

Ansbacher & Co Limited

Basel II Pillar 3 Disclosures as at 31 December 2010

2010 Pillar 3 disclosures

1. Overview

1.1. Background

The European Union ("EU") Capital Requirements Directive ("CRD" or "the Directive") came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Framework agreed by the G-10. Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority ("the FSA")¹.

The Basel II Framework is structured around three pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review) and Pillar 3 (market discipline). The disclosure requirements of Pillar 3 are designed to promote market discipline by providing market participants with key information on firms' risk exposures and risk management processes. Pillar 3 aims to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

Ansbacher & Co Limited ("the Company") adopted the Standardised Approach to credit risk, the Basic Indicator Approach ("BIA") to operational risk and the standard Position Risk Requirement ("PRR") for market risk from 1 January 2008. The Company also became subject to Pillar 2 and 3 from that date.

1.2. Basis and Frequency of disclosure

These consolidated Pillar 3 disclosures have been prepared for the Ansbacher & Co Limited Group in accordance with the rules of the FSA Handbook BIPRU Chapter 11.

Unless stated otherwise, all figures are as at 31 December 2010, which is the Company's financial year-end.

Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Company's Report and Financial Statements.

1.3. Location and Verification

These disclosures have been reviewed by the Company's Internal Audit function. These disclosures have been approved by the Company's Board of Directors, and are published on the Company's website (www.ansbacher.com).

The disclosures have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Company's Report and Financial Statements.

1.4. Scope of application

The Company is a UK bank regulated by the FSA. The Company has the following subsidiaries, together they are known as the Ansbacher & Co Limited Group ("the Group"):

- Ansbacher Trustees (UK) Limited - trust company, which is the principal operating subsidiary;
- The Ansbacher Pension Trust Limited - pension scheme trustee;
- Ansbacher Nominees Limited - nominee company;
- Ansbacher Secretarial Services Limited - dormant company; and
- London Bridge Administration Limited - dormant company

Ansbacher & Co Limited makes use of the provisions in the FSA Handbook BIPRU Chapter 2.1 and reports to the FSA on a solo-consolidated basis because the Company has 100% ownership rights and full control over Ansbacher Trustees (UK) Limited. None of the other subsidiaries are consolidated for prudential reporting.

There is no material difference between the amount of capital determined by and available to support the Group's own activities, and the amount which would be determined if the subsidiaries that are not consolidated within the Group were included.

¹ FSA Handbook - General Prudential sourcebook ("GENPRU"), and Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

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1.4. Scope of application (continued)

The Company is a wholly owned subsidiary of QNB International Holdings Limited Sàrl (“QNB IHL”), the holding company of the wider Ansbacher Group (“the QNB IHL Group”). QNB IHL in turn is wholly owned by Qatar National Bank SAQ (“QNB”), a Qatari bank regulated by the Qatar Central Bank and the holding company of the wider QNB Group (“the QNB Group”).

The Group primarily provides banking services to international private and institutional clients. The banking activity is focused primarily on providing specialist lending facilities to high net worth clients for the following purposes:

- to finance the construction and acquisition of superyachts
- purchase of residential property
- other real estate investment
- investment portfolio gearing purposes

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities amongst Ansbacher & Co Limited and its subsidiary undertakings.

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2. Risk management objectives and policies

Risk management infrastructure

The QNBIHL Group's strategy is set by the Board of Managers² of QNBIHL ("the QNBIHL Board"), which usually meets four times a year. That strategy is then cascaded down to the Group's Board of Directors ("the Board"), which also meets four times a year. There is a substantial overlap of membership of both Boards. The Board has overall responsibility for the risk appetite of the Group and has approved a risk management framework that the Group works within. The Board also approves the Group's Internal Capital Adequacy Assessment Process ("ICAAP") which provides a framework to ensure sufficient capital is held within the Group to support the activities of the Group.

The Group Risk Management function reports to the Group's Chief Operating Officer. All risk policies are subject to review on an annual basis in order to meet changing business needs and current regulatory requirements. The review process is co-ordinated by the Group's Risk Management function.

The Group Risk Management function works closely with the Group Compliance Department and with the QNBIHL Group's Internal Audit, Legal and Company Secretarial Departments. This group of functions referred to as the "control functions" meets formally on a regular basis to consider risk issues across the full spectrum of their responsibilities and to review the practical implementation of risk policies and procedures.

The Group Risk Management function works closely with the following management committees:

- ***Legal and Compliance Risk Committee***

The Group Legal and Compliance Risk Committee is responsible for the consideration and approval of the Group's operational risk policies and procedures. The Committee also considers reports generated by the compliance, risk management, internal and external audit functions.

The Group Legal and Compliance Risk Committee reviews and considers the impact of legal, regulatory and supervisory changes on the Group and acts as the Group's principal decision making body with regards to all operational risk issues.

The Group Legal and Compliance Risk Committee has devolved responsibility for managing market and credit risks to the Group's ALCO and Credit Committee.

- ***Asset and Liability Committee ("ALCO")***

The Group ALCO is responsible for the structure of the Group's balance sheet market risk and liquidity strategy as well as the approval of the Group's proprietary investment activities and limits, within policies and procedures set by the Board.

- ***Credit Committee***

The Group Credit Committee is responsible for the appraisal and approval of individual counterparties, credit exposures and the subsequent review and high-level management of those exposures, within policies and procedures set by the Board.

The main risk types to which the Group is exposed are discussed below:

Credit risk

Credit risk arises principally from lending and on all investments and trading activity involving on and off balance sheet instruments. The Group's Credit Committee is responsible for setting book, portfolio and individual credit limits within the parameters set by the Group Legal and Compliance Risk Committee and that of the QNB Credit Committee. The maximum exposure to credit risk is the carrying value of the assets.

² A Board of Managers in Luxembourg is similar to a Board of Directors in the UK.

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Credit risk (continued)

Credit risk is mitigated in various ways; the book, portfolio and individual credit limits noted above are monitored on an ongoing intra-day basis within the lending and risk management departments. Exceptions are reported to the Group Legal and Compliance Risk Committee which is responsible for overseeing any remedial action. In addition, the Group has predetermined loan-to-value criteria and a requirement that all loans made to SPVs are backed by a personal guarantee of the underlying borrower.

The size of the balance sheet is such that it is possible to examine each individual exposure to evaluate if specific provisions are necessary or adequate.

The portfolio is of insufficient size and diversity to justify implementing an internal capital allocation process. However individual expected returns on capital are considered as part of the credit approval process.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity management within the Group has two strands. The first is day to day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The second is maintenance of committed and uncommitted credit lines from other Financial Institutions including the Group's ultimate parent, QNB.

The Group's treasury department manages the liquidity structure of the balance sheet. This is to ensure that funding obligations are met and that the regulatory liquidity requirements are complied with. General market liquidity risk is considered within the context of scenario testing.

Market risk

Market risk is the risk that the Group's net income or the value of its balance sheet will fall, as a result of adverse market conditions. Market risk including foreign exchange and interest rate risks are encountered in all classes of financial assets. The Group ALCO is responsible for setting market risk limits within those set by the QNB Group Treasury department and devolved to the QNB IHL Group and for managing and monitoring these limits. The Group does not operate trading book businesses and so the Group's exposure to market risks is generally to support the Group's lending activities.

Foreign exchange risk

Foreign exchange risk is controlled via net short open and forward foreign exchange gap limits which is managed through a series of market transactions including forward foreign exchange transactions. Foreign exchange trading has not been a core activity of the Group during the period under review and the risk inherent in these limits is considered to be small.

Other than forward foreign exchange contracts, all exposures are measured at their full nominal value (loans) or mark to market value (investments). The exception is forward FX contracts which are weighted at 10% of nominal value for purposes of limit monitoring. All FX positions are marked to market on a daily basis.

Interest rate risk

The principal interest rate risk ("IRR") in all classes of financial assets is that of interest rate mismatching (re-pricing risk) which is monitored through the regular analysis of the book into various time buckets (gap analysis), with limits being set for each individual gap. Non contractual cash flows, such as early loan repayments, are ignored for IRR purposes as the loan book is exclusively LIBOR linked and such repayments occur on re-fixing dates or are subject to market standard break-costs. Non rating deposits are allocated to the time bracket appropriate to the LIBOR rate applied to each account type. The Group would hedge any significant market risk with unrecognised gains and losses on non-trading hedges matched by gains and losses on hedged positions. The Group did not run any hedge positions during the year under review. Interest rate risk positions are monitored independently of the treasury department by the risk management department on a weekly basis.

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Operational risk

Operational risk is the risk that deficiencies in information systems, operational processes or internal controls result in unexpected business, financial and operating losses. The identification and control of these risks is managed by the Board through the Group Legal and Compliance Risk Committee. The Group's Risk Management Department gathers key risk indicators and Internal Auditors carry out regular reviews of all operational areas to ensure operational risks are being properly controlled and reported to the Group Legal and Compliance Risk Committee. Contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

Conceptually the Group's operational risks are broken down into a few key areas: strategic, processing, IT, human factors, legal, insurance and business continuity.

- *Strategic Risk* covers matters pertaining to strategy, financial performance and macro economic factors. Problems in this area will manifest themselves in the non-achievement of the business plan and the financial budget in particular. It should be noted that the Group benefits from the significant contribution made from margin earnings which, derived as they are in the main from term lending, are relatively stable.
- *Processing Risks* are largely a factor of IT or human failure. The Group monitors processing losses as part of its normal management systems. Processing risks may manifest themselves as either low frequency/high impact or high frequency/low impact. The former is covered by appropriate insurance cover.
- *Information Technology Risk* is considered as having three key aspects: firstly capital expenditure relating to failed IT system implementations. This would result in costs being incurred with no qualitative improvement in service; capital write-offs would not be required as the Group protects itself against this eventuality through its license agreements. Secondly, the impact on processing occasioned by a system failure. As activities are generally non-retail in nature, and active back-up of systems is part of the Group's business recovery planning, processing failures would result in only marginal direct costs to the Group. Thirdly, the risk of an external attack on our systems. These risks are mitigated at the financial level via appropriate insurance cover.
- *Human Factors Risk* covers a number of areas: processing, staffing and fraud. Processing has been mentioned above. Due to the Group being a small entity there are risks associated with recruitment, succession planning and illness cover. These are mitigated through procedures that facilitate cross-departmental cover, recruiting experienced staff with broad experience and cross-training where required. Staff notice periods are generally longer across the board. The Group's incidence of fraud has been extremely low and is an insured risk, so losses are confined to the first loss under the relevant insurance cover.
- *Legal Risk* in relation to routine business is mitigated through handling matters via the Group's own Legal Department and where possible by using external counsel which also provides the added benefit of professional indemnity cover in the event of documentation errors. In addition legal risks are covered by insurance.
- *Insurance Risk* arises in three areas: first loss portions in respect of claims, risks being out of cover and timing differences between loss events and payout by the insurer. Due to the importance of insurance cover to the overall risk mitigation process, senior management of the Group work with insurance brokers to review levels of cover on an ongoing basis to ensure it is appropriate for the business.
- *Business Continuity Risk*: processes are in place to ensure that any disruption and hence cost to the business is minimised. Regular business continuity tests are carried out to ensure all staff are aware of the processes to be followed should an event take place.

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3. Capital Structure

The table below summarises the composition of the regulatory capital of the Group as at 31 December 2010, and includes the 2010 audited retained earnings of (£12,350,000):

	<i>31 December 2010 £000</i>
<i>Tier 1 capital</i>	
Called up share capital	59,000
Share premium account	971
Retained earnings	(12,350)
Tier 1 capital	<u>47,621</u>
<i>Tier 2 capital</i>	
Subordinated debt	<u>10,266</u>
Tier 2 capital	<u>10,266</u>
Total Regulatory Capital	<u>57,887</u>
Risk weighted assets	<u>55,118</u>
Tier 1 capital adequacy ratio	<u>86.4%</u>

Tier 1 Capital

The Group's Tier 1 capital includes ordinary share capital and retained earnings. The retained earnings represent the Group's accumulated accounting losses and includes the audited retained losses of £7,189,000 for the year ended 31 December 2010.

The Group currently has no innovative Tier 1 capital.

Tier 2 Capital

The Group's Tier 2 capital includes subordinated debt.

The subordinated debt is repayable in 2013 and is, in accordance with FSA guidance, amortised over its last five years to maturity. The unamortised value at 31 December 2010 was £20,600,000. The subordinated debt is unsecured and claims in respect of it are subordinated to the claims of other creditors. It is from an intermediate parent undertaking of the Group and is denominated in UK Pounds Sterling.

Tier 3 Capital

The Group currently has no Tier 3 capital.

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4. Capital adequacy

Internal Capital Adequacy Assessment Process ("ICAAP")

The Group's business and risks are incorporated into an ICAAP covering the QNBHL Group. This is considered on an annual basis for submission to the FSA and in response to any major changes in the Group's strategy and risk management infrastructure. An ICAAP was submitted during December 2007. Further updated ICAAPs have been prepared subsequently but have not, as yet, been submitted to the FSA.

The Group does not undertake a separate review of its capital adequacy outside of its ICAAP as this is deemed sufficient. The ICAAP considers and stresses capital requirements looking forward based on the Group's budgets and forecasts.

The Group has yet to be assigned an Internal Capital Guidance by the FSA and continues to work to its previously agreed target ratios. The capital adequacy ratio is materially above this target ratio.

In 2010 market conditions improved marginally to those in 2009, it was therefore felt appropriate to employ the same enhanced stress tests to those applied under the 2007 ICAAP. These evidenced a capital position of 13.9% after deducting a notional £6.1m of credit losses and £4.8m of other losses. By applying the enhanced stress criteria, notional credit losses increased to £11.62m. This increase equates to a decrease in the capital ratio of less than 1% and other losses are not considered to be materially affected by market conditions.

Pillar 1 Minimum Capital Requirements

The Group adopted the Standardised Approach to credit risk, the Basic Indicator Approach ("BIA") to operational risk and the standard Position Risk Requirement ("PRR") for market risk from 1 January 2008.

The following table shows the Group's Pillar 1 minimum capital requirement as at 31 December 2010:

	<i>Risk Weighted assets 31 December 2010 £000</i>	<i>Capital Requirements 31 December 2010 £000</i>
<i>Credit Risk - Standard Approach</i>		
Central government or central banks	-	-
Regional governments or local authorities	-	-
Administrative bodies and non-commercial undertakings	-	-
Multilateral development banks international organisations institutions	-	-
Corporates	6,851	548
Retail	3,976	318
Secured on real estate property	7,731	618
Past due items	1,998	160
Impaired items	2,671	214
Items belonging to regulatory high risk categories	-	-
Securitisation positions	-	-
Short term claims on institutions or corporates	17,865	1,429
Other items	2,383	191
	<hr/>	<hr/>
	43,476	3,478
	<hr/>	<hr/>
<i>Market Risk - Standardised Approach</i>		
Foreign exchange PRR	0	0
	<hr/>	<hr/>
<i>Operational Risk - basic indicator approach</i>		
	11,642	1,746
	<hr/>	<hr/>
	55,118	5,224
	<hr/> <hr/>	<hr/> <hr/>

This requirement compares favourably to the Group's actual capital of £57,887,000 noted on the previous page.

The operational risk requirement is based upon the last three years' income, from 2008 to 2010.

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5. Credit Risk

Weak and impaired credits

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Analysis of credit risk exposures

The following tables analyse the Group's regulatory credit risk exposures as at 31 December 2010:

a. Analysis of credit risk by exposure class

	<i>Average over year 31 December 2010 £000</i>	<i>Credit risk exposure 31 December 2010 £000</i>	<i>Risk Weighted Assets 31 December 2010 £000</i>
Central government or central banks	-	-	-
Regional governments or local authorities	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-
Multilateral development banks	-	-	-
International organisations	-	-	-
Institutions	-	-	-
Corporates	92,282	8,907	6,851
Retail	3,873	5,302	3,976
Secured on real estate property	39,073	18,128	7,731
Past due items	13,107	3,865	1,998
Impaired items	4,263	4,291	2,671
Items belonging to regulatory high risk categories	-	-	-
Securitisation positions	-	-	-
Short term claims on institutions or corporates	44,833	77,405	17,865
Other items	23,482	8,193	2,383
	<u>220,913</u>	<u>126,091</u>	<u>43,476</u>

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5. Credit Risk (continued)

b. Geographic distribution of exposure by exposure class

	<i>UK</i> <i>£000</i>	<i>Europe</i> <i>£000</i>	<i>Americas</i> <i>£000</i>	<i>Middle</i> <i>East</i> <i>£000</i>	<i>Other</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Central government or central banks	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	63	-	5,094	1,846	1,904	8,907
Retail	-	5,302	-	-	-	5,302
Secured on real estate property	-	6,304	8,212	-	3,612	18,128
Past due items	2,873	-	992	-	-	3,865
Impaired items	-	-	4,291	-	-	4,291
items belonging to regulatory high risk categories	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions or corporates	18,506	58,287	528	47	37	77,405
Other items	6,787	1,406	-	-	-	8,193
	<u>28,229</u>	<u>71,299</u>	<u>19,117</u>	<u>1,893</u>	<u>5,553</u>	<u>126,091</u>

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Due to the nature of the client base of the Group, being predominantly high-net-worth individuals (HNWIs), the geographies of the client's domicile, the collateral of the loan and the client's ultimate cash-flows may all be different. For the above table we have taken the geography of risk of default (i.e. cash flows).

c. Distribution of exposures by industry and exposure class

	<i>Corporates</i>	<i>Retail</i>	<i>Secured on real estate property</i>	<i>Past due items</i>	<i>Impaired items</i>	<i>Short term claims on institutions or corporates</i>	<i>Other items</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000	£000
Food, beverages and tobacco	-	-	-	-	-	-	-	-
Supply of electricity, gas and heated water	-	-	-	-	-	-	-	-
Wholesale trade, excluding motor vehicles and motor cycles	-	-	-	-	-	-	200	200
Transport, storage and communication	5,158	-	-	-	-	2,981	-	8,139
Development, buying, selling and renting of real estate	3,749	5,302	1,471	992	-	-	1,206	12,720
Financial intermediation and financial institutions	-	-	-	-	-	74,424	6,774	81,198
Individuals and individuals trusts	-	-	16,657	2,873	4,291	-	13	23,834
	8,907	5,302	18,128	3,865	4,291	77,405	8,193	126,091

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5. Credit Risk (continued)

d. Residual maturity by exposure class

	<i>< 3 months £000</i>	<i>3 - 12 months £000</i>	<i>1 - 5 years £000</i>	<i>> 5 years £000</i>	<i>Total £000</i>
Central government or central banks	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
International organisations	-	-	-	-	-
Institutions	-	-	-	-	-
Corporates	86	-	4,691	4,130	8,907
Retail	177	-	4,755	370	5,302
Secured on real estate property	3,107	-	4,132	10,889	18,128
Past due items	3,865	-	-	-	3,865
Impaired items	213	-	4,078	-	4,291
Items belonging to regulatory high risk categories	-	-	-	-	-
Securitisation positions	-	-	-	-	-
Short term claims on institutions or corporates	77,405	-	-	-	77,405
Other items	2,275	13	1,470	4,435	8,193
	<u>87,128</u>	<u>13</u>	<u>19,126</u>	<u>19,824</u>	<u>126,091</u>

Analysis of impaired and past due exposures

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Past due exposures are those where cash flows have not been received by their contractual payment dates.

The Group has individually impaired certain loans. However, the Group has suffered no individual losses in the year. Loans have been collectively assessed and no further provision for impairment is considered necessary.

e. Impairment allowance for loans and advances to customers

	<i>Secured on Real estate Property £000</i>	<i>Other Items £000</i>	<i>Total £000</i>
At 31 December 2009	-	-	-
Charge for the year	568	952	1,520
Recoveries	-	-	-
Amount written off	-	-	-
Foreign currency translation adjustments	-	-	-
At 31 December 2010	<u>568</u>	<u>952</u>	<u>1,520</u>

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6. Credit risk - Standardised approach

The Group uses external credit ratings provided by Fitch, which is recognised by the FSA as an eligible external credit assessment institution ("ECAI") for the purposes of calculating credit risk under the standardised approach.

The Group uses the ECAI's ratings for the following exposure class, if applicable:

Short term claims on institutions or corporates

	<i>Risk weight</i> %	<i>Credit risk Exposure</i> £000	<i>Exposure after credit risk mitigation</i> £000
Credit Quality (CQS)			
1 AAA to AA-	20%	49,377	49,377
2 A+ to A-	20%	25,047	25,047
3 BBB+ to BBB-	100%	1,372	1,372
4 BB+ to BBB-	100%	1,263	1,263
5 B+ to B-	100%	346	346
6 CCC+ and below			
Unrated			
		77,405	77,405

In addition the Group calculates credit risk for exposures secured by mortgages on other assets

	<i>Average risk weight</i> %	<i>Credit risk Exposure</i> £000	<i>Exposure after credit Risk Mitigation</i> £000
Corporates	63%	8,097	8,097
Retail	75%	5,302	5,302
Secured on real estate property	38%	18,128	18,128
Past due items	68%	3,865	3,865
Impaired items	86%	4,291	4,291
Other items	35%	8,193	6,787

7. Credit risk mitigation

Other than in respect of lending to the interbank market, the Group does not as a general rule lend on an unsecured basis other than for de minimis amounts and periods. Each new loan is normally fully secured through a first legal charge conveying full title to, and power of sale over, whatever assets are pledged as collateral. Each loan product has maximum loan to value ratios that are strictly adhered to and are routinely checked on a regular basis. All loan documentation incorporates these covenants and the Group has the right to call for up to date valuations as it sees fit. Where covenant breaches occur, agreement is sought with the client to either pay down the loan to rectify the breach or to provide additional collateral. However the Group has the right to accelerate repayment if a covenant breach is not remedied.

Assets are valued on both an open market and forced sale valuation basis and covenants for either or both may be included in the facility documentation.

The principal types of collateral taken are residential property, yachts, cash and securities.

Valuations are always carried out on behalf of the Company by suitably qualified professionals except in the case of securities where public data sources are used.

Where facilities are granted to corporate vehicles of HNWI clients, personal guarantees are usually obtained from the principal.

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7. Credit risk mitigation (continued)

The following table shows the values of collateral and guarantees used as credit risk mitigation within the Pillar 1 calculations; all of which relates to cash collateral.

	<i>Financial collateral</i> £000	<i>Other eligible collateral</i> £000	<i>Guarantees</i> £000	<i>Total</i> £000
Central government or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions	-	-	-	-
Corporates	-	-	-	-
Retail	-	-	-	-
Secured on real estate property	-	-	-	-
Past due items	-	-	-	-
Past due Impaired items	-	-	-	-
Items belonging to regulatory high risk categories	-	-	-	-
Securitisation positions	-	-	-	-
Short term claims on institutions or corporates	-	-	-	-
Other items	1,406	-	-	1,406
	<u>1,406</u>	<u>-</u>	<u>-</u>	<u>1,406</u>

8. Counterparty credit risk

Counterparty credit risk ("CCR") is the risk that the counterparty to a derivative transaction could default before the final settlement of the transaction's cash-flows. The Group currently only enters into foreign exchange derivative contracts for the purpose of liquidity management.

The Group measures the exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts' potential credit exposure, which is derived by applying a multiple based on the contracts' residual maturity to the notional value of the contact.

The table below details the foreign exchange derivatives:

	<i>Gross positive fair value of contracts</i> £000	<i>Potential future credit exposure</i> £000	<i>Total derivatives credit exposure</i> £000
Foreign exchange contracts	<u>0</u>	<u>192</u>	<u>192</u>

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9. Exposures to interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has limited exposure to fixed rates, as predominantly all lending and deposit taking takes place at variable rates. The principal interest rate risk in the investment books is that of interest rate mismatching (re-pricing risk) which is monitored through the regular analysis of the book into various time buckets (gap analysis), with limits being set for each individual gap. The Group hedges any significant market risk with unrecognised gains and losses on non-trading hedges matched by gains and losses on hedged positions. Market risk positions are monitored independently of the treasury department by ALCO.

A daily report is given to Senior Management detailing inter-alia capital usage; liquidity ratios; large exposures; connected exposures and other regulatory and internal ratios.

	<i>Increase / decrease of 25 basis points³</i>		<i>Increase / decrease of 200 basis points</i>	
	<i>Sensitivity of net interest income £000</i>	<i>Sensitivity of equity £000</i>	<i>Sensitivity of net interest income £000</i>	<i>Sensitivity of equity £000</i>
As at 31 December 2010				
GBP				
0 - 1 month	109	109	874	874
1 - 3 months	(28)	(28)	(230)	(230)
3 - 6 months	-	-	(1)	(1)
6 - 12 months	-	-	-	-
1 - 2 years	-	-	4	4
3 years+	-	-	-	-
	<u>81</u>	<u>81</u>	<u>647</u>	<u>647</u>

	<i>Increase / decrease of 25 basis points³</i>		<i>Increase / decrease of 200 basis points</i>	
	<i>Sensitivity of net interest income £000</i>	<i>Sensitivity of equity £000</i>	<i>Sensitivity of net interest income £000</i>	<i>Sensitivity of equity £000</i>
As at 31 December 2010				
USD				
0 - 1 month	32	32	256	256
1 - 3 months	(2)	(2)	(18)	(18)
3 - 6 months	-	-	-	-
6 - 12 months	-	-	-	-
1 - 2 years	1	1	8	8
3 years+	(36)	(36)	(284)	(284)
	<u>(5)</u>	<u>(5)</u>	<u>(38)</u>	<u>(38)</u>

	<i>Increase / decrease of 25 basis points³</i>		<i>Increase / decrease of 200 basis points</i>	
	<i>Sensitivity of net interest income £000</i>	<i>Sensitivity of equity £000</i>	<i>Sensitivity of net interest income £000</i>	<i>Sensitivity of equity £000</i>
As at 31 December 2010				
EUR				
0 - 1 month	4	4	33	33
1 - 3 months	2	2	18	18
3 - 6 months	-	-	-	-
6 - 12 months	-	-	-	-
1 - 2 years	-	-	-	-
3 years+	-	-	-	-
	<u>6</u>	<u>6</u>	<u>51</u>	<u>51</u>

³ A decrease will result in an equal and opposite change to those amounts given in the tables.