customer accounts	-	-	-	311,299	311,299
Derivative financial instruments	1,791	-	-	-	1,791
Other financial liabilities	-	-	-	708	708
Total financial liabilities at 31 December 2011	**1,791**	**-**	**-**	**411,531**	**413,322**

9 Financial instruments classification summary (continued)

The Company's classification of its principal financial assets and liabilities at 31 December 2010 is summarised below

Financial assets	**Financial assets at fair value through profit and loss GBP '000**	**Loans and receivables GBP '000**	**Available-for-sale GBP '000**	**Other amortised cost GBP '000**	**Total GBP '000**
Cash and balances held with the Bank of England	-	2,009	-	-	2,009
Loans and advances to banks	-	34,727	-	-	34,727
Loans and advances to customers	-	22,833	-	-	22,833
Debt and other fixed income securities	259,896	-	-	-	259,896
Derivative financial instruments	559	-	-	-	559
Unlisted investments	-	-	4,132	-	4,132
Investments in group undertakings	-	-	-	422	422
Accrued interest income	-	-	-	2,068	2,068
Other financial assets	-	-	-	425	425
Total financial assets at 31 December 2010	**260,455**	**59,569**	**4,132**	**2,915**	**327,071**

Financial liabilities	**Financial assets at fair value through profit and loss GBP '000**	**Loans and receivables GBP '000**	**Available-for-sale GBP '000**	**Other amortised cost GBP '000**	**Total GBP '000**
Deposits by banks	-	-	-	11,889	11,889
Customer accounts	-	-	-	260,207	260,207
Derivative financial instruments	1,191	-	-	-	1,191
Other financial liabilities	-	-	-	383	383
Total financial liabilities at 31 December 2010	**1,191**	**-**	**-**	**272,479**	**273,670**

9 Financial instruments classification summary (continued)

The table below analyses financial instruments carried at fair value as at 31 December 2011, by valuation method The different levels have been defined as follows

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

GBP '000	Level 1	Level 2	Total
Financial assets designated at fair value through profit and loss	213,696	-	213,696
Unlisted investments (available-for-sale financial assets)	-	4,272	4,272
Derivative financial assets	-	580	580
	213,696	**4,852**	**218,548**
Derivative financial liabilities	-	(1,791)	(1,791)
As at 31 December 2011	**213,696**	**3,061**	**216,757**

Assets and liabilities have been classified as Level 2 except for quoted bonds which are classified as Level 1 There have been no transfers between Level 1 and Level 2 in 2011 In addition to the unlisted investments above, other unlisted investments were acquired during the year and are held at cost of GBP 1,250,000

10 Loans and advances to banks

	2011 GBP '000	2010 GBP '000
Remaining maturity:		
Three months or less	42,225	34,452
Five years or less but over one year	275	275
	42,500	**34,727**

Included in the above are amounts totalling GBP 11,480,936 (2010 GBP 7,452,800) that are repayable on demand Included in the above is GBP 262,527 (2010 GBP 3,826,867) owed by fellow group undertakings There are no subordinated amounts included in the above GBP 2,828,811 of these assets were pledged as collateral at the year-end (2010 GBP 275,000)

11 Loans and advances to customers

	2011 GBP '000	2010 GBP '000
Remaining maturity		
Three months or less	10,551	1,574
One year or less but over three months	1,699	4,232
Five years or less but over one year	3,959	10,930
Over five years	9,551	6,097
	25,760	**22,833**

Included in the above are amounts totalling GBP 5,635,672 (2010 GBP 1,320,536) that are repayable on demand or at short notice

There were no loans on which interest has been suspended in the current or prior year

Included in the above is GBP nil (2010 GBP nil) owed by a fellow group undertaking

There are no subordinated amounts included in the above

12 Allowance for impairment losses on financial assets

	Specific provision 2011 GBP '000	Specific provision 2010 GBP '000
At 1 January	**220**	**203**
Charge for the year	5	17
At 31 December	**225**	**220**
Of which		
Available-for-sale financial assets	225	220

13 Debt and other fixed income securities

	2011		2010	
	Balance sheet GBP '000	Market value GBP '000	Balance sheet GBP '000	Market value GBP '000
Investment securities				
Certificates of deposit	-	-	66,372	66,372
Bonds	213,696	213,696	193,524	193,524
	213,696	**213,696**	**259,896**	**259,896**

13 Debt and other fixed income securities (continued)

The Company elects to treat its certificates of deposit and bonds as financial assets held at fair value through profit and loss in accordance with FRS 26 'Financial Instruments Measurement'

Certificates of deposit and bonds have upon initial recognition been designated at fair value through profit and loss when the Company holds related derivatives at fair value through profit and loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise

Market values are determined by reference to quoted market prices or, where no market price is available, using internal models that discount expected future cash flows at prevailing interest rates

Bonds which are traded in active markets at the balance sheet date are valued based on their quoted market price or dealer price quotations (bid price)

	2011 GBP '000	2010 GBP '000
Remaining maturity		
Three months or less	7,999	44,169
One year or less but over three months	18,000	27,694
Five years or less but over one year	187,697	121,661
	213,696	**193,524**

GBP 74,325,000 of these assets were pledged as collateral Collateral was furnished to borrow funds as part of securities repurchase agreements (repos)

Included in the above is an amount receivable from the immediate parent undertaking totalling GBP nil (2010 GBP nil)

There are no subordinated amounts included in the above

	CDs GBP '000	Bonds GBP '000	Total GBP '000
At 1 January 2011	66,372	193,524	259,896
Acquisitions	-	232,936	232,936
Maturities	(66,232)	(210,573)	(276,805)
Foreign exchange translation adjustment	-	978	978
Fair value adjustment through profit and loss	(140)	(3,169)	(3,309)
At 31 December 2011	-	**213,696**	**213,696**

There are no material unamortised premiums or discounts included in the above

14 Unlisted investments

During 2009 and 2010, the Company issued loans to provide liquidity for certain clients who invested in AIG investments The Company's security is an assignment over the AIG investments, so that any repayments made in relation to these investments would be repaid directly to the Company These financial assets which are non-recourse in the event of AIG default have been categorised as available-for-sale

The fair values of the financial assets are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the loans with a further adjustment of GBP 5,449 (2010 GBP 17,776) to reflect AIG's creditworthiness The investments are unlisted

During the year, the Company acquired an investment in Babco Camelina Limited The Company also acquired a 25% interest in St George St Capital (KB) LP, a limited partnership These investments do not have a quoted market price in an active market but the directors consider that the carrying value approximates to the fair value of these investments

Available-for-sale	**2011 GBP '000**	**2010 GBP '000**
At 1 January	4,132	3,911
Additions	1,250	570
Disposals	(249)	(152)
Impairment provisions	(5)	(17)
Fair value adjustment through profit and loss at date of recognition	-	(92)
Net change in fair value recognised in equity	394	(88)
At 31 December	**5,522**	**4,132**

15 Derivative financial instruments

The types of derivatives used by the Company are set out below These tables analyse the notional principal amounts and the positive and negative fair values of the Company's derivative financial instruments Notional principal amounts are the amount of principal underlying the contract at the reporting date

	2011			2010		
	Notional principal amounts GBP '000	**Assets GBP '000**	**Liabilities GBP '000**	**Notional principal amounts GBP '000**	**Assets GBP '000**	**Liabilities GBP '000**
Interest rate derivative contracts						
- Swaps	55,360	160	(1,550)	-	-	-
- Forward rate agreements	465,284	100	(81)	371,466	-	(152)
	520,644	260	(1,631)	371,466	-	(152)
Forward foreign exchange contracts	45,873	320	(160)	119,100	482	(1,039)
Equity and stock index options	-	-	-	1,423	77	-
Total derivatives	**566,517**	**580**	**(1,791)**	**491,989**	**559**	**(1,191)**

16 Investments in group undertakings

	2011 GBP '000	**2010 GBP '000**
At 1 January	422	422
Additions and disposals	224	*
At 31 December	**646**	**422**

* The aggregate cost of additions and disposals in 2010 were less than GBP 1,000

16 Investments in group undertakings (continued)

	2011 GBP '000	2010 GBP '000
The subsidiary undertakings and their costs are		
Financial advisers		
Kleinwort Benson Trustees Limited	100	100
Kleinwort Benson (Asia) PTE Limited	224	*
Non trading		
Kleinwort Benson Financial Services Limited	100	100
European Properties Inc Limited	12	12
Fenchurch Nominees Limited	*	*
Frank Nominees Limited	*	*
KBIM General Nominees Limited	*	*
KBIM Standby Nominees Limited	*	*
KBPB Nominees Limited	*	*
Kleinwort Benson Farmland Trust (Managers) Limited (75% owned)	*	*
Kleinwort Benson Unit Trusts Limited	200	200
Langbourn Nominees Limited	*	*
Norman Nominees Limited	*	*
RB Nominees Limited	*	*
Robert Benson Lonsdale & Co (Canada) Limited	10	10
	646	**422**

* The aggregate cost of this company is less than GBP 1,000

All the companies are incorporated in Great Britain and registered in England & Wales, except for Kleinwort Benson (Asia) PTE Limited which is registered and incorporated in Singapore All the companies are 100% owned except as noted below The holdings are in ordinary shares unless stated otherwise None of the subsidiary companies is a bank All the investments are unlisted

The Company owns 75% of the Class "A" ordinary shares of Kleinwort Benson Farmland Trust (Managers) Limited and 100% of the Class "B" ordinary shares Class "B" ordinary shares do not carry voting rights and are not entitled to participate in any profits that may be resolved to be distributed

During the year the Company increased its investment in Kleinwort Benson (Asia) PTE Limited by GBP 224,000 as a result of an increase in the share capital of the subsidiary

17 Tangible fixed assets

	Property improvements GBP '000	Computer hardware GBP '000	Furniture and fittings GBP '000	Total GBP '000
Balance brought forward at 1 January 2011	2,238	-	-	2,238
Additions	6,899	815	897	8,611
Transfer between categories	(1,243)	1,096	147	-
Depreciation	(387)	(299)	(129)	(815)
Carrying value at 31 December 2011	**7,507**	**1,612**	**915**	**10,034**

In the prior year, assets under construction of £2,222,009 were classified as property improvements In the current year, these assets have been brought into use and £1,243,000 of this amount has been reclassified as computer hardware and furniture and fittings

18 Intangible fixed assets

	2011 GBP '000	2010 GBP '000
Balance brought forward at 1 January	23	-
Additions	-	2,660
Depreciation	(10)	(7)
Impairment loss for the year	-	(2,630)
Carrying value at 31 December	**13**	**23**

Additions in the prior year relate to the purchase of computer software, computer software licences and the development of the software Computer software costs are amortised on the basis of expected useful life (three years) Costs associated with maintaining software are recognised as an expense as incurred

At each balance sheet date, these assets are assessed for indicators of impairment If any such indication exists, then the asset's recoverable amount is estimated The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount Impairment losses are recognised in the profit and loss account

No impairment loss was recognised in the current year The impairment loss in the prior year relates to the acquisition of computer software licences and the development of software At each balance sheet date, the directors assessed the assets for indicators of impairment and as a result of this exercise, the directors assessed that the assets' recoverability was nil and therefore impairment losses were recognised

19 Other assets

	2011 GBP '000	2010 GBP '000
Fee debtors	1,101	425
Amounts owed by group undertakings	8,884	3,779
Other assets	8,521	17,706
	18,506	**21,910**

The fee debtors represent balances due within one year and more than one year

Included in other assets is GBP 7,072,080 (2010 GBP 16,461,647) due from the Company's former parent undertaking, Commerzbank AG, in respect of indemnities given to cover a proportion of the maximum expected costs incurred in settling claims against the Company from business arising in prior periods, as discussed in note 24 Additionally, there is GBP 2,706,395 (2010 GBP 1,174,233) in respect of prepaid expenses

20 Deferred taxation

Losses carried forward of GBP 61,718,627 (2010 GBP 43,023,936) in addition to grossed-up short-term timing differences of GBP 15,694,016 (2010 GBP 17,405,957) have not been recognised as deferred tax assets as it is not expected that future profits will be available to utilise these assets in the short term

21 Deposits by banks

Remaining maturity	2011 GBP '000	2010 GBP '000
Repayable on demand	9,822	6,835
Three months or less	89,702	3,145
One year or less but over three months	-	1,909
	99,524	**11,889**

Included in the above are amounts owed to fellow group undertakings amounting to GBP 45,989,197 (2010 GBP nil) none of which are subordinated loans owed to fellow group undertakings (2010 GBP nil) Of the above balance GBP 69,180,919 (2010 GBP nil) relates to repurchase agreements (repos)

The table below shows the GBP equivalent of the currencies that the balances were held in

GBP '000	GBP	EUR	USD	Other	Total
Deposits by banks	57,840	25,897	15,482	305	99,524

22 Customer accounts

Included below are amounts owed to fellow group undertakings totalling GBP 20,960,743 (2010 GBP 519,762)

Remaining maturity	2011 GBP '000	2010 GBP '000
Repayable on demand	222,604	166,731
Three months or less	70,405	87,991
One year or less but over three months	14,290	4,485
Five years or less but over one year	4,000	1,000
	311,299	**260,207**

23 Other liabilities

	2011 GBP '000	2010 GBP '000
Taxation payable	288	231
Other liabilities	513	458
	801	**689**

24 Provisions for liabilities

	Restructuring provisions GBP '000	Litigation provisions GBP '000	Other provisions GBP '000	Total provisions GBP '000
At 1 January 2011	2,785	4,240	13,722	20,747
Charged to the profit and loss account	2,432	-	1,660	4,092
Released to the profit and loss account	-	(978)	(10,473)	(11,451)
Utilised during the year	(3,697)	(37)	(1,611)	(5,345)
At 31 December 2011	**1,520**	**3,225**	**3,298**	**8,043**

The restructuring provisions of GBP 1,520,000 (2010 GBP 2,785,140) relate mainly to redundancy costs

Litigation provisions include amounts provided for the cost of legal proceedings arising from business undertaken in prior periods More than 95% of these costs have been indemnified by the previous parent undertaking, Commerzbank AG, as discussed in note 19

Other provisions include a provision for capital markets losses of GBP 588,756 (2010 GBP 894,131) and costs relating to client remediation arising from business undertaken in prior periods of GBP 2,500,000 (2010 GBP 12,623,217) Whilst uncertainty exists over both the timing and the amount of these costs, a review into this matter was completed during 2011 All these costs have been indemnified by the previous parent undertaking, Commerzbank AG, to approximately 90% of the expected maximum value of any such claims, as discussed in note 19

25 Called up share capital

	2011 GBP '000	2010 GBP '000
Authorised, allotted and fully paid 79,783,333 (2010 69,783,333) ordinary shares of GBP 1 each	79,783	69,783

During the year the Company authorised 10,000,000 ordinary shares of GBP 1 each The Company issued 10,000,000 ordinary shares of GBP 1 each for a consideration of GBP 10,000,000, settled in cash

26 Reconciliation of movements in shareholders' funds and statement of movements on reserves

	Issued share capital GBP '000	Share premium account GBP '000	Profit & loss account GBP '000	Revaluation reserve GBP '000	Share based payment reserve GBP '000	Total 2011 GBP '000	Total 2010 GBP '000
At 1 January	69,783	167	(25,377)	497	-	45,070	42,222
Shares issued	10,000	-	-	-	-	10,000	22,100
Revaluation surplus on available-for-sale assets	-	-	-	394	-	394	(88)
Share-based payments	-	-	-	-	784	784	-
Loss for the year	-	-	(17,452)	-	-	(17,452)	(19,164)
At 31 December	**79,783**	**167**	**(42,829)**	**891**	**784**	**38,796**	**45,070**

27 Memorandum items, commitments and contingent liabilities

The following analysis shows the commitments and contingent liabilities at the balance sheet date The risk-weighted amounts have been calculated in accordance with the requirements of the Financial Services Authority Interim Prudential Sourcebook for Banks

	2011		2010	
	Contract amount GBP '000	**Risk weighted amount GBP '000**	**Contract amount GBP '000**	**Risk weighted amount GBP '000**
Contingent liabilities:				
Guarantees and letters of credit	1,151	1,151	1,188	891
	1,151	1,151	1,188	891
Commitments:				
Undrawn formal standby facilities, credit lines and other commitments to lend				
Less than one year	1,460	292	3,692	2,769
One year and over	-	-	2,572	1,929
	1,460	292	6,264	4,698
Annual commitments under non-cancellable operating leases over buildings are as follows:				
Within one year	39	-	666	-
Between one and five years	-	-	110	-
After five years	2,942	-	2,942	-
	2,981	-	3,718	-
Total Commitments	**4,441**	**292**	**9,982**	**4,698**

Other contingent liabilities

In the ordinary course of business, the Company has given letters of indemnity in respect of lost certified stock transfers and share certificates The contingent liability arising there from cannot be quantified, but it is not believed that any material liability will arise under these indemnities In addition there were commitments arising in the normal course of business for forward foreign exchange contracts

There are a small number of cases where the bank has a commercial dispute with clients or former clients The uncertainty surrounding the outcomes, and any associated costs, is such that no provision has been made in the accounts

Commitments

The Company has entered into a leasehold agreement for new London premises with a remaining period of 9 years The ultimate parent undertaking, RHJ International S A , has fully indemnified the Company for the additional costs arising from the move to new premises

28 Directors' loans and other transactions

At 31 December 2011, the aggregate amount of guarantees made to external parties on behalf of directors of the Company was GBP nil in respect of no directors (2010 GBP nil in respect of no directors)

Directors are entitled to deal in securities in accordance with the Company's rules for personal dealings in securities The Company can carry out discretionary asset management for staff

29 Share-based payments

The Company's ultimate parent undertaking, RHJ International S A , operates a number of long term incentive plans Restricted stock units (RSUs) in RHJ International S A were granted to selected employees of the Group as part of a long term employee retention and incentive scheme

	2011 Number of RSUs
Non vested awards brought forward at 1 January	-
Non vested shares granted during the year	570,820
Vested	(14,238)
Forfeited	(13,620)
Non vested awards carried forward at 31 December	542,962

The above awards relate to the RHJI RSU Incentive Compensation Plan ("the Plan")

The purpose of the Plan is to promote the interests of RHJI and its Affiliates by (a) attracting and retaining exceptional employees, consultants and independent contractors (including prospective employees, consultants and independent contractors) of RHJI and its Affiliates and (b) providing such individuals with incentives to continue and increase their efforts with respect to RHJI and its Affiliates

Any employee, consultant or independent contractor (including any prospective employee, consultant or independent contractor) of RHJI or any of its Affiliates is eligible to be designated a Participant

Awards are made under the Plan in the form of RSUs

The awards typically vest over a four year period In addition to the scheduled vesting, the RHJI Board decided to accelerate the vesting of 9,730 RSUs granted

The fair value of each RSU is the average market price of RHJI shares in the 10 day period either side of the grant date The weighted average grant date fair value of RSUs during 2011 was GBP 4 73

The expense in the profit and loss account in respect of share-based payments was GBP 784,000 in 2011

30 Related party disclosures

At 31 December 2011, the Company was a wholly owned subsidiary of Kleinwort Benson Group Limited The ultimate parent undertaking of the Company was RHJ International S A and the consolidated financial statements of RHJ International S A are publicly available (see note 32) Accordingly, advantage is taken in these financial statements of the exemptions available in Financial Reporting Standard No 8 on 'Related Party Disclosures' for the disclosure of transactions with entities that are part of the group or investees of group entities qualifying as related parties

Balances with Group undertakings are disclosed in notes 10, 11, 13, 19, 21, and 22

31 Review of the company's risk profile

Risk management and control

The traditional banking activities undertaken by the Company result in exposure to a number of risks that are mainly credit, liquidity, market (interest rate and foreign currency) and operational risk Management of the risks arising from each activity is the responsibility of the business with independent monitoring and control of these risks at an operational level being the responsibility of the Company's Risk function

The Company's overall appetite for risk is clearly documented in a Board approved Risk Framework document which is updated periodically and at least annually Day to day monitoring and reporting of risk is carried out by the Company's Risk functions with formal escalation procedures in place to ensure breaches of limits set are communicated, as appropriate, to the Kleinwort Benson Group Strategic Risk Committee and senior management on a timely basis

Credit risk

Credit risk is encapsulated by the financial loss arising from the failure of a customer or counterparty to settle financial obligations to the Company as they fall due The Company's Credit Committee is responsible for approval of lending and other business activity that involves taking credit risk including Treasury-related credit decisions

31 Review of the company's risk profile (continued)

Credit risk by financial asset class

The following is a breakdown of the credit risk borne by each class of financial asset at 31 December 2011

	Impaired GBP '000	Past due but not impaired GBP '000	Neither past due nor impaired GBP '000	Total credit risk GBP '000	Total carrying value GBP '000
Cash and balances held with the Bank of England			152,082	152,082	152,082
Loans and advances to banks	-	-	42,500	42,500	42,500
Loans and advances to customers	-	-	25,760	25,760	25,760
Debt and other fixed income securities	-	-	213,696	213,696	213,696
Derivative financial instruments	-	-	580	580	580
Unlisted investments	225	-	5,522	5,747	5,522
Investments in group undertakings	-	-	646	646	646
Accrued interest income	-	-	1,400	1,400	1,400
Other financial assets	-	-	930	930	930
	225	**-**	**443,116**	**443,341**	**443,116**
Other non-financial assets	-	-	31,071	31,071	31,071
Total assets	**225**	**-**	**474,187**	**474,412**	**474,187**

31 Review of the company's risk profile (continued)

The following is a breakdown of the credit risk borne by each class of financial asset at 31 December 2010

	Impaired GBP '000	Past due but not impaired GBP '000	Neither past due nor impaired GBP '000	Total credit risk GBP '000	Total carrying value GBP '000
Cash and balances held with the Bank of England			2,009	2,009	2,009
Loans and advances to banks	-	-	34,727	34,727	34,727
Loans and advances to customers	-	-	22,833	22,833	22,833
Debt and other fixed income securities	-	-	259,896	259,896	259,896
Derivative financial instruments	-	-	559	559	559
Unlisted investments	220	-	4,132	4,352	4,132
Investments in group undertakings	-	-	422	422	422
Accrued interest income	-	-	2,068	2,068	2,068
Other financial assets	-	-	425	425	425
	220	**-**	**327,071**	**327,291**	**327,071**
Other non-financial assets	-	-	26,238	26,238	26,238
Total assets	**220**	**-**	**353,309**	**353,529**	**353,309**

Credit risk in the above tables is defined as follows

i) Impaired financial instruments

Impaired financial instruments are financial instruments for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the financial instrument agreement(s)

ii) Past due but not impaired financial instruments

Financial instruments where contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security/capital available and/or the stage of collection of amounts owed to the Company

The Risk Framework document requires that all certificates of deposit, bonds and loans to banks acquired or advanced had a minimum external rating (source Moody's) no less than A1 grade (2010 external rating (source Moody's) no less than Aa3 grade) Exceptions to the policy are approved by the Board, upon the recommendation of the Group Strategic Risk Committee

31 Review of the company's risk profile (continued)

The following is a breakdown of the credit quality of loans and advances to customers at 31 December

	2011 GBP '000	2010 GBP '000
Low risk (internal grades A-C1)	25,760	22,833
Fair risk (internal grade C2 or below)	-	-
Impaired loans (internal grade D)	-	-
Amounts owed by fellow group undertakings	-	-
	25,760	**22,833**

Collateral

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees Where the collateral is in the form of registered securities over assets, the fair value is based on quoted market prices or dealer price quotations for securities traded in active markets Regarding property, estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired Collateral is not generally held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity

The table below shows the collateral held by the Company

	2011 GBP '000
Property	3,305
Equities	10,938
Other	6,716
	20,959

Write-off Policy

The Company writes off a loan balance (and any related allowances for impairment losses) when the Credit Committee determines that the loan is uncollectible This determination is reached after considering information such as the occurrence of significant changes to the borrower's financial position such that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay back the entire exposure Write-offs are approved by the Strategic Executive Committee following recommendations from the Credit Committee

Credit-related commitments

The Company has certain credit-related commitments in the form of pre-approved but unused borrowing limits on mortgages and loans as shown above The Company is potentially exposed to a loss totalling these amounts, although the risk is mitigated by security held on the vast majority of the commitments granted and the credit standards on which the credit approvals were granted (e g debt service coverage and loan-to-value criteria)

31 Review of the company's risk profile (continued)

Geographical concentration of assets

The following table identifies the geographical concentrations of credit risk held by the Company at 31 December 2011

GBP '000	United Kingdom	Rest of Europe	North America	Other	Total
Cash and balances held at the Bank of England	152,082	-	-	-	152,082
Loans and advances to banks	11,882	26,792	1,523	2,303	42,500
Loans and advances to customers	21,026	2,517	-	2,217	25,760
Debt and other fixed income securities	113,105	85,096	7,892	7,603	213,696
Derivative financial instruments	539	41	-	-	580
Unlisted investments	5,747	-	-	-	5,747
Investments in group undertakings	422	-	-	224	646
Accrued interest income	1,400	-	-	-	1,400
Other financial assets	930	-	-	-	930
	307,133	**114,446**	**9,415**	**12,347**	**443,341**
Non-financial assets	31,071	-	-	-	31,071
Total assets	**338,204**	**114,446**	**9,415**	**12,347**	**474,412**

31 Review of the company's risk profile (continued)

The following table identifies the geographical concentrations of credit risk held by the Company at 31 December 2010

GBP '000	United Kingdom	Rest of Europe	North America	Other	Total
Cash and balances held at the Bank of England	2,009	-	-	-	2,009
Loans and advances to banks	9,765	24,884	78	-	34,727
Loans and advances to customers	16,914	2,391	-	3,528	22,833
Debt and other fixed income securities	106,832	131,760	18,524	2,780	259,896
Derivative financial instruments	261	298	-	-	559
Unlisted investments	4,352	-	-	-	4,352
Investments in group undertakings	422	-	-	-	422
Accrued interest income	2,068	-	-	-	2,068
Other financial assets	425	-	-	-	425
	143,048	**159,333**	**18,602**	**6,308**	**327,291**
Non-financial assets	26,238	-	-	-	26,238
Total assets	**169,286**	**159,333**	**18,602**	**6,308**	**353,529**

Settlement risk

The Company's activities may give rise to risk at the time of settlement of transactions and trades

Settlement risk arises due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed and the potential for loss in attempting to complete the trade

Liquidity risk

Liquidity risk is defined as the risk of loss as a result of the Company being unable to ensure at all times the ability to meet short-term current or future payment obligations due to changes in expected cash-flows or conditions In addition, it is the risk that in the case of a liquidity crisis at the Company, refinancing is only possible at higher interest rates or that assets may have to be liquidated at a discount The Company's approach to managing liquidity is based on gaining assurance that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking reputational damage

31 Review of the company's risk profile (continued)

The table below summarises the Company's residual contractual maturities of financial liabilities

GBP '000 2011	Carrying amount	Gross nominal inflow / (outflow)	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
Deposits by banks	99,524	(99,614)	(99,614)	-	-	-	-
Customer accounts	311,299	(312,150)	(280,348)	(12,893)	(14,563)	(4,346)	-
Other financial liabilities	708	(708)	(708)	-	-	-	-
Derivative financial liabilities	1,791	(1,791)	-	-	(124)	(1,667)	-
	413,322	**(414,263)**	**(380,670)**	**(12,893)**	**(14,687)**	**(6,013)**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts

GBP '000 2010	Carrying amount	Gross nominal inflow / (outflow)	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
Deposits by banks	11,889	(11,991)	(7,343)	(2,671)	(1,977)	-	-
Customer accounts	260,207	(260,415)	(225,795)	(28,938)	(1,539)	(4,143)	-
Other financial liabilities	383	(383)	(383)	-	-	-	-
Derivative financial liabilities	1,191	(1,191)	(817)	-	(374)	-	-
	273,670	**(273,980)**	**(234,338)**	**(31,609)**	**(3,890)**	**(4,143)**	**-**

The above tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity The Company's expected cash flows on these instruments vary significantly from this analysis For example, demand deposits from customers are expected to maintain a stable balance

31 Review of the company's risk profile (continued)

Market risk

Market risk arises due to adverse changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (relating to changes in the obligor's/issuer's credit standing) will affect the Company's income or the value of its holdings in financial instruments The objective of market risk management is to manage and control market risk exposures within acceptable parameters

The Company only assumes market risk as a result of its balance sheet, cash management and strategic interest rate positioning activities The primary risks within the Company's activities are interest rate and currency risk and changes in fair value in bonds and derivatives

Interest rate risk

Interest rate risk arises in the balance sheet as a result of fixed and variable rate assets and liabilities Exposure to interest rate movements arises when a mismatch is created between interest rate sensitive assets and liabilities The interest rate mismatches are monitored daily

The exposure to movements in interest rates is monitored in basis point values to a given rise in interest rates The given rise in interest rates is calculated as one basis point (0 01%) The GBP book is monitored individually whilst the foreign currency books are monitored both individually and on an aggregated basis Positions are monitored against approved limits These limits have been assigned and approved on an individual currency and total position basis

The future principal and interest cash flows of each asset and liability are included based on their present value The present value of future cash flows of interest bearing assets and liabilities are sensitive to changes in interest rates and thus this sensitivity represents the direction and degree of change in the value of a cash flow for a given change in the underlying interest rate and is known as Delta

This approach to Market Risk exposure has the effect of showing the aggregated potential profit or loss, which the Company would be exposed to if interest rates were to rise or fall by one basis point On such a one basis point move, the value of any profits or losses would not be immediately recognised in the financial accounts The value represents the potential gain or loss that would be realised over the life of the books if the move in interest rates were affected and all interest rates and positions remained static for the remaining life of the book

31 Review of the company's risk profile (continued)

The table below summarises the Company's exposure to interest rate risks at 31 December

Year ended 31 December 2011

Currency	Interest Rate Exposure in GBP (in Basis Point Value to a rise of 1 Basis Point) **All Time Buckets**		Interest Rate Exposure in GBP (in Basis Point Value to a rise of 1 Basis Point) **Largest Single Time Bucket**	
			Overnight to > 5 years	
	Exposure	Limit	Exposure	Limit
GBP	7,210	9,500	7,528	23,750
EUR	1,500	5,470	5,050	13,675
JPY	-	2,475	-	6,188
USD	(2,524)	5,594	4,252	13,985
AUD	-	1,013	-	2,533
CAD	-	1,513	-	3,783
CHF	(4)	2,475	4	6,188
DKK	-	138	-	345
NOK	6	138	5	345
NZD	-	138	-	345
SEK	-	138	-	345
TRY	-	138	-	345
ALL EXCEPT GBP	4,034	4,250	9,311	10,625

31 Review of the company's risk profile (continued)

Year ended 31 December 2010

Currency	Interest Rate Exposure in GBP (in Basis Point Value to a rise of 1 Basis Point) **All Time Buckets**		Interest Rate Exposure in GBP (in Basis Point Value to a rise of 1 Basis Point) **Largest Single Time Bucket**	
			Overnight to > 5 years	
	Exposure	Limit	Exposure	Limit
GBP	(4,207)	12,500	12,277	31,250
EUR	1,214	5,470	6,408	18,920
JPY	-	2,475	-	6,188
USD	(7)	7,594	(5)	18,985
AUD	1	1,513	1	3,783
CAD	-	1,513	-	3,783
CHF	-	2,475	-	6,188
DKK	-	138	-	345
NOK	-	138	-	345
NZD	-	138	-	345
SEK	-	138	-	345
TRY	-	138	-	345
ALL EXCEPT GBP	1,208	4,250	6,404	18,625

31 Review of the company's risk profile (continued)

Foreign currency risk

When granting loans, booking deposits or taking positions in certificates of deposit denominated in a foreign currency (non-GBP), the Company incurs foreign exchange risk if those positions are not closed by either investing or refinancing those positions in the respective currency, or by contracting cross currency swaps or foreign exchange forward contracts The open foreign exchange position (defined as the present value of the future cash flows discounted with the foreign interest rates) is taken into account for foreign exchange risk controlling

The Company's open currency positions are monitored daily against pre-set limits The currency exposure of the Company as at 31 December 2011 and comparative period are stated in sterling equivalent as follows

2011				
	USD GBP '000	Euro GBP '000	Other currencies GBP '000	Total GBP '000
Assets	49,593	87,972	6,063	143,628
Liabilities	(51,956)	(54,695)	(7,086)	(113,737)
Notional amounts underlying open foreign exchange contracts	(450)	(34,721)	1,846	(33,325)
Net currency exposure as at 31 December 2011	**(2,813)**	**(1,444)**	**823**	**(3,434)**

2010				
	USD GBP '000	Euro GBP '000	Other currencies GBP '000	Total GBP '000
Assets	17,699	150,173	1,193	169,065
Liabilities	(17,571)	(29,691)	(1,359)	(48,621)
Notional amounts underlying open foreign exchange contracts	(8)	(119,100)	1	(119,107)
Net currency exposure as at 31 December 2010	**120**	**1,382**	**(165)**	**1,337**

31 Review of the company's risk profile (continued)

Operational risk

The Company faces operational risk arising from deficiencies in internal controls, human errors, physical systems failures, and other business execution risks as well as external events Operational risk is inherent to the Company's activities and includes risk of loss resulting from IT system failure, fraud, negligence and process deficiencies A low appetite for operational risk is essential for preserving the Company's reputation and competiveness The development and the maintenance of a robust infrastructure and the retention of experienced personnel are critical in managing the operational risk in a highly regulated banking environment

Operational Risk policies and procedures have been developed under the supervision of the Company's Boards to prevent operational risks occurring, or restrict their adverse impact where full prevention would be uneconomical The effectiveness of these policies and procedures is validated through the Risk and Compliance Committee and the Operational Risk Framework The Risk and Compliance Committee seeks to ensure that there is comprehensive coverage of all risks arising from the business model and functional capabilities of the firm with the degree of oversight proportionate to the perceived risk in the underlying processes

Processes to reduce or avoid unwanted operational risk losses include regular assessment by Internal Audit to ensure process weaknesses are identified and reported and that remedial action plans are devised and implemented.

Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value

	2011 Carrying value GBP '000	2011 Fair value GBP '000	2010 Carrying value GBP '000	2010 Fair value GBP '000
Financial assets:				
Loans and advances to banks	42,500	42,493	34,727	34,716
Loans and advances to customers	25,760	25,533	22,833	23,061
Investments in group undertakings	646	646	422	422
Other financial assets	930	930	425	425
Accrued income	1,400	1,400	2,068	2,068
	71,236	**71,002**	**60,475**	**60,692**
Financial liabilities:				
Deposits by banks	99,524	99,438	11,889	11,951
Customer accounts	311,299	310,598	260,207	260,055
Other financial liabilities	708	708	383	383
	411,531	**410,744**	**272,479**	**272,389**

31 Review of the company's risk profile (continued)

Fair values of financial assets and liabilities (continued)

a) Loans and advances to/from banks

Loans and advances to/from banks includes inter-bank placements and items in the course of collection The fair value of floating rate placements and overnight deposits is estimated as their carrying amount The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity

b) Loans and advances to/from customers

Loans and advances to/from customers are net of provisions for impairment The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received Expected cash flows are discounted at current market rates to determine fair value

c) Other financial assets, prepayments, accrued income and other financial liabilities

The fair value of other assets, prepayments, accrued income and other financial liabilities has been estimated to the carrying value due to the short maturities on the amounts held

d) Financial instruments measured at fair value in the financial statements

The total amount of the change in fair value estimated using a valuation technique that was recognised in profit and loss during the year is a loss of GBP 4,528,102 (2010 loss of GBP 899,548) Financial instruments with a carrying value of GBP 4,271,701 were measured at fair value through equity using a valuation technique that is supported by indirectly observable market rates (2010 GBP 4,131,599)

Capital management

The Company's lead regulator (the Financial Services Authority (FSA)) sets and monitors capital requirements for the Company In implementing current capital requirements, the FSA requires the Company to maintain a prescribed ratio of total capital to total risk-weighted assets The Company uses its internal gradings as the basis for risk weightings for credit risk

The Company's regulatory capital is analysed as tier 1 capital, which includes ordinary share capital, share premium and retained earnings

The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position, especially in the light of the current market conditions

The Company's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of the FSA The Company must at all times monitor and demonstrate the compliance with the relevant regulatory capital requirements of the FSA The Company has put in place processes and controls, including a range of detailed stress testing scenarios, to monitor and manage the Company's capital adequacy

31 Review of the company's risk profile (continued)

Capital management (continued)

The Company's regulatory capital position at 31 December was as follows

	2011 GBP '000	2010 GBP '000
Regulatory capital		
Ordinary share capital	79,783	69,783
Share premium	167	167
Retained earnings	(42,829)	(25,377)
Share-based payment reserve	784	-
Tier 1 capital	**37,905**	**44,573**
Total regulatory deductions from capital	(3,178)	(445)
Tier 1 capital after deductions	**34,727**	**44,128**
Tier 2 capital - revaluation reserve	891	497
Total regulatory capital	**35,618**	**44,625**

The Company has not reported any breaches regarding its minimum regulatory capital requirement during the year

32 Ultimate parent undertaking and controlling party

The immediate parent of the Company is Kleinwort Benson Group Limited, a company incorporated in the United Kingdom

The Company's ultimate parent undertaking and controlling party is RHJ International S A (Euronext RHJI), a company incorporated in Belgium under Belgium Law It is also the smallest and largest group in which the results of the Company are consolidated The financial statements of RHJ International S A are available to the public and may be obtained from RHJ International S A , Investor Relations, Avenue Louise 326, 1050 Brussels, Belgium