

Reflections

Summer 2005

The newsletter for clients of Fairbairn Private Bank

Best Offshore Bank For Fourth Year Running

Welcome to the summer issue of Reflections. It is now over six months since we changed our name, but as you can see from the two articles on our recent award wins, last year's re-brand has spurred us on to even greater success.

In March, we achieved national recognition in **The Sunday Times Best 100 Small Companies to Work For** listing. Our inclusion created a ground breaking first as we became the only offshore bank ever to have appeared in this prestigious listing. Page 2 provides an insight into this achievement.

In May, we secured a further remarkable first with five category nominations at this year's **International Investment Offshore Fund and Product Awards**. This was then matched by a record three outright wins, including the highly coveted 'Best Offshore Bank' award for an incredible fourth year running. More on these awards can be found on page 2.

We never forget the part our clients play in obtaining this type of industry recognition and on behalf of the Fairbairn Private Bank team,

please accept our sincere appreciation for all your support and encouragement. We value your business highly and remain committed to providing you with courteous, professional and efficient service, alongside an innovative and dynamic range of products and services.

Maintaining the press coverage theme a moment longer, press speculation continues to escalate over the impending 'pensions crisis'. We discuss a **Self-Managed Pension** option and the benefits it can offer to expatriates and local Island residents on page 4.

The **EU Savings Tax Directive** is now definitely being implemented on 1 July this year, so, on page 3, we follow up our previous article with some of the additional questions asked of our Customer Services Team.

As our Private and Personal Banking teams continue to expand, our feature on **Private Banking**, on page 5, introduces you to some of the key players and takes the opportunity to cover a number of the personalised wealth management services that we can offer clients to meet their specific financial needs.

Following the feature on our **Strategic Asset Allocation Service** in the last issue, on page 6 we revisit the research on asset allocation that we referred to in the original article.

Finally, we close by congratulating all our staff, who raised over £3,000 last year to be shared between their three chosen charities. The full details on our **Charity Fundraising** can be found on page 6.

Very best wishes to you all.

Greg Horton

Managing Director, Fairbairn Private Bank

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Some of the staff who voted us one of the best small companies to work for



Greg Horton receiving the 'Best Offshore Bank' award from Gyles Brandreth

Another First for Fairbairn Private Bank

In March this year, we were advised of our inclusion in the **Sunday Times 100 Best Small Companies to Work For** listing, sponsored by the Department of Trade and Industry (DTI). Entering at number 85, we became the first offshore bank to ever receive this accolade.

Now in its fifth year, The Sunday Times survey aims to identify the best employers in Great Britain, and is based almost exclusively on employee opinion. The judges highlighted the

fact that the bank was certainly good at balancing the books between home and work, a sector in which we received a top 12 ranking.

We are always pleased to be recognised for our achievements, but what makes this award particularly satisfying is that it is predominantly influenced by what our staff say about the business. We genuinely believe that our greatest asset is our people and it is particularly heart-warming to receive such positive feedback from our own employees.

This latest accolade follows a long string of firsts for us. We were the first British offshore island based bank to launch a unique fully integrated banking and investment service, "Focus", we were the first British offshore island based bank to obtain an independent "A" credit rating from Moody's, the international credit rating agency, and, as you read in our cover story, we have now been voted 'Best Offshore Bank' for an unprecedented four years running in the International Investment Offshore Fund and Product Awards.

A Winning Hat Trick

As if to prove it really is business as usual following our recent re-brand, we were delighted to be awarded 'Best Offshore Bank' for an unprecedented fourth year in succession at the **International Investment Offshore Fund and Product Awards**.

Winning a total of three awards outright and receiving two high commendations, this was a record-breaking performance at this prestigious annual event.

Alongside the highly coveted status of 'Best Offshore Bank', we also won the award for "Best Offshore Bank Product" for our Focus service, the fifth year running this service has either won the award or been highly commended. To be awarded this honour again for Focus, which was originally launched five years ago, confirms its status as a unique and innovative product. We have continually improved and developed it over the years and it obviously still can't be beaten in the industry.

Our third outright win was for 'Best Internet Service', an endorsement of our new look Fairbairn Private Bank website and the extensive online services available to our professional intermediaries. In addition, we received highly commended awards for our 'Commitment to Service' and the 'Best Offshore Bank Product Range'.

The International Investment Offshore Fund and Product Awards, now in their fifth year, are the highlight of the offshore calendar and our exceptional achievement brought strong praise from the independent panel of judges. In recognising the bank's commitment to its target market, the judges specifically commended the bank's quality product range, levels of service, product innovation and technology.

With a current tally of nine outright wins and eleven highly commended awards in the past five years, we have amassed more awards

than any other offshore bank at this prestigious financial service industry event. Presented by International Investment magazine in association with Standard and Poor's, the international credit rating agency, the awards are devoted to bringing the major sectors of the offshore financial services together at one event. They recognise and honour companies that excel in the provision of financial services and products on an international basis and, consequently, remain amongst the most sought after in the industry.

The consistency of our performance in these awards speaks volumes for the dedication and levels of commitment that our team puts into servicing our clients. The international industry's continued acknowledgement of our efforts is highly motivating and has unquestionably spurred us on to this new record-breaking achievement.

EU Savings Tax Directive **Update**

In our last issue, we published a guide to the European Savings Tax Directive (EUSD) and whether it was likely to affect you. In case you missed our earlier article, the European Savings Tax Directive (EUSD) is an agreement between the Member States of the European Union (EU) to automatically exchange information with each other about customers who earn savings income in one EU Member State but reside in another.

This automatic exchange of information is the ultimate objective of the EUSD, but three EU Member States (Austria, Belgium and Luxembourg) and the UK Crown Dependencies (the Channel Islands and the Isle of Man) have opted to apply alternative arrangements during a transitional period. Under these arrangements, tax will be deducted at source from income earned by EU resident individuals on savings held in participating countries. This is known as the withholding tax option, but within the UK Crown Dependencies it will be referred to as the retention tax option.

In May, we wrote to all our clients whom we believed would be affected by the Directive, and below we detail some of the questions arising as a result of this mailing.

1. Will the EUSD affect me?

Only if you are an individual resident for tax in an EU Member State (please see the list at the top of this page) and earn interest on bank deposits or investments held in another EU Member State or the UK Crown Dependencies.

If you maintain a company account or your assets are held in a discretionary trust, or if you are invested via one of our insurance or pension wraps, you will be excluded from the Directive. If you maintain an accumulation account, you will also be excluded from the Directive whilst the account remains open.

Alternatively, you may be a UK resident, but not domiciled there. In this case, you may be exempt and can complete a signed declaration to exclude yourself from the Directive.

2. Will the EUSD give people the authority to look into my account history?

If you choose the withholding tax option, none of your details will be disclosed or exchanged. Complete confidentiality will be preserved.

If you select the exchange of information option, only your name, your address, the name and address of your bank, your bank account number, details of the amount of interest paid to you and the period to which it relates will be disclosed to the appropriate Isle of Man or Jersey tax authorities.

The Isle of Man or Jersey tax authority (as appropriate) will then, in turn, provide this information to the EU Member State in which you are resident.

3. What happens if I've not chosen an option by the EUSD deadline of 1st July 2005?

If you have not elected for the exchange of information option, any interest payments will automatically be subject to the retention tax.

4. How will income received from dividends be treated?

The Directive is concerned with "savings income in the form of interest payments". It does not include dividends paid on ordinary or preference shares of companies.

5. How will income received from bonds be treated?

The income from most bonds will be liable for retention tax, apart from certain debt

securities which already existed before the 1st March 2001 – "grand-fathered bonds".

6. If I make a capital gain from the sale of a share in my Focus portfolio, will that be disclosed?

Income from capital gains is not regarded as an interest payment and is therefore not covered by the EUSD requirements. It is your responsibility to declare any capital gains to your tax authority.

7. Once I have selected an option, can I change my mind at a later date?

Once you have elected for exchange of information, you will not be able to revert to the retention tax option, but if you initially choose the retention tax option, you can at a later date decide to exchange information.

8. What will happen if I am not resident for tax anywhere in the EU?

You would need to supply an exemption form accompanied by relevant documentary evidence that you are resident outside the EU.

9. Does the EUSD apply to US Dollar accounts?

If you are resident for tax in an EU Member State and the US Dollar account (or any other currency account) is held in the Isle of Man or Jersey, then any income from this account will be subject to the EUSD.

10. What if it is a joint account and the account holders live in different EU countries?

If they choose the retention tax option, the retention tax would be applied on the basis that interest is allocated equally among the holders of the joint account.



Cyprus, Czech Republic, Estonia, Hungary, Latvia,



11. What if it is a joint account and one accountholder lives in an EU country and one lives in a non-EU country?

If they choose the retention tax option, the retention tax would be applied on the basis that interest is allocated equally among the holders of the joint account. Therefore only half the interest will be subject to retention tax.

12. Is there any way to make this easier for me?

Fairbairn Private Bank has several options available to you, which may simplify your tax position and make the preparation of your tax returns a much easier process. For bank account interest, there is a possibility to roll up the interest until closure of the account rather than having this paid monthly or quarterly. This is possible via our Accumulation Account range of instant access or high interest accounts, and means that the interest is only paid to you, and therefore required to be recorded on your tax return, in the year that you decide to close the account. This may be at any time of your choosing in the future, for example, when you retire, when your income level has reduced or you change your country of residence.

Other options include having Fairbairn Private Bank create an offshore insurance bond, which, in many cases, can lead to tax savings that more than justify the cost of this structure. Alternatively, our subsidiary company, Fairbairn Trust Limited, specialises in providing discretionary trusts and / or offshore company structures, which can be a highly effective method of financial planning and are all structures outside the scope of the EUSD.

13. Who can I contact for more information about my personal circumstances?

You should always discuss your individual circumstances with your tax adviser. For information on how Fairbairn Private Bank may be able to help you, contact our Customer Services Team, or your personal or private banker.

Our previous article on the EUSD can be found in the Spring 2005 issue of Reflections on our website at www.fairbairnpb.com

Flexible Pension Planning

Any furtive glance at a national newspaper will highlight that the global pension industry is in crisis. More and more people are discovering they will need to substantially increase their pension contributions or face working on into their seventies to avoid an impoverished old age.

Longer life expectancy coupled with poor investment returns from falling markets and expensive investment products has caused annuity rates to fall dramatically. It is calculated that the UK alone has a personal savings gap of over £30 billion, with the shortfall from many corporate schemes being even greater.

Many existing pension schemes are both inflexible and inefficient, with limits on the amount that can be paid in each year and restrictions on when withdrawals can be made. In addition, increasing government interference makes it very hard to ensure your pension plan keeps up with the changes.

At Fairbairn Private Bank, we can offer a tailor made pension solution for Isle of Man residents and international expatriates. Our pension structure is recognised under Isle of Man legislation and is offered through local pension specialists. It takes the form of a self-managed pension that is held within our award-winning Focus account and presents an attractive and transparent alternative to a trust or life policy.

As the pension is self-managed, it allows you to construct a portfolio of cash and investments that best suits your individual requirements. It provides a cost-effective and tax-efficient means of retaining control of your assets and combines this with flexibility of contributions and the opportunity to determine your own retirement age. As your needs change, or stock markets and interest rates fluctuate, you can adjust the composition of your portfolio in response.

Tax relief and tax efficiencies may be available dependent on your residence status, but the pension can offer other advantages above a traditional insurance company pension. Our pension wrap can avoid the need for probate and can aid succession planning by providing more direct control than a traditional trust. Unlike offshore trusts, you are not forced to hand your assets over to the control of trustees, and assets can be passed to whomever you wish, in the event of death.

In addition, the pension is entirely portable and can be used as a long term planning vehicle. The integrated Focus structure also serves as an ideal “wrapper” product for other private banking services.

If you have a minimum of £50,000 of cash and/or stock to invest in a pension, and would like more information on how you can manage your own pension fund, please call our Customer Services Team.



The Isle of Man private banking team. Back row: Andrew Bates, Tom Smart, Martin Ibanez, Jon Evans.
Seated: Rebecca Patterson, Ricarda Best.

Private Banking - Who Needs It?

Private banking is no longer the exclusive preserve of royalty and 'old money'. Over recent years the range of people who can benefit from private banking services has widened enormously.

As well as the more traditional private banking clients, there are now many other people who need specialist advice on managing their diverse banking, investment and long-term savings planning. Entrepreneurs, city dealers, property investors and professional intermediaries as well as sports stars, rock stars, beneficiaries of inheritance and lottery winners are to name but a few.

In response to this demand, more and more high street banks are offering "premium services" and charging accordingly for the privilege. So what can a true private bank offer that your average high street bank can't?

In our advertising, we like to describe our approach to private banking as "distinctly different". The traditional services of a private banker are still a fundamental part of our offering and all our private clients are assigned an experienced and discreet private banker who will be readily available to them by phone, email and in person. What makes our approach different, however, is that whilst our private bankers work closely with clients and advise across an extensive range of specialist wealth management solutions, they have no targets to sell particular products or services. This provides for integrity, aligned to high quality service, and an objectivity that is not easy to find elsewhere.

In addition, our client approach is entirely holistic – each of our private bankers is fully qualified to assess your individual financial requirements, which may range from a currency loan to purchase an overseas property one day to a complex investment solution the next. They are also tax literate, a subject that is often at the heart of discussions, and will work closely with your existing professional advisers as required.

With such a strong client focus, our private banking service offers considerable expertise and value for money. Any services you require can be combined within our unique, fully integrated Focus service. This award-winning account offers an efficient and cost effective means of keeping track of all your financial affairs through a consolidated reporting package. The Focus service is also versatile and can be easily tailored to respond to any changes in your circumstances or lifestyle.

Our private banking services are available to those with a minimum initial combination in cash or investments of £500,000 (or currency equivalent). Below this level, an experienced team of professionally qualified personal bankers stand ready to assist, with the sole aim of satisfying your needs whether they be driven by wealth preservation, wealth creation or elements of both.

From our offshore UK location, we can offer the best of both worlds approach to you as a client, offering innovative and structural techniques to optimise your potential returns. We have private and personal banking teams based in both our Isle of Man and Jersey offices, so if you would like to find out more about the services we offer, simply call our Customer Services Team.



The Jersey private banking team. Back row: Cameron Walker, Hayley Johnson, Claire Grimes, David Haynes.
Seated: Russell Waite, David Stearn, Barry Besnard



Left to right: Eve Berridge (Manx Cancer Help Association), Tracy Ellis, Greg Horton, Mary Stewart (The Koru Hospital Fund), John Knight (The Isle of Man Children's Centre) and Rachael Seed.

Staff Raise over £3000 for Charity

Our staff have been busy raising money for three good causes over the last twelve months. The principal fundraising event was a Venetian-style Masquerade Ball with all proceeds on the night donated to three registered charities chosen by the staff members themselves. The Manx Cancer Help Association (Lisa Lowe Centre), The Isle of Man Children's Centre, and The Koru Hospital Fund were nominated. Whilst the former two charities do an outstanding job in supporting the local community, the latter charity

provides assistance further afield and is supporting the construction and operation of a much-needed hospital in Koru, Kenya. Together with proceeds from the sale of furniture to staff and friends, following the Isle of Man office's move to new premises at St Mary's Court in Douglas, Fairbairn Private Bank staff raised the grand total of £3,150. Tracy Ellis (Customer Services Section Head) and Rachael Seed (Senior Banking Officer), who organised the Summer Ball, along with Greg Horton (Managing Director) presented

the three charities with the cheques on behalf of all the staff.

This year, for the first time, a charity fundraising committee comprising staff members has been formed and the selected charities for 2005 are The Koru Hospital Fund, The Neonatal Unit (Nobles Hospital), St Bridget's MacMillan Nurses and Jersey Hospice Care. We will introduce the committee members and outline more of our charity activities in future issues of Reflections.

Strategic Asset Allocation Service

In our last issue of Reflections we published an article on our Strategic Asset Allocation Service (SAAS). In the piece, we made reference to research on the historical significance of asset allocation as the main driver and contributor to overall investment gains. This research by Brinson, Beebower and Singer was published in the Financial Analyst's Journal, May/June 1991 and a number of readers questioned the significance of research that was over 10 years old.

We would like to emphasise that despite the date of this research, it still remains the most valid and well-used reference on asset allocation. The research was actually revisited in 2000 by Roger Ibbotson and Paul Kaplan for the Association of Investment Management and Research. They re-tested the assumptions of the 1991 research by examining 10 years of monthly returns from 94 US balanced mutual funds and 5 years of quarterly returns to 58 pension funds. They concluded that asset allocation explains about

90% of the variability of returns over time. Therefore, the research was consciously selected for its robust and enduring nature. We apologise for not making this point clearer in the original article and appreciate the feedback we received, which now enables us to clarify matters. The original article on SAAS can be found in the spring issue of Reflections on our website at www.fairbairnpb.com

For further information please contact our Customer Services Team on **0800 289 936** or visit **www.fairbairnpb.com**
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