



**Polar Capital Financial Funds Plc**  
(formerly Hiscox Financial Funds plc)

**Annual Report and Financial Statements**  
**for the year ended 31 December 2010**

**An investment company advised by HIM Capital Limited**  
HIM Capital Limited is authorised and regulated by the Financial Services Authority

## POLAR CAPITAL FINANCIAL FUNDS PLC

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## POLAR CAPITAL FINANCIAL FUNDS PLC

### INVESTMENT OBJECTIVES

There are currently three sub-funds created in the Polar Capital Financial Funds plc (the “Company”): the Polar Capital Asian Financials Fund, the Polar Capital European Financials Fund and the Polar Capital Financials Income Fund (together the “sub-funds”).

#### **Polar Capital Asian Financials Fund (formerly Hiscox Far Eastern Financial Fund)**

The investment objective of the Polar Capital Asian Financials Fund is to achieve medium-term appreciation of shareholders’ capital by investing in the equities of banking, insurance and other financial services companies which derive a substantial proportion of their profits from Far Eastern/Asian markets outside Japan. In addition, the sub-fund may invest in the equities of companies whose principal business is to provide support services to such financial services companies.

#### **Polar Capital European Financials Fund (formerly Hiscox European Financial Fund)**

The investment objective of the Polar Capital European Financials Fund is to achieve medium-term appreciation of shareholders’ capital by investing in the securities of banking, insurance and other companies in the financial sector in Europe, including companies which provide support services to financial sector companies in Europe.

#### **Polar Capital Financials Income Fund (formerly HIM Income Fund)**

The investment objective of the Polar Capital Financials Income Fund is to provide an attractive level of income together with capital growth. In order to achieve its objective the sub-fund invests primarily in the equity, debt and other securities of listed financial companies worldwide.

**CHAIRMAN'S REVIEW**

**Polar Capital:**

The most significant long-term event of 2010 for your Company (previously named Hiscox Financial Funds plc) was the take over of HIM Capital, our investment manager, by Polar Capital Partners Ltd, a specialist investment management group whose shares are listed on the AIM market. Most importantly, HIM Capital's investment team, which includes John Yakas and Nick Brind, moved to Polar Capital Partners Ltd and continue to look after your Company's three sub-funds. That was the essential part of the arrangement as far as we, the Directors, were concerned so that the sub-funds' portfolios continue to be managed by John and Nick, two very able managers indeed. They report that they have settled in well and are happy in their new home.

Of particular significance for the future will be the added resources that Polar Capital Partners Ltd brings to your Company – perhaps the most important of which is that of marketing. Although increasing the size of the sub-funds is not of great financial significance to existing shareholders – it does not increase the net asset value nor indeed any dividends that are paid – it is important that the sub-funds don't shrink to such a small size that they become unviable to run; that would not be in shareholders' interests. Polar Capital has a good reputation within the investment community and, aided by their excellent track records, that should, in due course, increase the interest in our sub-funds.

Shareholders should note that the name of the sub-funds has been changed so that the previous prefixes of Hiscox (in the case of both of the European and the Far Eastern (now the Asian Financials Funds) and HIM (in the case of the Financial Income Fund) has been replaced with that of "Polar Capital".

**The Year 2010**

With the exception of those of Southern Europe and China, the World's bourses continued their recovery from the devastation caused by the financial collapse of 2008 and early 2009. It was, however, the year of currency crises. With the benefit of hindsight it should have been obvious that, if countries and their tax payers borrow on a massive scale to bail out errant banking systems, the integrity of national balance sheets gets called into question by currency markets; and so it proved.

Led by concerns about Greece, which spread to other parts of Southern Europe, the Euro declined amid speculation that the 17 country membership could not survive as one bloc and that its weaker members (often referred to as the PIGS – Portugal, Ireland, Greece and Spain) would have to revert to using their own original currencies. It proved to be erroneous speculation – in the short run at least – and the Euro stabilised. There followed the announcement of a further bout of massive printing of US Dollars by the US Federal Reserve Board (disguised using the political spin terminology of "Quantitative Easing" or "QE"), which led to the Dollar coming under pressure towards the end of the year but to renewed rises in the prices of stocks and gold.

**2010 Results**

**(a) Polar Capital European Financials Fund: NAV p sh: €28.39 +4.5%**

Rather obviously the European Financials Fund had a difficult year. Having said that, John Yakas managed to earn an increase in the net asset value per share, which rose by 4.5% to €28.39. As we have consistently stated over the years, the primary objective is to achieve a capital gain and that was achieved. Despite the traumas in Europe and its banking sector, the Datastream European Financials Index (the Fund's benchmark) itself managed a small rise over the year, increasing by 0.6%. So the Fund also produced positive relative returns, its secondary objective.

John has always been a careful investor, an important attribute when investing in banks, which are by their very nature highly geared. The course of the net asset value during the year shows that in the two difficult quarters (the second and fourth) the net asset value performed much better than its benchmark – falling by 6.8% in the second quarter (the benchmark fell 10.5%) and rising 2.7% in the fourth quarter (when the benchmark fell 0.8%). Careful investing will not always produce the best quarterly returns – especially in hot stock markets – but it tells over the years.

We have always made it clear that the Fund's goal is the achievement of capital gain over the long-term, a period which we regard as being five years. Over the last five years I am afraid we have not achieved that, the net asset value having declined by 17.4%. While that is not satisfactory from shareholders' point of view, it is also not surprising given that the years 2005 to 2010 encompassed the worst banking crisis within Europe since the 1930s. By concentrating investment in financial companies generally and in banks specifically with good managements and sound balance sheets, John has prevented something that could have been much, much worse; to wit our benchmark declined by 38.9% over the last five years. Furthermore by conserving capital in the period he has put the Fund in a position where it can much more easily make up the losses and then achieve the long-term profits that shareholders invest for.

**CHAIRMAN'S REVIEW (continued)****(a) Polar Capital European Financials Fund (continued)**

Conscious that the macro environment was not an easy one for the financial sector in Europe, John maintained a defensive portfolio throughout the year – focusing on Eastern Europe, Turkey, Scandinavia and non-bank UK and on non-life insurance and investment managers. The top five contributors to the rise in the net asset value were two banks DnB NOR (a Norwegian bank holding company) and Halkbank (a Turkish bank) and three UK non-bank companies – International Personal Finance, Hargreaves Landsdown and Lancashire Holdings. Between them they contributed to an increase of 11½%. Although a number of holdings lost ground during the year, there were no major losses, the largest being less than 1%. It all added up to the careful investing (that I referred to earlier) producing a positive return for the year.

To add to the €1.23 increase in the net asset value is the payment of a dividend of €0.36 per share on the 31<sup>st</sup> March 2011.

**(b) Polar Capital Asian Financials Fund: NAV p sh: \$251.22 +14.2%**

The net asset value return for the year was a healthy 14.2%, rising by \$31.25 from \$219.97 to \$251.22 per share. The environment for the financial sector in Asia is markedly different from that of Europe, Asia having had its banking crisis ten years earlier and having sorted it out by the turn of the millennium. The only area where stock market returns were disappointing was China, its stock market still suffering from the excesses, which led to its blow off at the end of 2007.

Not only did John produce a positive return for shareholders of this Fund but he also achieved the secondary objective of producing a better return than that of the Fund's benchmark, the Datastream Asia ex Japan Financials Index (US\$), which rose 11.6% during the period.

The top five contributors to the net asset value return were Bank of China (HK), Tisco Financial, HDFC Bank, Kasikornbank and Dah Sing Financial – these five holdings contributing circa 6½% to the net asset value return. Much of the positive performance was driven by Indian and Hong Kong banks. Against that the five largest detractors in total only detracted 2½%, none being more than 1%; the detractors were mainly our holdings in Chinese banks, which – much in line with its stock market – were underperformers. Once again the individual performance of the various holdings demonstrated John's care in avoiding major mistakes, mistakes which in the banking sector can prove to be very costly.

At the end of the year a dividend of \$1.77 per share was declared and will be paid on 31<sup>st</sup> March 2011.

**(c) Polar Capital Financials Income Fund: NAV (Retail Inc) p sh: 103.07p +4.3%**  
**NAV (Retail Acc) p sh: 108.92p +10.2%**  
**NAV (Inst Inc) p sh: 103.84p +4.9%**  
**NAV (Inst Acc) p sh: 109.57p +10.7%**

There are four classes of shares that make up the Financials Income Fund. In commenting on the net asset value performance I will use the net asset value return of the Institutional Accumulation shares – the net asset value of which rose by 10.7% - and that of the Retail accumulation shares, whose net asset value rose by 10.2%. Nick Brind the Fund's portfolio manager is, like John Yakas, a careful investor; he focuses on balance sheets when making investments; that's a pretty important thing to do when investing in financial companies generally but particularly so when investing in banks. He remained cautious throughout the year; the diversification within the portfolio – between fixed interest securities and equities, exposure to Asian banks and the avoidance of exposure to European banks was the mainstay of the policy throughout 2010 and it paid off. By comparison with the positive returns earned, the benchmark, the Dow Jones STOXX Financial Index (£) actually fell 7.0%. So good positive absolute and relative returns were earned.

While preservation of the real value of capital is important, it is the primary purpose of the Fund to earn an income return, which can be paid out to those shareholders who invest for income. Given that the income that can be earned from deposits at banks or in government securities is almost negligible in the former case and pretty small in the latter case, a well managed income fund should prove very attractive to investors. During the course of the year four dividends were paid out – totalling 5.75p per share, producing a worthwhile and very competitive yield from a conservatively run portfolio. Given the dividends paid, the net asset value of the two income classes of shares increased much less than the accumulation shares. Nevertheless they did increase – in the case of the retail income shares by 4.3% to 103.07p per share and of the institutional income shares by 4.9% to 103.84p per share.

The attraction of a well managed income fund was also demonstrated by flow of new money into the Fund. During the course of 2010 approximately 20 million shares (net of redemptions) were issued so that by the end of 2010, there were circa 35 million outstanding making for a fund of £37 million.

**CHAIRMAN'S REVIEW (continued)**

**Outlook:**

It is difficult to make forecasts about the immediate future because we are in the aftermath of a very severe financial crisis and even quite minor events can have quite a disruptive effect in stock markets in the short term. It is, however, for certain that the recuperation period of a crisis that was many, many years in the making is not going to be a short one. Given that the political solution so far has been to pump huge quantities of money into the various financial systems in order to underwrite financial liquidity and avoid financial meltdowns and to run enormous government budget deficits to avoid catastrophic rises in unemployment, it cannot be said that any lasting cure to the problem of governments and individuals living beyond their means has been addressed – in the US, Europe or Japan at least.

However such is not the case in Asia. There, the banking crisis was experienced over ten years ago – and dealt with by dealing with the causes of their crisis. Today the region enjoys high levels of economic growth and good savings and investment rates to go along with generally positive demographics (China apart) and excellent education – the key characteristics of good long-term growth. By and large (India excepted) valuations of Asian financial sector stocks and shares are reasonable so that there is every chance of continuing to earn good returns from them. Our Asian fund should benefit both a good operating environment and from John's knowledge and experience of Asian financials. We look forward to continued success.

While it is easy to be "down" on European financials and particularly European banks, it should not be forgotten that banks are an integral and very important part of any modern day economy. Although the prospects for economic growth of much of Europe may not be too terrific, there are banks within Europe that have weathered the storm and are in a position to take advantage of the weakness of others. One of the most rewarding areas for investment has always been investment in well managed, soundly financed companies in a sector with problems: the strong get stronger at the expense of the weak. It would not be at all surprising if the European Fund produced some good returns in the medium term based on very low expectations for good banks and on John's skills and understanding of European banking.

And finally the prospects for the Financial Income Fund seem to your Board to be particularly attractive because investment in financial companies with strong balance sheets, with sound franchises and with the ability to both grow and pay rising dividends will attract a lot of investor attention. The elimination of dividends by many banks (and indeed some other companies) together with close to zero rates of interest in many parts of the world, has created a shortage of reliable investment income at a time when demographic trends are increasing the need for investment income. A well managed portfolio of financial shares producing investment income for its investors stands to do well and we believe that the Financial Income Fund is just such a fund.

In summary the most important thing that can ever be said about any fund is what can be said about its portfolio manager. Following the assimilation of HIM Capital into Polar Capital Partners Ltd, your Directors believe that our proven portfolio management team (of John Yakas and Nick Brind) will take advantage of the opportunities that the financial sector offers and continue to produce more than acceptable returns. Look forward to it.

**Alex Hammond-Chambers**  
**Chairman**  
**March 2011**

## INVESTMENT MANAGER'S REVIEW

### **Polar Capital Asian Financials Fund (the "sub-fund")**

The recovery from the 2008 financial crisis continued in 2010 and the sub-fund rose 14.2% during the year, outperforming its benchmark index, the Datastream Asia ex-Japan Financials Index, by 2.6%. The sub-fund is now trading at levels seen before the crisis and that, coupled with a robust macro economic picture would suggest the recovery is now complete and going forward we will need to rely more on the underlying growth expectations for the region's financial service companies. Our out-performance was primarily driven by our underweight position in Chinese financials and overweight position in Hong Kong banks in addition to opportunistic purchases early in the year in India and Indonesia.

2010 has been a tale of two share price performance trends. Some markets such as India, Indonesia, Hong Kong, Thailand and the Philippines have performed strongly, whilst others including China, Taiwan, South Korea and Singapore have been laggards. The principal difference between the two has been that the former group of countries have been greater beneficiaries of falling interest rates (partly because they had further to fall). GDP growth has clearly not been a driver since Singapore and China both showed exemplary performances during the year and yet their shares have remained in the doldrums. Regulatory intervention has probably also played a negative influence with Chinese and Korean regulators being amongst the most interventionist (although it could be argued that all countries are seeing rises in capital and lending regulations).

In terms of trends in the portfolio, the greatest change early in the year was a shift away from regional stocks such as HSBC and Standard Chartered and increased holdings in India and Indonesia, a move that proved favourable to our performance. The portfolio also saw an increase in our Chinese exposure which in the face of constant concerns over capital and asset quality are now trading at exceptionally low valuations. This was offset by reduced exposure to Korea and Taiwan and more recently Hong Kong. The latter is beginning to cause some concern in view of clear signs of over-heating and high valuations and few tools to counteract this in view of US monetary policy and ample liquidity from China.

Going forward the focus should be on inflation and the consequent impact on interest rates. The concern is that in order to avoid their currencies appreciating too rapidly, Asian governments have been laggards in raising interest rates and this will fuel a further appreciation in the rising inflation rates. It is interesting to note that financial stocks have been laggards in the final quarter of the year (primarily because of growing interest rates expectations) and we have positioned the sub-fund into more defensive names with strong deposit and capital bases. The latter will see considerable upside in their margins in the year ahead as interest rates rise and so we expect them to start out-performing, after a year of being laggards.

Underlying our continued favourable view on Asian financials is the balance sheet structure of these banks. They remain under-gearred (and will benefit from a gradual gearing up process underway in Asia), have access to cheap funding, the benefit of which will become more apparent when interest rates are higher, and have conservative capital structures and so are well placed for the avalanche of new capital regulations in the pipeline. Finally for investors interested in focusing on a gradual acceleration in Asian domestic consumption, local banks remain a reasonably priced means of accessing that trend (increased consumption tends to go hand in hand with growth in consumer banking).

### **Polar Capital European Financials Fund (the "sub-fund")**

The recovery in European financials remained highly volatile in 2010 as concerns regarding sovereign risk in the periphery escalated. Whilst data from core Europe has surprised on the upside (PMI data has shown a strong resurgence in private sector activity in Germany and a robust picture in France), there is continued uncertainty as to the extent to which the periphery will act as a drag on the region's recovery. Investor sentiment towards the sector has also been affected by uncertainty as to the future regulatory environment (prior to the release of the Basel III proposals) and fears regarding a fresh wave of capital raisings following the CEBS stress-test (whilst their publication has increased transparency on bank balance sheets it has not drawn a line under capital concerns for the sector). Despite these uncertainties, the sub-fund's NAV rose by 4.5% in the year, outperforming the benchmark index, the Datastream European Financials Index, by 3.9%.

The sub-fund's performance was supported by its overweight position to banks in Northern Europe, where the two-speed recovery in the region was reflected in their stronger operating trends. In contrast to their peers in the periphery (where the sub-fund retained minimal direct exposure), core Europe's banks have rebuilt core capital (mainly through declining RWAs) and are benefiting from a recovery in loan demand and asset quality. In particular, the sub-fund benefited from its overweight position in the Nordics (DnB NOR, Svenska Handelsbanken), where a strong economic rebound in Sweden and Norway has led to a recovery in retail loan growth and deposit margins have benefited from monetary tightening.

Asset managers (Schroders, Hargreaves Lansdown, City of London) and Specialist Financials (International Personal Finance) have also been strong performers for the sub-fund during the year. The former benefiting from positive market performance and net fund flows (largely towards higher margin products) and the latter following a combination of continued credit quality improvement and a pick-up in loan growth in its core markets. The sub-fund was also helped by its emerging market exposure (Halkbank, Pekao, Komercni), supported by strong balance sheets and an absence of regulatory uncertainties that affected their peers in Western Europe.

Despite retaining a defensive profile throughout the year there were a number of changes made to the portfolio.

**INVESTMENT MANAGER'S REVIEW (continued)**

**Polar Capital European Financials Fund (the "sub-fund") (continued)**

At the start of the year we further reduced our underweight position in periphery Europe (selling National Bank of Greece & Marfin Popular) and maintained minimal direct exposure for the rest of the year (mainly through Santander and Intesa Sanpaolo). In contrast, we increased our exposure to the more defensive Nordic region through additions to our holdings in Svenska Handelsbanken and Sampo. Given the pressure on the banking sector from sovereign and regulatory risk, we also increased the sub-fund's exposure to wealth managers (City of London, Bank Sarasin, Aberdeen Asset Management) which were some of the strongest performers in the sector.

As seen by events at the start of 2011, prior to the introduction of a more comprehensive solution by European leaders, the road to recovery for the sector is likely to remain volatile with sentiment closely tied to the success with which European governments confront their heavy refinancing schedule. However, valuations remain at very low levels and it is important not to lose sight of the improving underlying fundamentals that are evident outside of the periphery and which provide a significant opportunity for the better funded and capitalised banks. Given the potential for a further escalation in the current sovereign debt crisis in the euro zone, we are likely to retain a relatively high cash position and will look to carefully reinvest as opportunities arise in what is likely to be a volatile 2011.

**John Yakas**  
**January 2011**

**Polar Capital Financials Income Fund (the "sub-fund")**

Against a particularly difficult background the sub-fund performed well in 2010 rising by 10.7% (institutional accumulating B2 share class) compared to the benchmark index, the Dow Jones STOXX Financials Index(£), which fell by 7.0%. This relative good performance is mostly a reflection of the sub-fund's limited exposure to the equity and fixed-income securities of financial companies in Greece and Ireland, in particular, but also Portugal, Spain and Italy (unfavourably given the acronym PIIGS) which suffered as sovereign concerns reverberated around the Eurozone.

The fixed-income element of the portfolio provided some steady returns over the year though the subordinated debt securities of banks in all the PIIGS countries suffered falls in their prices. A key development was a number of announcements from the Basel Committee on Banking Supervision regarding the so-called Basel III rules which will be beneficial to fixed-income investors in the banking sector over the next couple of years.

The aim of the new rules is to reduce systemic risk within the banking system which involves significantly increasing the amount of capital that banks have to hold. This on its own will in effect make banks less risky and will be supportive for prices of their debt securities. Furthermore under the new rules banks will have an incentive to repay or buyback many of their subordinated debt issues as hybrid debt securities are phased out as forms of capital.

The performance of the equity portfolio was also good and fairly broad based. In particular there were a number of holdings in UK asset managers such as City of London Investment Group, Jupiter Fund Management and Hargreaves Lansdown, the latter more of an asset gatherer through its Vantage platform than asset manager, which performed particularly well. All benefited from their operational gearing to rising financial markets and net inflows of assets under management.

Elsewhere within the portfolio and benefiting from input from the other members of the financials team a number of the Asian banks held in the sub-fund performed well. This included ICBC Asia, a Hong Kong bank, being acquired at a big premium by its majority shareholder, Industrial & Commercial Bank of China, but the best performer was Tisco Financial, a Thai consumer finance lender, whose share price almost doubled during the year after adjusting for currency.

The sub-fund's exposure to non-life insurance stocks also benefited performance with Lancashire Holdings performing strongly as well, returning significant capital during the year through special dividends and buybacks. Berkshire Hathaway's share price rose sharply post the announcement that it would be included in the S&P 500 Index as a result of its acquisition of Burlington Northern. The sub-fund's holding in Berkshire Hathaway was sold post this rise as was more recently the holding in Jupiter Fund Management.

Exposure to fixed-income securities increased from 36.9% at the beginning of the year to 40.8% at the end of December 2010 having been at a higher weighting in the intervening period. This was done to position the portfolio more defensively due to concerns that the crisis in the Eurozone could have a bigger impact on financial markets. The equity part of the portfolio was reduced over the year from 60.1% to 49.9% with the cash position at year-end 9.3% though this has since fallen.

Looking forward we believe that it is very much a case of plus ça change, plus c'est la même chose. Financial markets will be volatile and we may yet have the denouement of the crisis in the Eurozone. The sub-fund remains defensively positioned but volatility aside we expect companies to take advantage of the recovery in economic growth and earnings to raise dividends which should be supportive for share prices.

**Nick Brind**  
**January 2011**



**INVESTMENT MANAGER PROFILE**

**HIM Capital Limited**

HIM Capital is a specialist fund manager with an established track record of managing financials funds. HIM Capital was formerly called Hiscox Investment Management Ltd prior to the management buyout in December 2007 of the business from Hiscox Limited, the property casualty insurance group. In September 2010, HIM Capital was purchased by Polar Capital Partners Ltd, a boutique investment manager. The Investment Management team has moved to Polar Capital Partners Ltd premises and continues to work on the sub-funds. There has been no change to the investment management team and the sub-funds continue to be administered by and held at custody at BNP Paribas Securities Services. In December 2010, following a shareholder EGM, the Hiscox Financial Funds plc was renamed the Polar Capital Financial Funds plc. Each of the three sub-funds was also renamed, adopting the Polar Capital prefix. HIM Capital's Funds have track records dating back to 1993 and its sub-funds have all outperformed their benchmarks since launch.

**BOARD OF DIRECTORS PROFILE**

**Alexander Hammond-Chambers (British national and resident)** - Mr Hammond-Chambers, retired as Chairman of Ivory & Sime plc, the investment managers, in 1991 after working at Ivory and Sime for twenty seven years. He is a non-executive chairman of a number of investment companies including Aurora Investment Trust plc, Hansa Trust plc and a director of a number of others. He has served as chairman of the Association of Investment Companies, the investment companies' trade body in the UK and as a governor of the NASD in the USA.

**Peter Blessing (Irish national and resident)** - Mr Blessing is a chartered accountant with extensive experience of banking, investments and corporate finance. Since 1995, he has acted as a director of and consultant to, a number of International Financial Services Centre ("IFSC") companies. Mr. Blessing was Managing Director of Credit Lyonnais' IFSC subsidiary from 1991 to 1995. Previously, Mr. Blessing worked with Allied Irish Banks plc, as a director of its IFSC subsidiary from 1988 to 1991 and as a senior executive in its Corporate Finance division from 1982 to 1988.

**Dermot S. L. Butler (Canadian national and Irish resident)** - Mr Butler has more than forty years' experience in the financial markets, for over ten years of which he acted as an independent agent for Rudolf Wolff & Co Limited. Prior to moving to Dublin to set up the Custom House group of companies in 1989, he was both chairman and a director of McDonnell & Co. (London) Limited, a wholly-owned subsidiary of McDonnell & Co. (Bermuda) Limited, the Bermuda based fund management company. The Custom House group of companies, of which he is Chairman, includes Malta-based Custom House Global Fund Services Ltd and Custom House Fund Services (Ireland) Limited. Mr. Butler is a director of a number of companies involved in international investment and financial services, including several investment funds whose shares are listed on the Irish Stock Exchange. He was also the Deputy Chairman of AIMA (the Alternative Investment Management Association) for six years until September 2008.

**Colin M. McGill (Swiss resident and British national)** - Mr McGill, until recently was managing director of FPK Group. He was educated at Oxford University, where he read Economics. He was a pilot in the Royal Air Force, before joining Fox-Pitt Kelton (FPK) upon the foundation of the firm in 1971. He was Managing Director of FPK, based in London and had overall responsibility for the firm's Global equity trading and sales operations. He was a director of Binley Ltd and FPK Group companies.

**David Astor (British national and resident)** - Mr Astor is currently the Group Investment Officer of Hiscox Limited where he has worked since October 2002. Prior to October 2002, Mr Astor worked at Eldon Capital Management from January 1993 as Fund Manager with primary responsibility for the US Financial Fund and secondary involvement in the European and Far Eastern Financial Fund. When the fund management business of Eldon Capital Management was sold to Hiscox Limited in October 2002 the European and Far Eastern Financial Funds moved to Hiscox Limited and Mr Astor continued as Fund Manager of these funds. In October 2005 he assumed the role of Group Investment Officer of Hiscox Limited where he was responsible for overseeing the management of approximately £2bn of assets. In December 2007 the fund management business of Hiscox Limited was sold to HIM Capital and Mr Astor concluded his role as Fund Manager but continues in his role as Hiscox Group Investment Officer. Mr Astor began his career in financial services at Kleinwort Benson in 1982.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010.

### Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by Chartered Accountants Ireland.

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Irish Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 as amended (the "UCITS Regulations") and the listing rules of the Irish Stock Exchange. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under the UCITS Regulations, the Directors are required to entrust the assets of the Company to the Trustee for safe-keeping. In carrying out this duty, the Trustee has delegated custody of the Company's assets to BNP Paribas Securities Services, Dublin Branch.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the HIM Capital Limited website for Polar Capital Financial Funds plc. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Proper books of account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at the following address:

BNP Paribas Fund Services Dublin Limited  
6 George's Dock  
IFSC  
Dublin 1  
Ireland

### Principal activities and review of the business

The Company is an open-ended investment company with variable capital which has been authorised by the Central Bank of Ireland (the "Regulator") under the UCITS Regulations. The Company's assets are invested in the shares of banking, insurance and other financial companies in the individual market of the sub-funds with an objective of achieving capital growth for share shareholders.

There is a detailed review of performance in the Investment Manager's report on pages 7-8.

### Results and dividends

The results and dividends for the year are set out in the profit and loss account on page 24.

Polar Capital Asian Financials Fund: A dividend of US\$1.77 was declared on 5 January 2011 in respect of the year ended 31 December 2010 and was paid on 31 March 2011. (A dividend of US\$0.71 was declared on 5 January 2010 in respect of the year ended 31 December 2009 and was paid on 31 March 2010.)

Polar Capital European Financials Fund: A dividend of €0.36 per share was declared on 5 January 2011 in respect of the year ended 31 December 2010 and was paid on 31 March 2011. (A dividend of €0.43 per share was declared on 5 January 2010 in respect of the year ended 31 December 2009 and was paid on the 31 March 2010).

## POLAR CAPITAL FINANCIAL FUNDS PLC

### REPORT OF THE DIRECTORS (continued)

#### Results and dividends (continued)

Polar Capital Financials Income Fund: A dividend of £0.015 per share was declared on 5 January 2011 in respect of the quarter ended 31 December 2010 and was paid on 31 January 2011.

A dividend of £0.012 per share was declared on 5 January 2010 in respect of the quarter ended 31 December 2009 and was paid on 29 January 2010. A dividend of £0.0125 per share was declared on 2 April 2010 in respect of the quarter ended 31 March 2010 and was paid on 30 April 2010. A dividend of £0.015 per share was declared on 2 July 2010 in respect of the quarter ended 30 June 2010 and was paid on 30 July 2010. A dividend of £0.015 per share was declared on 2 October 2010 in respect of the quarter ended 30 September 2010 and was paid on 29 October 2010.

#### Financial risk management

For details on the risks and how they are monitored and where possible managed by the Company please refer to note 11 on page 36.

#### Directors

The names of the persons who were directors at any time during the period are set out below. Except where indicated, they served for the entire year.

Alexander Hammond-Chambers  
Peter Blessing  
Dermot Butler  
Colin McGill  
David Astor

#### Directors' interests

Interests of the Directors of the Company in the share capital of the Company as at 31 December 2010 and 2009 were as follows:

<b>Polar Capital Asian Financials Fund</b>	<b>2010</b>	<b>2009</b>
Colin McGill	3,364 shares	3,364 shares
Alex Hammond-Chambers	490 shares	350 shares
<b>Polar Capital European Financials Fund</b>		
Alex Hammond-Chambers	491 shares	491 shares
David Astor	1,230 shares	1,230 shares
<b>Polar Capital Financials Income Fund</b>		
Colin McGill	202,497 shares	200,000 shares
Alex Hammond-Chambers	80,000 shares	80,000 shares
David Astor	10,000 shares	10,000 shares
Dermot Butler	107,139 shares	Nil

#### Transactions involving Directors

David Astor is Group Investment Officer of Hiscox Limited, the largest shareholder of the Polar Capital European Financials Fund and Polar Capital Financials Income Fund, and the second largest shareholder of the Polar Capital Asian Financials Fund. The Board of Directors is not aware of any other contracts or arrangements of any significance, subsisting during or at the end of the year, in relation to the business of the Company.

#### Matters for Shareholders' Attention (Significant Events during 2010)

In September 2010, the investment manager of the sub-funds, HIM Capital Limited, was acquired by Polar Capital Partners Ltd. The fund management team has moved to Polar Capital Partners Ltd, but has remained unchanged. HIM Capital Limited remain the investment manager of the sub-funds.

In December 2010, following the approval of shareholders at an EGM, the company was renamed from the Hiscox Financial Funds Plc to the Polar Capital Financial Funds plc. The sub-funds were also renamed as follows:

The Hiscox European Financial Fund was renamed Polar Capital European Financials Fund.

The Hiscox Far Eastern Financial Fund was renamed Polar Capital Asian Financials Fund.

The HIM Income Fund was renamed Polar Capital Financials Income Fund.

#### Events since the year end

There have been no significant events affecting the Company since the year end.

**REPORT OF THE DIRECTORS (continued)**

**CORPORATE GOVERNANCE STATEMENT**

The European Communities (Directive 2006/46/EC) Regulations (S.I. 450 of 2009 and S.I. 83 of 2010) (the "Regulations") requires the inclusion of a corporate governance statement in the Directors' Report.

Although there is no specific statutory corporate governance code applicable to Irish collective investment schemes whose shares are admitted to trading on the Irish Stock Exchange, the Company is subject to corporate governance practices imposed by:

- (i) The Irish Companies Acts 1963-2009 which are available for inspection at the registered office of the Company; and may also be obtained at <http://www.irishstatutebook.ie/home.html>.
- (ii) The Articles of Association of the Company which are available for inspection at the registered office of the Company at 25/28 North Wall Quay, Dublin 1, Ireland and at the Companies Registration Office in Ireland;
- (iii) The Central Bank of Ireland in their UCITS Notices and Guidance Notes which can be obtained from the Central Bank of Ireland/Financial Regulator's website at: <http://www.financialregulator.ie/industrysectors/funds/Pages/default.aspx> and are available for inspection at the registered office of the Company; and
- (iv) The Irish Stock Exchange ("ISE") through the ISE Code of Listing Requirements and Procedures which can be obtained from the ISE's website at:- <http://www.ise.ie/index.asp?locID=7&docID=-1>

The Board of Directors has voluntarily complied with the Corporate Governance Code for Irish Domiciled Collective Investment Schemes as published by the Irish Funds Industry Association, as the Company's corporate governance code. The Board of Directors has assessed the measures included in the IFIA Code as being consistent with its corporate governance practices and procedures for the financial year apart from point 3.4 (ii) in the IFIA Code where according to the IFIA Code consideration of changes in investment objectives, policies and restrictions will be done by the Board. However the Board will only make such changes with the approval of shareholders.

**Internal Control Procedures & Risk Management**

The Board of Directors has appointed KB Associates to carry out the following management functions as per the Company's UCITS Business Plan 1) monitoring compliance 2) monitoring risk management 3) financial control 4) monitoring capital 5) internal audit and 6) supervision of delegates. KB Associates provides regular reporting to the Board in respect of the above management functions.

Under the UCITS Regulations, the Directors are required to entrust the assets of the Company to the Custodian for safe-keeping. In carrying out this duty, the Director's have appointed BNP Paribas Securities Services, Dublin Branch as Custodian for the Company.

The Board of Directors is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of error or fraud in achieving the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board of Directors has procedures in place to ensure all relevant books of account are properly maintained and are readily available, including production of annual and half-yearly financial statements. The annual financial statements of the Company are required to be approved by the Board of Directors of the Company and the annual and half yearly financial statements of the Company are required to be filed with the Central Bank of Ireland and the Irish Stock Exchange. The statutory financial statements are required to be audited by independent auditors who report annually to the Board on their findings.

The Board evaluates and discusses significant accounting and reporting issues as the need arises. The Board of Directors has appointed BNP Paribas Fund Services Dublin Limited as its Administrator. The Administrator maintains the books and records of the Company. The Administrator is authorised and regulated by the Central Bank of Ireland and must comply with the rules imposed by the Central Bank of Ireland. From time to time the Board also examines and evaluates the Administrator's financial accounting and reporting routines and monitors and evaluates the external auditors' performance, qualifications and independence.

**Shareholders' Meetings, Shareholders' rights and exercise of such rights**

The convening and conduct of shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts. Although the Directors may convene an extraordinary general meeting of the Company at any time, the Directors are required to convene an annual general meeting of the Company within fifteen months of the date of the previous annual general meeting. Shareholders representing not less than one tenth of the paid up share capital of the Company may also request the Directors to convene a shareholders' meeting. Not less than twenty one days notice of every annual general meeting and any meeting convened for the passing of a special resolution must be given to shareholders and fourteen days' notice must be given in the case of any other general meeting unless the auditors of the Company and all the shareholders of the Company entitled to attend and vote agree to shorter notice.

## POLAR CAPITAL FINANCIAL FUNDS PLC

### REPORT OF THE DIRECTORS (continued)

#### CORPORATE GOVERNANCE STATEMENT (continued)

Two members present either in person or by proxy constitute a quorum at a general meeting provided that the quorum for a general meeting convened to consider any alteration to the class rights of shares is two shareholders holding or representing by proxy at least one third of the issued shares of the relevant sub-fund or class.

Every holder of participating shares present in person or by proxy who votes on a show of hands is entitled to one vote. On a poll, every holder of participating shares present in person or by proxy is entitled to one vote in respect of each share held by him. The Chairman of a general meeting of the Company or at least two members present in person or by proxy or any holder or holders of participating shares present in person or by proxy representing at least one tenth of the shares in issue having the right to vote at such meeting may demand a poll.

Shareholders may resolve to sanction an ordinary resolution or special resolution at a shareholders' meeting. An ordinary resolution of the Company or of the shareholders of a particular sub-fund or class requires a simple majority of the votes cast by the shareholders voting in person or by proxy at the meeting at which the resolution is proposed. A special resolution of the Company or of the shareholders of a particular sub-fund or class requires a majority of not less than 75% of the shareholders present in person or by proxy and voting in general meeting in order to pass a special resolution including a resolution to amend the Articles of Association.

#### **Composition and operation of the Board of Directors**

Unless otherwise determined by an ordinary resolution of the Company in general meeting, the number of Directors may not be less than two. Currently the Board of Directors of the Company is composed of five directors, being those listed in the directory in these financial statements.

The business of the Company is governed by the Directors, who exercise all such powers of the Company as are not by the Companies Acts or by the Articles of Association of the Company required to be exercised by the Company in general meeting.

A Director may, and the company secretary of the Company on the requisition of a Director will, at any time summon a meeting of the Directors. Questions arising at any meeting of the Directors are determined by a majority of votes. In the case of an equality of votes, the Chairman has a second or casting vote. The quorum necessary for the transaction of business at a meeting of the Directors is two. All meetings of the Directors are held in Ireland.

#### **Independent auditors**

Grant Thornton, Chartered Accountants have indicated their willingness to continue in office in accordance with section 160(2) of the Companies Act, 1963.

On behalf of the Board

Alex Hammond-Chambers

Dermot Butler

19 April 2011

**STATEMENT OF CUSTODIAN'S RESPONSIBILITIES AND CUSTODIAN'S REPORT**

The European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003 (S.I. No. 211 of 2003) as amended from time to time (the "Regulations") impose certain obligations on the Custodian and require the Custodian to enquire into the conduct of the Company in each annual accounting period and report thereon to Shareholders. In particular, the Custodian must:

1. Ensure that the sale, issue, repurchase, redemption and cancellation of Shares effected by or on behalf of the Company are carried out in accordance with the Regulations and in accordance with the Articles of Association of the Company (the "Articles");
2. Ensure that the value of Shares is calculated in accordance with the Regulations and the Articles;
3. Ensure that there is legal separation of non-cash assets held under custody and that such assets are held on a fiduciary basis. In jurisdictions where fiduciary duties are not recognised the Custodian must ensure that the legal entitlement of the Company to the assets is assured;
4. Maintain appropriate internal control systems to ensure that records clearly identify the nature and amount of all assets under custody, the ownership of each asset and where documents of title to that asset are located;
5. Where the Custodian utilises the services of a sub-custodian the Custodian must ensure that these standards are maintained by the sub-custodian;
6. Where the Custodian utilises the services of a global sub-custodian the Custodian must ensure that:
  - (i) the non-cash assets are held on a fiduciary basis by the global sub-custodian's network of custodial agents and this should be confirmed by those agents on a regular basis. In jurisdictions where fiduciary duties are not recognised the Custodian must ensure that the legal entitlement of the Company to the assets is assured;
  - (ii) the Custodian must maintain records of the location and amounts of all securities held by each of the custodial agents.
7. The Custodian must notify the Central Bank of Ireland promptly of any material breach of the Regulations, conditions imposed by the Central Bank of Ireland or provisions of the prospectus with regard to an investment company.

**Custodian's report to the shareholders of Polar Capital Financial Funds plc for the year ended 31 December 2010**

In our opinion, the Company has been managed during the year, in all material respects:

- (i) In accordance with the limitations imposed on the investment and borrowing powers of the scheme by the memorandum and articles of association and by the Central Bank of Ireland under the powers granted to the Central Bank of Ireland by the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003 (S.I. No. 211 of 2003) as amended from time to time and the Investment Funds, Companies and Miscellaneous Provisions Act, 2005 (the "Regulations"); and
- (ii) Otherwise in accordance with the provisions of the memorandum and articles of associations and the Regulations.

BNP Paribas Securities Services Dublin Branch  
5 George's Dock  
IFSC  
Dublin 1  
19 April 2011

**INDEPENDENT AUDITORS' REPORT**

We have audited the Financial Statements on pages 17 to 45 for the year ended 31 December 2010 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders, Schedule of Investments and the Related Notes. These financial statements have been prepared under the accounting policies therein.

**Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and Irish Accounting Standards are set out in the Statement of Directors' Responsibilities on page 11.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) promulgated by the Auditing Practices Board to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 193(1) of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Acts 1963 to 2009 and the European Communities (Undertakings for Collective Investment Securities). We also report to you whether, in our opinion, proper books of account have been kept by the company and whether the information given in the Directors' report is consistent with the Financial Statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company's Balance Sheet and its Profit and Loss Account are in agreement with the books of account.

We report to the shareholders if, in our opinion, any information specified by law or the listing rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not given and, where practicable, include such information in our report.

We read other information contained in the Financial Statements which includes the Investment Objectives, Chairman's Review, Investment Manager's Review, Investment Manager and Director Profile, Statement of Custodian's Responsibilities and Custodians Report and consider whether they are consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any information outside the Annual Report.

**Basis of Audit Opinion**

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

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

**Opinion**

In our opinion, the Financial Statements give a true and fair view of the state of the Company's affairs at 31 December 2010 and of its results for the year ended 31 December 2010 and have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment Securities).

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of accounts have been kept by the Company. The Financial Statements are in agreement with the books of account.

In our opinion, the information given in the Directors' Report is consistent with the Financial Statements.

Grant Thornton  
Chartered Accountants and Registered Auditors  
24-26 City Quay, Dublin 2  
Date: 19 April 2011



**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital Asian Financials Fund**

Country	Company	Holding	Fair value US\$	% of Net Assets	Nature of business
<b>Equities</b>					
Hong Kong	Hang Seng Bank	137,333	2,257,774	3.22%	Bank
	China Taiping Insurance	727,961	2,233,424	3.19%	Insurance
	Dah Sing Financial	321,240	2,097,202	2.99%	Bank
	Bank of China (HK)	444,082	1,508,140	2.15%	Bank
	Sun Hung Kai Properties	82,000	1,355,475	1.93%	Other financial
	AIA Group	480,000	1,349,172	1.92%	Other financial
	Henderson Land Development	181,500	1,237,448	1.76%	Other financial
	Public Financial	1,160,000	835,643	1.19%	Other financial
	Bank of East Asia	185,500	777,922	1.11%	Bank
	Aeon Credit Service	594,000	496,677	0.71%	Consumer financial
	Henderson Land Development Warrants	17,100	3,872	0.01%	Other financial
			<b>14,152,749</b>	<b>20.18%</b>	
China	China Construction Bank	4,090,296	3,662,171	5.22%	Bank
	Bank of China	6,046,700	3,173,607	4.53%	Bank
	Industrial & Commercial Bank of China - H	3,258,310	2,418,482	3.45%	Bank
	China Citic Bank	3,270,000	2,115,877	3.02%	Bank
	China Merchants Bank	725,000	1,826,103	2.60%	Bank
			<b>13,196,240</b>	<b>18.82%</b>	
Korea	Dongbu Insurance	62,000	2,441,977	3.48%	Insurance
	Daegu Bank	154,000	2,116,838	3.02%	Bank
	Hana Financial	28,000	1,068,288	1.52%	Other financial
	Kiwoom Securities	14,250	732,025	1.04%	Other financial
			<b>6,359,128</b>	<b>9.06%</b>	
India	Axis Bank	58,200	1,754,460	2.50%	Bank
	Housing Development Finance	100,000	1,625,741	2.32%	Bank
	Housing Development Finance ADR	7,200	1,203,192	1.72%	Bank
	HDFC Bank	13,500	706,550	1.01%	Bank
	Shriram Transport Finance	20,000	349,771	0.50%	Other financial
			<b>5,639,714</b>	<b>8.05%</b>	
Singapore	Oversea Chinese Banking	340,000	2,622,214	3.74%	Bank
	United Overseas Bank	152,645	2,168,634	3.09%	Bank
	Capitamalls Asia	420,000	632,760	0.90%	Other financial
			<b>5,423,608</b>	<b>7.73%</b>	
Taiwan	China Trust Financial	2,721,985	1,997,856	2.85%	Bank
	Yuanta Financial	2,110,000	1,574,006	2.25%	Other financial
	Sinopac Holdings	3,070,000	1,410,938	2.01%	Bank
			<b>4,982,800</b>	<b>7.11%</b>	
Thailand	Siam Commercial Bank	359,537	1,234,435	1.76%	Bank
	Bank of Ayudhya Public - NVDR	1,230,000	1,040,470	1.48%	Bank
	Kasikornbank Foreign	215,052	923,842	1.32%	Bank
	Bangkok Life Assurance	900,000	903,134	1.29%	Life Assurance
	Land & Houses Pub	1,500,000	318,461	0.45%	Other financial
	Bank of Ayudhya Public	90,000	76,132	0.11%	Bank
			<b>4,496,474</b>	<b>6.41%</b>	
Malaysia	Public Bank - Foreign Market	544,574	2,295,928	3.27%	Bank
	Commerce Asset	275,000	757,179	1.08%	Bank
	Hong Leong Bank Berhad	220,000	656,400	0.94%	Bank
	Public Bank	29,555	124,412	0.18%	Bank
			<b>3,833,919</b>	<b>5.47%</b>	

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital Asian Financials Fund (continued)**

<b>Country</b>	<b>Company</b>	<b>Holding</b>	<b>Fair value US\$</b>	<b>% of Net Assets</b>	<b>Nature of business</b>
<b>Equities (continued)</b>					
Indonesia	PT Bank Central Asia	2,893,500	2,055,316	2.93%	Bank
	PT Bank Danamon	975,000	616,815	0.88%	Bank
	PT Lippo Karawaci	5,000,000	371,809	0.53%	Other financial
	PT Bank Pan Indonesia	2,630,000	329,845	0.47%	Bank
			<b>3,373,785</b>	<b>4.81%</b>	
UK	HSBC	235,800	2,416,040	3.45%	Bank
			<b>2,416,040</b>	<b>3.45%</b>	
Philippines	Security Bank	800,000	1,564,940	2.24%	Bank
			<b>1,564,940</b>	<b>2.24%</b>	
Pakistan	MCB Bank	460,000	1,227,382	1.75%	Bank
			<b>1,227,382</b>	<b>1.75%</b>	
US	CNINSURE	27,000	466,290	0.67%	Life Assurance
			<b>466,290</b>	<b>0.67%</b>	
<b>Financial assets at fair value through profit or loss</b>			<b>67,133,069</b>	<b>95.75%</b>	
<b>Cash</b>			<b>3,612,640</b>	<b>5.15%</b>	
<b>Other net liabilities</b>			<b>(634,827)</b>	<b>(0.90)%</b>	
<b>Net assets attributable to redeemable participating shareholders</b>			<b>70,110,882</b>	<b>100.00%</b>	

All investments are traded on a recognised exchange.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital European Financials Fund**

Country	Company	Holding	Fair value €	% of Net Assets	Nature of business
<b>Equities</b>					
UK	HSBC	215,516	1,637,655	7.16%	Bank
	Hargreaves Landsdown	132,744	907,837	3.97%	Other financial
	Schroders	39,500	855,138	3.74%	Other financial
	Lancashire Holdings	121,500	781,309	3.42%	Insurance
	International Personal Finance	173,500	775,723	3.39%	Other financial
	Standard Chartered	31,969	643,596	2.81%	Bank
	Amlin	135,600	640,612	2.80%	Insurance
	Prudential	80,500	627,108	2.74%	Life assurance
	Admiral Group	30,270	535,205	2.34%	Insurance
	Barclays	171,800	524,613	2.29%	Bank
	City of London Investment Group	93,000	488,960	2.14%	Other financial
	Aviva	83,500	382,978	1.67%	Life assurance
	Aberdeen Asset Management	158,000	373,587	1.63%	Other financial
			<b>9,174,321</b>	<b>40.10%</b>	
Switzerland	Credit Suisse	30,400	915,805	4.00%	Bank
	UBS	61,500	754,948	3.30%	Bank
	Baloise	4,500	327,482	1.43%	Insurance
	Bank Sarasin	8,300	282,762	1.24%	Bank
			<b>2,280,997</b>	<b>9.97%</b>	
Turkey	Turkiye Halk Bankasi	96,500	607,609	2.66%	Bank
	Turkiye Garanti Bankasi	130,000	491,124	2.15%	Bank
	Akbank	109,000	452,968	1.98%	Bank
	Asya Katilim Bankasi	302,500	416,100	1.82%	Bank
			<b>1,967,801</b>	<b>8.61%</b>	
Norway	DNB	152,988	1,606,837	7.02%	Bank
			<b>1,606,837</b>	<b>7.02%</b>	
France	BNP Paribas	15,100	718,911	3.14%	Bank
	Societe Generale	14,100	567,102	2.48%	Bank
			<b>1,286,013</b>	<b>5.62%</b>	
Finland	Sampo Oyj	34,660	694,933	3.04%	Insurance
			<b>694,933</b>	<b>3.04%</b>	
Germany	Munich Re	3,240	367,578	1.61%	Insurance
	Deutsche Bank	6,950	271,745	1.19%	Bank
			<b>639,323</b>	<b>2.80%</b>	
Austria	Erste Bank der Oester Spark	17,650	620,221	2.71%	Bank
	Raiffeisen International Bank	5,900	241,900	1.06%	Bank
			<b>862,121</b>	<b>3.77%</b>	
Italy	Intesa SanPaolo	321,900	573,948	2.51%	Bank
			<b>573,948</b>	<b>2.51%</b>	
Ireland	FBD	84,000	520,800	2.28%	Insurance
			<b>520,800</b>	<b>2.28%</b>	
Sweden	Svenska Handelsbanken	19,800	471,784	2.05%	Bank
			<b>471,784</b>	<b>2.05%</b>	
Poland	Bank Pekao	9,700	438,067	1.91%	Bank
			<b>438,067</b>	<b>1.91%</b>	
Spain	Banco Santander	44,200	350,418	1.53%	Bank
			<b>350,418</b>	<b>1.53%</b>	

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital European Financials Fund (continued)**

<b>Country</b>	<b>Company</b>	<b>Holding</b>	<b>Fair Value €</b>	<b>% of Net Assets</b>	<b>Nature of business</b>
<b>Equities (continued)</b>					
Czech	Komerční Bank	1,630	288,125	1.26%	Bank
			<b>288,125</b>	<b>1.26%</b>	
Cyprus	Bank of Cyprus	77,308	201,774	0.88%	Bank
			<b>201,774</b>	<b>0.88%</b>	
<b>Financial assets at fair value through profit or loss</b>			<b>21,357,262</b>	<b>93.35%</b>	
<b>Cash</b>			<b>1,457,666</b>	<b>6.38%</b>	
<b>Other net assets</b>			<b>62,885</b>	<b>0.27%</b>	
<b>Net assets attributable to redeemable participating shareholders</b>			<b>22,877,813</b>	<b>100.00%</b>	

All investments are traded on a recognised exchange.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital Financials Income Fund**

Country	Company	Holding	Fair value £	% of Net Assets	Nature of business
<b>Equities</b>					
UK	HSBC	120,000	785,800	2.12%	Bank
	City of London Investment Group	165,000	743,325	2.01%	Other financial
	International Personal Finance	180,000	689,580	1.86%	Other financial
	Hargreaves Lansdown	113,494	665,075	1.80%	Other financial
	Lancashire Holdings	120,000	661,200	1.79%	Insurance
	Jardine Lloyd Thompson	85,000	533,800	1.44%	Insurance
	Intermediate Capital Group	150,000	496,800	1.34%	Other financial
	Tullett Prebon	125,000	475,000	1.28%	Other financial
	Personal Group Holdings	150,000	420,000	1.13%	Insurance
	Medicx Fund	575,000	414,000	1.12%	Investment company
	Invesco Leveraged High Yield	750,000	412,500	1.11%	Investment company
	Amlin	92,500	374,440	1.01%	Insurance
	Resolution	119,999	280,918	0.76%	Life assurance
	Abbey Protection	300,000	243,000	0.66%	Other financial
	Brewin Dolphin	150,000	235,500	0.64%	Investment company
	Burford Capital	125,000	143,750	0.39%	Other financial
	First Property Group	500,000	90,000	0.24%	Real estate
	Helical Bar	23,000	65,504	0.18%	Other financial
	Record	100,000	35,500	0.10%	Other financial
			<b>7,765,692</b>	<b>20.98%</b>	
US	Arch Capital	9,000	506,139	1.37%	Insurance
	PartnerRe	9,500	487,476	1.32%	Other financial
	Wells Fargo	22,500	445,207	1.20%	Other financial
	WR Berkley	25,000	436,872	1.18%	Insurance
	Carador Income	539,790	251,678	0.68%	Other financial
	Capitol Federal Financial	10,000	75,942	0.21%	Insurance
			<b>2,203,314</b>	<b>5.96%</b>	
Hong Kong	Hang Seng Bank	60,000	630,020	1.70%	Bank
	Public Financial Holdings	974,000	448,146	1.21%	Bank
	BOC (Hong Kong)	145,000	314,517	0.85%	Bank
			<b>1,392,683</b>	<b>3.76%</b>	
Singapore	DBS Group	125,000	615,739	1.66%	Bank
	Frasers Centrepoint Trust	550,000	408,582	1.10%	Other financial
			<b>1,024,321</b>	<b>2.76%</b>	
Norway	DNB Nor	75,000	674,964	1.82%	Bank
	Sparebanken Rogaland	45,000	281,853	0.76%	Bank
			<b>956,817</b>	<b>2.58%</b>	
Taiwan	Fubon Financial	648,724	567,727	1.53%	Insurance
	Yuanta Financial Holding	750,000	357,341	0.97%	Insurance
			<b>925,068</b>	<b>2.50%</b>	
Finland	Sampo	45,000	773,093	2.09%	Insurance
			<b>773,093</b>	<b>2.09%</b>	
Switzerland	Baloise	9,500	592,384	1.60%	Other financial
			<b>592,384</b>	<b>1.60%</b>	

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital Financials Income Fund (continued)**

Country	Company	Holding	Fair Value £	% of Net Assets	Nature of business
<b>Equities (continued)</b>					
France	CNP Assurances	30,000	347,024	0.94%	Insurance
	BNP Paribas	6,000	244,768	0.66%	Bank
			<b>591,792</b>	<b>1.60%</b>	
Thailand	Tisco Financial	550,000	474,868	1.28%	Bank
			<b>474,868</b>	<b>1.28%</b>	
China	Bank of China	1,360,000	455,902	1.23%	Bank
			<b>455,902</b>	<b>1.23%</b>	
Malaysia	Public Bank - Foreign Market	155,000	417,379	1.13%	Bank
	Public Bank	3,235	8,725	0.02%	Bank
			<b>426,104</b>	<b>1.15%</b>	
Germany	Munich Re	4,000	388,839	1.05%	Insurance
			<b>388,839</b>	<b>1.05%</b>	
Korea	Korea Exchange Bank	40,000	265,633	0.72%	Bank
			<b>265,633</b>	<b>0.72%</b>	
Italy	Intesa SanPaolo	145,000	221,526	0.60%	Bank
			<b>221,526</b>	<b>0.60%</b>	
	<b>Total Equities</b>		<b>18,458,036</b>	<b>49.86%</b>	
<b>Bonds</b>					
UK	HBOS Capital 29/11/49	1,000,000	771,356	2.08%	
	Provident Finance 8% 23/10/19	750,000	729,782	1.97%	
	Prudential FRN 29/12/49	800,000	592,715	1.60%	
	Index Linked UK Treasury 2.5% 17/07/24	200,000	568,064	1.53%	
	Investec Finance 01/03/16	575,000	555,785	1.50%	
	Beazley 17/10/26	650,000	522,701	1.41%	
	Investec Finance 29/01/49	600,000	473,726	1.28%	
	UK Treasury 1.25% 22/11/17	400,000	435,040	1.18%	
	Aberdeen Asset 7.9% 29/05/49	700,000	416,391	1.12%	
	RL Finance 29/12/49	500,000	385,702	1.04%	
	F&C Finance 9% 20/12/16	375,000	383,790	1.04%	
	Scottish Amicable 8.5% 29/06/49	375,000	380,284	1.03%	
	Brit Insurance FRN 09/12/30	566,000	373,928	1.01%	
	Northern Rock 13/01/15	450,000	338,437	0.91%	
	Rothschild 9% 29/12/49	300,000	305,856	0.83%	
	MAN Group 11% 29/05/49	450,000	294,457	0.80%	
	Friends Provident 29/11/49	350,000	284,892	0.77%	
	Egg Banking 29/05/49	305,000	283,750	0.77%	
	Old Mutual 7.125% 19/10/16	250,000	269,213	0.73%	
	Investec Preferred	60,000	267,000	0.72%	
	Legal & General 29/03/49	300,000	261,178	0.71%	
	Ecclesiast Insurance 8.625% 31/12/49	226,000	245,210	0.66%	
	F&C Asset Management 20/12/26	325,000	237,782	0.64%	
	SVG Capital 8.25% 05/06/16	250,000	237,625	0.64%	
	Bank of Scotland 10.5% 16/02/18	200,000	235,276	0.64%	
	Standard Chartered FRN 29/05/49	200,000	208,689	0.56%	
			<b>10,058,629</b>	<b>27.17%</b>	

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**SCHEDULE OF INVESTMENTS**  
as at 31 December 2010

**Polar Capital Financials Income Fund (continued)**

<b>Country</b>	<b>Company</b>	<b>Holding</b>	<b>Fair Value £</b>	<b>% of Net Assets</b>
<b>Bonds (continued)</b>				
US	Wachovia Cap III 29/03/49	1,500,000	825,601	2.23%
	Standard Chartered FRN 29/06/49	650,000	452,174	1.22%
	Wilmington Trust 8.5% 02/04/18	500,000	361,665	0.98%
	Catlin Insurance FRN	500,000	279,432	0.76%
	Montana FRN 07/12/12	350,000	226,183	0.61%
			<b>2,145,055</b>	<b>5.80%</b>
Europe	International Personal Finance 11.5% 06/08/15	600,000	546,242	1.48%
	Intesa SanPaolo FRN 29/04/49	450,000	370,327	1.00%
	Unicredit Intl. FRN 29/12/49	450,000	369,846	1.00%
	Skandinaviska Enskilda 29/12/49	400,000	348,401	0.94%
	Societe Generale FRN 29/06/49	350,000	337,528	0.91%
	Nordea FRN 29/09/49	425,000	288,960	0.78%
	Credit Agricole FRN 29/10/49	300,000	283,898	0.77%
	BNP Paribas FRN 29/09/49	300,000	267,819	0.72%
	Santander FRN 29/07/49	250,000	248,109	0.67%
			<b>3,061,130</b>	<b>8.27%</b>
<b>Total Bonds</b>			<b>15,264,814</b>	<b>41.24%</b>
<b>Financial assets at fair value through profit or loss</b>			<b>33,722,850</b>	<b>91.10%</b>
<b>Cash</b>			<b>3,157,802</b>	<b>8.53%</b>
<b>Other Net Assets</b>			<b>138,294</b>	<b>0.37%</b>
<b>Net assets attributable to redeemable participating shareholders</b>			<b>37,018,946</b>	<b>100.00%</b>

All investments are traded on a recognised exchange.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2010

	Notes	Polar Capital Asian Financials Fund US\$	Polar Capital European Financials Fund €	Polar Capital Financials Income Fund £	Total US\$
<b>Income</b>					
Dividend income	1	1,613,217	871,458	908,791	4,174,036
Fixed interest income		-	-	880,006	1,360,194
Bank interest	1	1,315	1,686	156	3,793
Other income		-	9,966	229,193	367,477
Net changes in fair value on financial assets at fair value through profit or loss					
- Realised	1	3,767,084	(360,858)	(56,552)	3,200,936
- Unrealised	1	5,126,035	1,670,341	2,028,892	10,478,005
<b>Total investment income</b>		<b>10,507,651</b>	<b>2,192,593</b>	<b>3,990,486</b>	<b>19,584,441</b>
<b>Expenses</b>					
Investment manager's fee	2	(603,258)	(253,101)	(198,850)	(1,246,394)
Performance fees	2	(143,624)	-	(542,889)	(982,748)
Administration fees	2	(66,172)	(46,643)	(50,584)	(206,238)
Custodian fees	2	(76,438)	(27,968)	(24,904)	(152,035)
Audit fees		(19,235)	(15,876)	(4,805)	(47,724)
Directors' fees	2	(47,897)	(36,724)	(34,745)	(150,322)
Legal fees		(5,872)	(5,843)	(7,934)	(25,887)
Transaction costs		(370,019)	(89,946)	(80,279)	(613,432)
Other operating expenses		(74,268)	(53,204)	(25,297)	(183,953)
<b>Total operating expenses</b>		<b>(1,406,783)</b>	<b>(529,305)</b>	<b>(970,287)</b>	<b>(3,608,733)</b>
<b>Operating profit</b>		<b>9,100,868</b>	<b>1,663,288</b>	<b>3,020,199</b>	<b>15,975,708</b>
<b>Finance costs</b>					
Distributions to redeemable participating shareholders	4	(185,054)	(430,169)	(607,742)	(1,695,110)
Interest expense	1	(11,477)	(10,965)	(5,643)	(34,746)
<b>Total finance costs</b>		<b>(196,531)</b>	<b>(441,134)</b>	<b>(613,385)</b>	<b>(1,729,856)</b>
<b>Profit before tax for the year</b>		<b>8,904,337</b>	<b>1,222,154</b>	<b>2,406,814</b>	<b>14,245,852</b>
Withholding tax on dividends, capital taxes and other investment income (irrecoverable)		(628,743)	(106,474)	(135,490)	(979,420)
<b>Increase in net assets attributable to redeemable participating shareholders (bid prices) (audited)</b>		<b>8,275,594</b>	<b>1,115,680</b>	<b>2,271,324</b>	<b>13,266,432</b>
Adjustment from bid prices to last traded prices	1	(59,470)	(25,605)	65,750	8,188
<b>Increase in net assets attributable to redeemable participating shareholders from operations (last traded price) (published)</b>		<b>8,216,124</b>	<b>1,090,075</b>	<b>2,337,074</b>	<b>13,274,620</b>

There were no recognised gains/losses for the year other than as set out in Profit and Loss Account.

On behalf of the Board of Directors

Alex Hammond-Chambers  
Date: 19 April 2011

Dermot Butler

The comparative Profit and Loss Account for 2009 is shown on the next page.  
The accompanying notes form an integral part of the financial statements.



**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2009

	Notes	Polar Capital Asian Financials Fund US\$	Polar Capital European Financials Fund €	Polar Capital Financials Income Fund* £	Total US\$
<b>Income</b>					
Dividend income	1	1,088,238	1,005,212	110,988	2,662,350
Fixed interest income		-	-	79,658	124,661
Bank interest	1	12,760	27,286	-	50,774
Other income		26,086	5,450	2,924	38,255
Net changes in fair value on financial assets at fair value through profit or loss					
- Realised	1	(3,029,268)	(5,251,241)	(40,072)	(10,407,798)
- Unrealised	1	26,929,859	15,848,327	(258,524)	48,604,535
<b>Total investment income/(expenditure)</b>		<b>25,027,675</b>	<b>11,635,034</b>	<b>(105,026)</b>	<b>41,072,777</b>
<b>Expenses</b>					
Investment manager's fee	2	(438,815)	(260,565)	(23,226)	(838,171)
Administration fees	2	(69,610)	(48,461)	(10,905)	(154,190)
Custodian fees	2	(79,114)	(27,995)	(7,978)	(130,601)
Audit fees		(14,949)	(7,841)	(8,841)	(39,709)
Directors' fees	2	(84,238)	(59,298)	(7,239)	(178,178)
Legal fees		(21,838)	(7,362)	(3,415)	(37,439)
Other operating expenses including transaction costs		(70,683)	(94,539)	(12,731)	(222,314)
<b>Total operating expenses</b>		<b>(779,247)</b>	<b>(506,061)</b>	<b>(74,335)</b>	<b>(1,600,602)</b>
<b>Operating profit/(loss)</b>		<b>24,248,428</b>	<b>11,128,973</b>	<b>(179,361)</b>	<b>39,472,175</b>
<b>Finance costs</b>					
Distributions to redeemable participating shareholders	4	(486,765)	(867,689)	-	(1,695,595)
Interest expense	1	(32,337)	(32,653)	(2,510)	(81,756)
<b>Total finance costs</b>		<b>(519,102)</b>	<b>(900,342)</b>	<b>(2,510)</b>	<b>(1,777,351)</b>
<b>Profit/(Loss) before tax for the year</b>		<b>23,729,326</b>	<b>10,228,631</b>	<b>(181,871)</b>	<b>37,694,824</b>
Withholding tax on dividends, capital taxes and other investment income (irrecoverable)		(161,972)	(107,911)	(5,416)	(320,785)
<b>Increase/(Decrease) in net assets attributable to redeemable participating shareholders (bid prices) (audited)</b>		<b>23,567,354</b>	<b>10,120,720</b>	<b>(187,287)</b>	<b>37,374,039</b>
Adjustment from bid prices to last traded prices		(169,465)	(81,502)	62,765	(184,787)
<b>Increase/(Decrease) in net assets attributable to redeemable participating shareholders from operations (last traded prices) (published)</b>		<b>23,397,889</b>	<b>10,039,218</b>	<b>(124,522)</b>	<b>37,189,252</b>

\* The Polar Capital Financials Income Fund was launched on 15 October 2009.

There were no recognised gains/losses for the year other than as set out in Profit and Loss Account.  
The accompanying notes form an integral part of the financial statements.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**BALANCE SHEET**  
as at 31 December 2010

		Polar Capital Asian Financials Fund US\$	Polar Capital European Financials Fund €	Polar Capital Financials Income Fund £	Total US\$
	<b>Notes</b>				
<b>Current assets</b>					
Financial assets at fair value through profit or loss	1	67,133,069	21,357,262	33,722,850	148,583,994
Cash at banks	1	3,612,640	1,457,666	3,157,802	10,512,270
Other debtors		218,406	147,607	805,245	1,677,182
<b>Total assets</b>		<b>70,964,115</b>	<b>22,962,535</b>	<b>37,685,897</b>	<b>160,773,446</b>
<b>Current liabilities</b>					
Accrued fees	3	853,233	84,722	666,951	2,011,122
		<b>853,233</b>	<b>84,722</b>	<b>666,951</b>	<b>2,011,122</b>
<b>Net assets attributable to redeemable participating shareholders (bid market prices) (audited)</b>					
		<b>70,110,882</b>	<b>22,877,813</b>	<b>37,018,946</b>	<b>158,762,324</b>
Adjustment from bid-market prices to last traded prices	1	138,978	15,961	128,515	361,603
<b>Net assets attributable to redeemable participating shareholders (last traded prices) (published)</b>					
		<b>70,249,860</b>	<b>22,893,774</b>	<b>37,147,461</b>	<b>159,123,927</b>
<b>Number of shares</b>		279,633	806,270	-	
<b>Number of shares A1</b>		-	-	662,758	
<b>Number of shares A2</b>		-	-	287,789	
<b>Number of shares B1</b>		-	-	19,525,223	
<b>Number of shares B2</b>		-	-	14,490,073	
<b>Net asset value per share (published NAV)</b>					
	6	<b>251.22</b>	<b>28.39</b>	-	
<b>Net asset value per share A1</b>		-	-	<b>1.0307</b>	
<b>Net asset value per share A2</b>		-	-	<b>1.0892</b>	
<b>Net asset value per share B1</b>		-	-	<b>1.0384</b>	
<b>Net asset value per share B2</b>		-	-	<b>1.0957</b>	
<b>Net asset value per share (audited NAV)</b>					
		<b>250.72</b>	<b>28.37</b>	-	
<b>Net asset value per share A1</b>		-	-	<b>1.0271</b>	
<b>Net asset value per share A2</b>		-	-	<b>1.0854</b>	
<b>Net asset value per share B1</b>		-	-	<b>1.0347</b>	
<b>Net asset value per share B2</b>		-	-	<b>1.0920</b>	

On behalf of the Board of Directors

Alex Hammond-Chambers

Dermot Butler

Date: 19 April 2011

The comparative Balance Sheet for 2009 is shown on the next page.  
The accompanying notes form an integral part of the financial statements.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**BALANCE SHEET**  
as at 31 December 2009

		Polar Capital Asian Financials Fund US\$	Polar Capital European Financials Fund €	Polar Capital Financials Income Fund £	Total US\$
	<b>Notes</b>				
<b>Current assets</b>					
Financial assets at fair value through profit or loss	1	54,505,710	25,534,788	14,176,837	114,035,779
Cash at banks	1	2,234,094	1,530,681	141,391	4,658,569
Other debtors		111,082	144,978	511,314	1,144,805
<b>Total assets</b>		<b>56,850,886</b>	<b>27,210,447</b>	<b>14,829,542</b>	<b>119,839,153</b>
<b>Current liabilities</b>					
Redemptions payable		45,940	-	-	45,940
Accrued fees	3	203,218	76,691	56,069	403,796
		<b>249,158</b>	<b>76,691</b>	<b>56,069</b>	<b>449,736</b>
<b>Net assets attributable to redeemable participating shareholders (bid market prices) (audited)</b>		<b>56,601,728</b>	<b>27,133,756</b>	<b>14,773,473</b>	<b>119,389,417</b>
Adjustment from bid-market prices to last traded prices	1	198,448	41,567	62,765	359,443
<b>Net assets attributable to redeemable participating shareholders (last traded prices) (published)</b>		<b>56,800,176</b>	<b>27,175,323</b>	<b>14,836,238</b>	<b>119,748,860</b>
<b>Number of shares</b>		258,216	1,000,393	-	
<b>Number of shares A1</b>		-	-	604,869	
<b>Number of shares A2</b>		-	-	208,487	
<b>Number of shares B1</b>		-	-	4,429,826	
<b>Number of shares B2</b>		-	-	9,750,000	
<b>Net asset value per share (published NAV)</b>	6	<b>\$219.97</b>	<b>€27.16</b>	-	
<b>Net asset value per share A1</b>		-	-	<b>£0.9885</b>	
<b>Net asset value per share A2</b>		-	-	<b>£0.9886</b>	
<b>Net asset value per share B1</b>		-	-	<b>£0.9896</b>	
<b>Net asset value per share B2</b>		-	-	<b>£0.9896</b>	
<b>Net asset value per share (audited NAV)</b>		<b>\$219.20</b>	<b>€27.12</b>	-	
<b>Net asset value per share A1</b>		-	-	<b>£0.9843</b>	
<b>Net asset value per share A2</b>		-	-	<b>£0.9844</b>	
<b>Net asset value per share B1</b>		-	-	<b>£0.9854</b>	
<b>Net asset value per share B2</b>		-	-	<b>£0.9854</b>	

The accompanying notes form an integral part of the financial statements.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**ATTRIBUTABLE TO REDEEMABLE PARTICIPATING SHAREHOLDERS**  
for the year ended 31 December 2010

Notes	Polar Capital Asian Financials Fund US\$	Polar Capital European Financials Fund €	Polar Capital Financials Income Fund £	Total US\$
<hr/>				
<b>Increase in net assets attributable to redeemable participating shareholders from operations (last traded prices) (published)</b>	<b>8,216,124</b>	<b>1,090,075</b>	<b>2,337,074</b>	<b>13,274,620</b>
<hr/>				
<b>Share transactions</b>				
Proceeds from issue of shares	10,887,099	60,429	20,661,941	42,903,707
Payments on redemption of shares	(5,653,539)	(5,432,053)	(687,792)	(13,923,150)
<hr/>				
<b>Net increase/(decrease) in net assets resulting from share transactions</b>	<b>5,233,560</b>	<b>(5,371,624)</b>	<b>19,974,149</b>	<b>28,980,557</b>
<hr/>				
Net assets attributable to redeemable participating shareholders at the beginning of year	56,800,176	27,175,323	14,836,238	119,748,860
Translation adjustment	1	-	-	(2,880,110)
<hr/>				
<b>Net assets attributable to redeemable participating shareholders at the end of year (last traded prices) (published)</b>	<b>70,249,860</b>	<b>22,893,774</b>	<b>37,147,461</b>	<b>159,123,927</b>

The comparative Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders for 2009 is shown on the next page.

The accompanying notes form an integral part of the financial statements.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**ATTRIBUTABLE TO REDEEMABLE PARTICIPATING SHAREHOLDERS**  
**for the year ended 31 December 2009**

	Notes	Polar Capital Asian Financials Fund US\$	Polar Capital European Financials Fund €	Polar Capital Financials Income Fund* £	Total US\$
<b>Increase/(Decrease) in net assets attributable to redeemable participating shareholders from operations (last traded prices) (published)</b>					
		23,397,889	10,039,218	(124,522)	37,189,252
<b>Share transactions</b>					
Proceeds from issue of shares		6,763,589	569,740	14,991,676	31,018,596
Payments on redemption of shares		(6,198,353)	(7,388,764)	(30,916)	(16,540,466)
<b>Net increase/(decrease) in net assets resulting from share transactions</b>					
		565,236	(6,819,024)	14,960,760	14,478,130
<b>Net assets attributable to redeemable participating shareholders at the beginning of year</b>					
		32,837,051	23,955,129	-	66,135,878
Translation adjustment	1	-	-	-	1,945,600
<b>Net assets attributable to redeemable participating shareholders at the end of year (last traded prices) (published)</b>					
		56,800,176	27,175,323	14,836,238	119,748,860

\* The Polar Capital Financials Income Fund was launched on 15 October 2009.

The accompanying notes form an integral part of the financial statements.

## 1. Significant accounting policies

The significant accounting policies adopted by the Company are as follows:

### Presentation of the financial statements

These financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish Statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended) and the listing rules of the Irish Stock Exchange. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by Chartered Accountants Ireland and issued by the Accounting Standards Board.

The Financial Statements for the Company are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

No cash flow statement has been prepared as the Company has availed of the exemption available to open-ended investment funds under FRS 1, not to prepare a cash flow statement.

The information required by Financial Reporting Standard No. 3 (FRS 3) "Reporting Financial Performance" in respect of a Statement of Total Recognised Gains and Losses and the Reconciliation of Movement in Shareholder's Funds is in the opinion of the Directors, contained in the Profit and Loss Account and Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders.

There are currently three sub-funds created in the Polar Capital Financial Funds plc (the "Company"):- the Polar Capital European Financials Fund, the Polar Capital Asian Financials Fund and the Polar Capital Financials Income Fund (the "sub-funds"). All share classes within the three sub-funds are listed on the Irish Stock Exchange.

### Amendment to FRS 25 Financial Instruments: (effective from 1 January 2010)

The main change affected by the amendment to this standard is the reclassification of certain qualifying instruments from financial liabilities to equity instruments. These instruments will no longer have to comply with the measurement of financial liabilities in FRS 26, Financial Instruments: recognition and Measurement, or the disclosure requirements of FRS 29, Financial instruments: Disclosure.

The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. Redeemable participating shares issued by the Company do not belong to a class of shares that is subordinate to all other classes of shares issued. The adoption of these amendments has not therefore resulted in any change in the classification of the Company's redeemable shares.

### Investments at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated by management at fair value through profit or loss at inception. Financial assets or liabilities held for trading are acquired or incurred principally for the purposes of selling or repurchasing in the short term. All investments have been designated by management at fair value through profit or loss.

In accordance with the provisions of the Company's Prospectus dated 15 December 2010, listed investments and investments with prices quoted in over the counter markets or by market makers are stated at the last traded price (if last traded price is not available, last available mid price or the official closing price on the market shall be used instead) on the valuation day for the purpose of determining net asset value per unit for subscriptions and redemptions and for various fee calculations. However, the accounting policy of the Company for the purpose of compliance with FRS 26 and for reporting purposes is to value its investments at the relevant bid market prices for long investments on the Balance Sheet date.

Regular-way purchases and sales of investments are recognised on trade-dates, the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value, and transaction costs for all financial assets carried at fair value through profit or loss are expensed as incurred. Investments are derecognised when the rights to receive cash flows from the investment have expired or the Company has transferred substantially all risks and rewards of ownership. Cost of investments are accounted for on an average cost basis.

Gains and losses arising from changes in the fair value of investments are included in the profit and loss account in the year in which they arise. This also includes any foreign exchange gains and losses made during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial instruments held by the Company is the current bid price for long instruments.

## **1. Significant accounting policies (continued)**

### **Fair value adjustment**

Under FRS 26, financial assets and liabilities must be measured at fair value. Investment securities should be valued at "bid" as the most appropriate approximation of "fair value" in accordance with FRS 26. At the year end NAV valuation, the Investment securities in the sub-funds were valued at "last traded" prices as per the prospectus. For Financial reporting purposes a bid valuation has been used for inclusion in the financial statements. This adjustment represents the difference between the Investment securities valued at "bid" and the Investment securities valued at "last traded" prices.

As at 31 December 2010, the difference between the valuation stated in the financial statement of investments and the valuation methodology indicated in the Company's prospectus, results in a decrease in value of investments of US\$ 361,603 (31 December 2009: US\$ 359,443).

### **Investment income**

Interest income and expenses are recognised in the profit and loss account on an accruals basis. Dividends are credited to the profit and loss account on the dates on which the relevant securities are listed as "ex-dividend".

Investment income is shown gross of any non-recoverable withholding taxes, which is disclosed separately in the profit and loss account, and net of any tax credits.

Bank interest is accounted for on an accruals basis. Interest income on fixed income securities is recognised on an effective yield basis.

### **Redeemable participating shares**

The issued redeemable participating share capital is at all times equal to the net asset value of the Company. Redeemable participating shares are redeemable at the shareholder's option and are classified as financial liabilities.

### **Foreign currency**

#### **(a) Functional and presentation currency**

Items in the Company's financial statements are measured for each sub-fund using the currency of the primary economic environment in which that sub-fund operates. The Functional and presentation currency is US\$ for Polar Capital Asian Financials Fund, Euro for Polar Capital European Financials Fund and GBP for Polar Capital Financials Income Fund. The Company has adopted US\$ as its presentation currency.

#### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Proceeds from subscriptions and amounts paid on redemption of redeemable participating shares are translated at average rates, which approximate the rates prevailing at the dates of the transactions. Translation differences on non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss.

For the purpose of the Company's financial statements all events have been shown in US\$. The results and balances for the individual sub-funds are shown in the functional currency of each sub-fund. A translation adjustment is required to reconcile non US\$ balances to US\$ for the year to 31 December 2010.

### **Translation adjustment**

A translation adjustment arises as a result of translating the opening combined Net Asset Value at the exchange rate in existence at 31 December 2009. This is a notional currency movement that arises as a result of combining the underlying sub-funds. It has no impact on the Net Asset Value per share of the sub-funds. Transactions during the year, including purchases and sales of securities, income and expenses, are translated at the average rate of exchange for the year.

### **Distribution policy**

If sufficient net income after expenses is available in respect of the sub-funds, it is the Directors current intention to make distributions in each financial year of substantially the whole of the net income (including interest and dividends) of the sub-funds. In the case of the Polar Capital Financials Income Fund, the expenses of the sub-fund are deducted from capital. It is the Directors current intention to make distributions on a quarterly basis of substantially the whole of the net income of the Class A1 Retail and Class B1 Institutional shares of the sub-fund.

Proposed dividends to holders of redeemable shares are recognised in the profit and loss account when the Company incurs a legal or constructive obligation to pay such a distribution. Distributions on redeemable participating shares are recognised in the profit and loss account as finance costs.

**1. Significant accounting policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Cash and cash equivalents comprise US\$10,512,270 (31 December 2009: US\$ 4,658,569). Cash balances are held with BNP Paribas Securities Services, Dublin Branch, as Custodian. Polar Capital Financials Income Fund also held GBP £3,724 with MF Global as at 31 December 2010 (31 December 2009: £10,000).

**2. Related party fees and expenses**

**Investment Manager's fees**

HIM Capital Limited is entitled to receive in respect of each sub-fund a periodic investment management fee, which accrues daily and is payable monthly in arrears, at the annual rate of 1% of the Net Asset Value of the Polar Capital Asian Financials Fund and the Polar Capital European Financials Fund; 1.25% of the Net Asset Value of the Polar Capital Financials Income Fund Class A1 Retail and Class A2 Retail Shares; and 0.75% of the Net Asset Value of the Polar Capital Financials Income Fund Class B1 Institutional and Class B2 Institutional Shares.

The Investment Manager is also entitled to receive in respect of each sub-fund a performance related investment management fee (a "Performance Fee") which is accrued daily and payable annually (or semi-annually in respect of the Polar Capital Financials Income Fund) in arrears in respect of each Performance Period if the sub-fund meets certain objectives in respect of the performance of the Shares.

The Performance Fee criteria are set out in the Prospectus and can be summarised as follows:

Polar Capital Asian Financials Fund: 10% of the performance subject to a Highwater Mark.

Polar Capital European Financials Fund: 10% of the performance over Euro LIBOR subject to the Highwater Mark.

Polar Capital Financials Income Fund: 10% of the performance over the Dow Jones STOXX Financials Index (£) subject to the Highwater Mark.

Where the Highwater Mark is exceeded and the above mentioned objectives met, the Performance Fee payable is equal to 10% of the amount by which the final Net Asset Value per share for the relevant Performance Period exceeds the relevant Highwater Mark and any additional objectives specified. The Performance Periods of the sub-funds comprise successive calendar years ending on 31 December in each relevant year in respect of the Polar Capital Asian Financials Fund and the Polar Capital European Financials Fund; and semi-annual periods ending 30 June and 31 December in respect of the Polar Capital Financials Income Fund.

The Performance Fee payable in respect of a Performance Period for the Polar Capital European Financials Fund only, will be capped so that the total fee payable to the Investment Manager for the Performance Period will not exceed an annual rate of 2% of the Net Asset Value of the sub-fund.

**Custodian fees**

The Company pays to the Custodian out of the assets of the Company an annual percentage fee based on the Net Asset Value of each sub-fund. Several rates which range from 0.01% to a maximum of 0.45% apply according to the markets in which the sub-fund invests. Therefore the maximum fee that will apply to any sub-fund will be 0.45%. The fiduciary services part of the Custodian's fee of 0.02% per annum is based on the value of the underlying assets of the Company determined on the last Dealing Day of each month, accrued as at each Dealing Day and payable monthly in arrears subject to a minimum annual fee of €9,000 per sub-fund per annum. The Custodian will also be entitled to receive transaction charges at normal commercial rates and to be reimbursed reasonable out-of-pocket expenses incurred by it in the performance of its duties under the Custodian Agreement.

**Administration fees**

The Administrator is entitled to receive out of the assets of the Company an annual fee which shall not exceed 0.09% per annum of the Net Asset Value of each sub-fund subject to a minimum annual fee of €45,000. The Administrator's fee is based on the value of the underlying assets of the Company determined on the last Dealing Day of the month, accrued as at each Dealing Day and payable monthly in arrears. In addition, the Administrator shall be entitled to receive remuneration for the provision of registration services and account maintenance subject to minimum annual fee per sub-fund of €1,800. As registrar, the Administrator will also receive transaction fees of up to €35 per transaction and Shareholder maintenance fees of €150 per Shareholder per annum.

**2. Related party fees and expenses (continued)**



**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010****Administrative Service fees**

The Investment Manager is entitled to a fee for the provision of administrative services to the Company and sub-funds, separate to the services provided pursuant to the Investment Management Agreement (the Administrative Service Fee). The Administrative fee will not exceed US\$25,000 per annum per sub-fund and may be allocated pro rata to the values of the net assets of all, or certain sub-funds on such basis as the Directors may consider reasonable. The Fee is payable quarterly in arrears. The administrative services to be provided include, but are not limited to coordinating the preparation, production and distribution of annual and semi-annual reports; facilitating the organisation of board meetings, preparation of board papers, board minutes, distribution of shareholders notices, processing returned proxy forms; coordinating updating simplified prospectuses, liaising with lawyers for prospectus updates; ensuring relevant notices are filed with the ISE and ongoing compliance requirements are met. The administrative services also covers the launch and liquidation of sub-funds – reconstruction, liaising with Auditors, Administrator and Custodian on tax status of the sub-funds; organising Directors and Officers insurance policies, payment of invoices, managing accruals and attending to ad hoc matters such as taxation issues, action points from the board meetings, monitoring the Administrator and Custodian and following up on reported errors in consultation with the Directors.

**Directors' fees**

The aggregate amount of Directors' remuneration in any one year shall not exceed US\$250,000 plus expenses. Directors fees of US\$150,322 were accrued for 2010 (2009: US\$181,006).

**3. Creditors**

<b>31 December 2010</b>	<b>Polar Capital Asian Financials Fund US\$</b>	<b>Polar Capital European Financials Fund €</b>	<b>Polar Capital Financials Income Fund £</b>	<b>Total 31-Dec-10 US\$</b>
Investment Manager's fees payable	57,883	19,902	23,362	121,160
Performance fees payable	143,624	-	542,889	993,613
Administration fees payable	29,107	21,646	18,846	87,653
Directors' fees payable	11,686	8,785	7,490	35,198
Audit fees payable	11,991	9,003	7,680	36,093
Custodian fees payable	30,009	11,397	8,734	58,973
Legal fees payable	3,966	2,978	2,541	11,940
CGT taxes payable	549,922	-	49,402	627,270
Other expenses payable	15,045	11,011	6,007	39,222
	<b>853,233</b>	<b>84,722</b>	<b>666,951</b>	<b>2,011,122</b>

  

<b>31 December 2009</b>	<b>Polar Capital Asian Financials Fund US\$</b>	<b>Polar Capital European Financials Fund €</b>	<b>Polar Capital Financials Income Fund £</b>	<b>Total 31-Dec-09 US\$</b>
Investment Manager's fees payable	48,748	22,858	9,585	97,022
Administration fees payable	17,680	11,057	8,915	47,941
Directors' fees payable	18,537	12,657	7,239	48,387
Audit fees payable	13,335	9,048	8,841	40,594
Custodian fees payable	18,673	6,128	4,925	35,418
Legal fees payable	3,657	1,436	1,511	8,157
CGT taxes payable	62,359	-	3,168	67,476
Other expenses payable	20,229	13,507	11,885	58,801
	<b>203,218</b>	<b>76,691</b>	<b>56,069</b>	<b>403,796</b>

**4. Distributions****Polar Capital European Financials Fund**

A dividend of €0.36 per share was declared on 5 January 2011 in respect of the year ended 31 December 2010 and was paid on 31 March 2011. (A dividend of €0.43 per share was declared on 5 January 2010 in respect of the year ended 31 December 2009 and was paid on the 31 March 2010). Total amount paid for the year ended 31 December 2010 was €430,169 (2009: €867,689).

**4. Distributions (continued)****Polar Capital Asian Financials Fund**

**POLAR CAPITAL FINANCIAL FUNDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

A dividend of US\$1.77 was declared on 5 January 2011 in respect of the year ended 31 December 2010 and was paid on 31 March 2011. (A dividend of US\$0.71 was declared on 5 January 2010 in respect of the year ended 31 December 2009 and was paid on 31 March 2010). Total amount paid for the year ended 31 December 2010 was US\$185,054 (2009: US\$486,765).

**Polar Capital Financials Income Fund**

A dividend of £0.015 per share was declared on 5 January 2011 in respect of the quarter ended 31 December 2010 and was paid on 31 January 2011.

A dividend of £0.012 per share was declared on 5 January 2010 in respect of the quarter ended 31 December 2009 and was paid on 29 January 2010. A dividend of £0.0125 per share was declared on 2 April 2010 in respect of the quarter ended 31 March 2010 and was paid on 30 April 2010. A dividend of £0.015 per share was declared on 2 July 2010 in respect of the quarter ended 30 June 2010 and was paid on 30 July 2010. A dividend of £0.015 per share was declared on 2 October 2010 in respect of the quarter ended 30 September 2010 and was paid on 29 October 2010. Total amount paid for the year ended 31 December 2010 was £607,742 (2009: nil).

**5. Share capital**

**Authorised share capital**

The authorised share capital of the Company is 500,000,000,000 shares of no par value.

**Redeemable participating shares**

The movement in redeemable participating shares during the year was as follows:

<b>As at 31 December 2010</b>	<b>Polar Capital Asian Financials Fund</b>	<b>Polar Capital European Financials Fund</b>	<b>Polar Capital Financials Income Fund Class A1</b>
Numbers of shares at beginning of year	258,216	1,000,393	604,869
Number of shares issued	46,102	2,191	122,939
Number of shares redeemed	(24,685)	(196,314)	(65,050)
<b>Number of shares at end of year</b>	<b>279,633</b>	<b>806,270</b>	<b>662,758</b>

	<b>Polar Capital Financials Income Fund Class A2</b>	<b>Polar Capital Financials Income Fund Class B1</b>	<b>Polar Capital Financials Income Fund Class B2</b>
Numbers of shares at beginning of year	208,487	4,429,826	9,750,000
Number of shares issued	113,410	15,686,223	4,740,073
Number of shares redeemed	(34,108)	(590,826)	-
<b>Number of shares at end of year</b>	<b>287,789</b>	<b>19,525,223</b>	<b>14,490,073</b>

<b>As at 31 December 2009</b>	<b>Polar Capital Asian Financials Fund</b>	<b>Polar Capital European Financials Fund</b>	<b>Polar Capital Financials Income Fund Class A1</b>
Numbers of shares at beginning of year/period	259,424	1,257,299	-
Number of shares issued	36,209	20,762	604,869
Number of shares redeemed	(37,417)	(277,668)	-
<b>Number of shares at end of year/period</b>	<b>258,216</b>	<b>1,000,393</b>	<b>604,869</b>

	<b>Polar Capital Financials Income Fund Class A2</b>	<b>Polar Capital Financials Income Fund Class B1</b>	<b>Polar Capital Financials Income Fund Class B2</b>
Numbers of shares at beginning of year/period	-	-	-
Number of shares issued	209,487	4,460,826	9,750,000
Number of shares redeemed	(1,000)	(31,000)	-
<b>Number of shares at end of year/period</b>	<b>208,487</b>	<b>4,429,826</b>	<b>9,750,000</b>

**6. Net asset value and net asset value per share**

<b>Published NAV</b>	<b>Net asset value</b>	<b>Shares in issue</b>	<b>Net asset value</b>
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**POLAR CAPITAL FINANCIAL FUNDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

**As at 31 December 2010**

**per share**

Polar Capital Asian Financials Fund	US\$70,249,860	279,633	US\$251.22
Polar Capital European Financials Fund	€22,893,774	806,270	€28.39
Polar Capital Financials Income Fund Class A1	£683,091	662,758	£1.0307
Polar Capital Financials Income Fund Class A2	£313,449	287,789	£1.0892
Polar Capital Financials Income Fund Class B1	£20,274,321	19,525,223	£1.0384
Polar Capital Financials Income Fund Class B2	£15,876,599	14,490,073	£1.0957

**Published NAV**

**Net asset value**

**Shares in issue**

**Net asset value**

**As at 31 December 2009**

**per share**

Polar Capital Asian Financials Fund	US\$56,800,176	258,216	US\$219.97
Polar Capital European Financials Fund	€27,175,323	1,000,393	€27.16
Polar Capital Financials Income Fund Class A1	£597,942	604,869	£0.9885
Polar Capital Financials Income Fund Class A2	£206,101	208,487	£0.9886
Polar Capital Financials Income Fund Class B1	£4,383,741	4,429,826	£0.9896
Polar Capital Financials Income Fund Class B2	£9,648,454	9,750,000	£0.9896

**Published NAV**

**Net asset value**

**Shares in issue**

**Net asset value**

**As at 31 December 2008**

**per share**

Polar Capital Asian Financials Fund	US\$32,837,051	259,424	US\$126.58
Polar Capital European Financials Fund	€23,955,129	1,257,299	€19.05

**7. Taxation**

The company qualifies as an investment undertaking as defined in Section 739B of the Taxes Consolidation Acts, 1997 as amended. It is not chargeable to Irish tax on its income and gains.

However, tax may arise on the happening of a chargeable event. A chargeable event includes any distribution payments to shareholders or any encashment, redemptions, cancellations or transfer of shares and the holding of shares at the end of each eight year period beginning with the acquisition of such shares. No tax will arise on the Company in respect of chargeable events in respect of:-

- (i) a shareholder who is not an Irish resident and not ordinarily resident in Ireland for tax purposes, at the time of the chargeable event, provided appropriate valid declarations in accordance with the provision of the Taxes Consolidation Act, 1997 as amended, are held by the Company; and
- (ii) certain exempted Irish resident shareholders that have provided the Company with the necessary signed statutory declarations.

Dividends and interest (if any) received on investments made by the Company may be subject to withholding taxes imposed in the country from which the investment income/gains are received and such taxes may not be recoverable by the Company or its shareholders. Capital gains (if any) generated on investments made by the Company may be subject to capital gains tax. The Company has included a provision for capital gains tax of US\$627,270 (2009: US\$67,476) at the year end.

**8. Soft commission arrangements**

There were no soft commission arrangements affecting the Company during the years ended 31 December 2010 and 2009.

**9. Exchange rates**

Exchange rates used as of 31 December 2010 and 2009 were as follows:

	<b>2010</b>		<b>2010</b>		<b>2010</b>	<b>2010</b>	
EUR/USD	1.3415	THB/USD	30.1450	CHF/EUR	1.2504	CHF/GBP	1.4594

**POLAR CAPITAL FINANCIAL FUNDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

GBP/USD	1.5657	TWD/USD	29.1565	CZK/EUR	25.09	EUR/GBP	0.8568
HKD/USD	7.7736			GBP/EUR	0.8568	HKD/GBP	12.1710
IDR/USD	9,010.000			NOK/EUR	7.7977	KRW/GBP	1,776.8864
INR/USD	44.7150			PLN/EUR	3.9636	MYR/GBP	4.8277
KRW/USD	1,134.9000			SEK/EUR	9.019	NOK/GBP	9.1005
MYR/USD	3.08348			TRY/EUR	2.0646	SGD/GBP	2.0057
PHP/USD	43.8099			USD/EUR	1.3415	THB/GBP	47.1974
PKR/USD	85.6450					TWD/GBP	45.6496
SGD/USD	1.2810					USD/GBP	1.5657

	2009		2009		2009
CHF/USD	1.0337	CHF/EUR	1.4832	CHF/GBP	1.6694
EUR/USD	1.4348	GBP/EUR	0.8845	EUR/GBP	0.8884
GBP/USD	1.6149	NOK/EUR	8.2883	HKD/GBP	12.5219
HKD/USD	7.7540	PLN/EUR	4.1059	MYR/GBP	5.5294
IDR/USD	9,395.0005	TRY/EUR	2.1507	NOK/GBP	9.3289
KRW/USD	1,164.4751	USD/EUR	0.6970	SGD/GBP	2.2672
MYR/USD	3.4240			THB/GBP	53.8405
SGD/USD	1.4039			TWD/GBP	51.6523
THB/USD	33.3399			USD/GBP	1.6149
TWD/USD	31.9850				

**10. Cross liability**

The Company has segregated liability between its sub-funds and accordingly any liability incurred on behalf of or attributable to any sub-fund shall be discharged solely out of the assets of that sub-fund.

**11. Derivatives and other financial instruments**

The Company's assets are invested in the shares of banking, insurance and other financial companies in the individual markets of the sub-funds with an objective of achieving capital growth for shareholders.

The financial risks, identified by FRS 29, and the Directors' approach to the supervision of these risks are as follows and have not changed from the previous accounting period.

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. Market risk comprises three elements: price risk, currency risk and interest rate risk. The Investment Manager assesses the exposure to market risk on the whole of the investment portfolios on a regular basis and reports to the Board of Directors on a quarterly basis.

There were no material changes to the Company's policies and processes for managing market risk or in the methods used to measure market risk since the prior year end.

**Price risk**

Price risk is the risk that changes in market prices may affect the value of the investments.

**11. Derivatives and other financial instruments (continued)**

**Management of the risk**

The Company's assets consist principally of quoted equities and fixed income securities, the values of which are determined by market forces. The Investment Manager contains the price risk of individual holdings by investing in a diversified portfolio in accordance with the investment objectives of the Company. The focus of the portfolios

**POLAR CAPITAL FINANCIAL FUNDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

is investment in the undervalued shares of well managed financial companies with strong balance sheets, which are able to sustain earnings growth in a variety of economic conditions.

Diversification is achieved both through holding a variety of stocks but also through diversifying specific country risk and industry risk (through investment in a variety of financial sectors). The Investment Manager operates within the investment limits and guidelines set out by the OEIC and detailed in the prospectus. Furthermore, not more than 10% of the net asset value of the sub-funds can be invested in and/or exposed to the securities of a single issuer.

The Investment Manager reviews the portfolios daily and monitors the individual companies in the portfolios closely. Monitoring is undertaken through reviewing financial statements, meetings with managements of the companies held as investments and monitoring news flows on the investments. The Investment Manager monitors price risk on an ongoing basis in accordance with Company policy and reports to the Board quarterly.

At 31 December 2010, the Company's market risk is affected by two main components: changes in actual market prices and foreign currency movements.

At 31 December 2010, and 31 December 2009, the overall market exposures were as follows:

<b>As at 31 December 2010</b>	<b>Polar Capital Asian Financials Fund</b>		<b>Polar Capital European Financials Fund</b>		<b>Polar Capital Financials Income Fund</b>	
	<b>Fair value (US\$)</b>	<b>% of net assets</b>	<b>Fair value (€)</b>	<b>% of net assets</b>	<b>Fair value (£)</b>	<b>% of net assets</b>
Securities designated at fair value through profit or loss	67,133,069	95.75	21,357,262	93.35	33,722,850	91.10
<b>Total</b>	<b>67,133,069</b>	<b>95.75</b>	<b>21,357,262</b>	<b>93.35</b>	<b>33,722,850</b>	<b>91.10</b>

<b>As at 31 December 2009</b>	<b>Polar Capital Asian Financials Fund</b>		<b>Polar Capital European Financials Fund</b>		<b>Polar Capital Financials Income Fund</b>	
	<b>Fair value (US\$)</b>	<b>% of net assets</b>	<b>Fair value (€)</b>	<b>% of net assets</b>	<b>Fair value (£)</b>	<b>% of net assets</b>
Securities designated at fair value through profit or loss	53,987,103	95.05	25,507,115	93.86	14,401,707	94.64
<b>Total</b>	<b>53,987,103</b>	<b>95.05</b>	<b>25,507,115</b>	<b>93.86</b>	<b>14,401,707</b>	<b>94.64</b>

On a monthly basis, the Investment Manager monitors the performance of the investments of the sub-funds relative to their respective benchmarks below. These are used to monitor performance in view of some similarities in the investment make-ups, rather than as a tracking mechanism for the sub-fund.

<b>Fund</b>	<b>Benchmark</b>
Polar Capital Asian Financials Fund	Datastream Asia ex Japan Financials Index (\$)
Polar Capital European Financials Fund	Datastream European Financials Index (€)
Polar Capital Financials Income Fund	Dow Jones STOXX Financial Index (£)

The historical Beta is the quantitative measure of the volatility of portfolio investments relative to the benchmark index. A beta above 1 is more volatile than the overall market, while a beta below 1 is less volatile.

From 1 January 2010 to 31 December 2010, the Polar Capital European Financials Fund had a beta of 0.86 relative to the Datastream European Financials Index (from 1 January 2009 to 31 December 2009 a beta of 0.92).

**11. Derivatives and other financial instruments (continued)**

**Management of the risk (continued)**

From 1 January 2010 to 31 December 2010 the Polar Capital Asian Financials Fund had a beta of 0.96 relative to the Datastream Far Eastern Financials Index (from 1 January 2009 to 31 December 2009, a beta of 0.95).

## POLAR CAPITAL FINANCIAL FUNDS PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

From 1 January 2010 to 31 December 2010 the Polar Capital Financials Income Fund had a beta of 0.31 relative to the Dow Jones STOXX Financial Index. (The Polar Capital Financials Income Fund was only launched in October 2009, therefore a beta calculation for the sub-fund would not be appropriate for 2009).

A 10% increase in the benchmark of the portfolio at 31 December 2010 would have increased the net assets attributable to holders of shares of the Polar Capital Asian Financials Fund by approximately \$6,444,780 (31 December 2009: \$5,115,532), the Polar Capital European Financials Fund by approximately €1,846,525 (31 December 2009: €2,334,219) and the Polar Capital Financials Income Fund by approximately £1,047,002. An equal change in the opposite direction would have decreased net assets by an equal but opposite amount. It should be noted that neither of the sub-funds held derivative instruments in the period under review.

Some limitations of sensitivity analysis are;

- the models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- the market price risk information is a relative estimate of risk rather than a precise and accurate number;
- the market price information represents a hypothetical outcome and is not intended to be predictive; and
- future market conditions could vary significantly from those experienced in the past.

#### **Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in foreign exchange rates. Certain of the Company's assets, liabilities and income are denominated in currencies other than the functional currency of the sub-funds. As a result, movements in exchange rates may affect the value of those items.

The Company holds assets and liabilities denominated in currencies other than US\$, the functional currency. It is therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Monetary assets and liabilities include cash and cash equivalents, marketable debt securities, trade receivables and payables including due to/from brokers, and monies due to/from brokers. The currency risk associated with monetary items is considered immaterial.

All assets and liabilities that do not meet the definition of monetary items are classified as non-monetary. Marketable equity investments and fixed income securities are considered non-monetary assets. The currency risk associated with equities and fixed income securities is included in Market Risk. Once paid in or accumulated, all elements of net assets attributable to holders of redeemable participating shares are non-monetary.

Currency Risk is monitored by daily review of the cash balances which are not in the sub-funds' functional currency and are monitored to ensure the risk is mitigated.

#### **Management of the risk**

The Investment Manager monitors the Company's exposure to foreign currencies on a regular basis. This is primarily undertaken through monitoring the country exposure of the portfolio rather than using instruments which actively manage exchange rate risk. The Investment Manager regularly monitors general country economic performance measures, which can have an impact in exchange rate movements. In addition, valuation measures used by the Investment Manager include country risk which further assesses country risk within the investment portfolio.

All uninvested cash balances are maintained in US\$ in the Polar Capital Asian Financials Fund, Euro in the Polar Capital European Financials Fund and GBP in the Polar Capital Financials Income Fund. Income denominated in foreign currencies is converted to the base currency of each sub-fund.

In accordance with Company policy, the Investment Manager reports to the Board quarterly.

## 11. Derivatives and other financial instruments (continued)

## Management of the risk (continued)

Polar Capital Asian Financials Fund

The functional currency (US\$) equivalents of the financial assets and liabilities held in currencies other than US\$ at 31 December 2010 were as follows:

	Cash and amounts due from brokers (US\$)	Financial assets at fair value through profit or loss (US\$)	Other assets/Liabilities (US\$)	Total assets (US\$)
EUR	(695)	-	(78,679)	(79,374)
GBP	(1)	-	(5,787)	(5,788)
HKD	(484)	29,765,030	-	29,764,546
INR	-	4,436,522	-	4,436,522
IDR	-	3,373,784	-	3,373,784
KRW	-	6,359,128	-	6,359,128
MYR	-	3,833,919	-	3,833,919
PHP	-	1,564,940	-	1,564,940
PKR	-	1,227,382	16,113	1,243,495
SGD	-	5,423,608	-	5,423,608
THB	-	4,496,475	-	4,496,475
TWD	146,388	4,982,799	-	5,129,187
Total	145,208	65,463,587	(68,353)	65,540,442

The functional currency (US\$) equivalents of the financial assets and liabilities held in currencies other than US\$ at 31 December 2009 were as follows:

	Cash and amounts due from brokers (US\$)	Financial assets at fair value through profit or loss (US\$)	Other assets/Liabilities (US\$)	Total assets (US\$)
EUR	(74)	-	(58,228)	(58,302)
GBP	(1,767)	1,399,499	(2,741)	1,394,991
HKD	594,693	23,330,592	-	23,925,285
IDR	-	1,536,229	-	1,536,229
KRW	-	6,737,808	-	6,737,808
MYR	-	2,353,871	-	2,353,871
SGD	(571,897)	5,251,036	-	4,679,139
THB	(286,832)	5,379,029	-	5,092,197
TWD	637,755	5,237,197	-	5,874,952
Total	371,878	51,225,261	(60,969)	51,536,170

*Exchange rate sensitivity*

In the event that the US Dollar had strengthened by 10 per cent in relation to all other currencies, with all other variables held constant, the decrease in Net Assets attributable to holders of redeemable shares for the year ended 31 December 2010 would be \$6,550,699 (2009: \$5,179,300) (net of fees). A 10 per cent weakening of the US Dollar against the above currencies would have resulted in an equal but opposite effect on the above financial statement amounts shown above, on the basis that all other variables remained constant. This is not a true perspective of market moves, but rather an estimate for information purposes only.

## 11. Derivatives and other financial instruments (continued)

## Management of the risk (continued)

Polar Capital European Financials Fund

The functional currency (Euro) equivalents of the financial assets and liabilities held in currencies other than the Euro at 31 December 2010 were as follows:

	Cash and amounts due from brokers (€)	Financial assets at fair value through profit or loss (€)	Other assets/Liabilities (€)	Total assets (€)
CHF	-	2,280,997	-	2,280,997
CZK	(37)	288,125	-	288,088
GBP	(103)	9,174,321	2,565	9,176,783
NOK	-	1,606,837	-	1,606,837
PLN	(1)	438,067	-	438,066
SEK	-	471,784	-	471,784
TRY	(394)	1,967,801	-	1,967,407
USD	(1,560)	-	128,995	127,435
Total	(2,095)	16,227,932	131,560	16,357,397

The functional currency (Euro) equivalents of the financial assets and liabilities held in currencies other than the Euro at 31 December 2009 were as follows:

	Cash and amounts due from brokers (€)	Financial assets at fair value through profit or loss (€)	Other assets/Liabilities (€)	Total assets (€)
CHF	(382)	1,090,928	-	1,090,546
GBP	11,220	8,767,595	8,245	8,787,060
NOK	(12)	1,891,135	-	1,891,123
TRY	(10)	386,116	-	386,106
USD	(14)	-	113,548	113,534
Total	10,802	12,135,774	121,793	12,268,369

*Exchange rate sensitivity*

In the event that the Euro had strengthened by 10 per cent in relation to all other currencies, with all other variables held constant, the decrease in Net Assets attributable to holders of redeemable shares for the year ended 31 December 2010 would have been €1,638,799 (2009: €1,231,428) (net of fees). A 10 per cent weakening of the Euro against the above currencies would have resulted in an equal but opposite effect on the above financial statement amounts shown above, on the basis that all other variables remained constant. This is not a true perspective of market moves, but rather an estimate for information purposes only.

Polar Capital Financials Income Fund

The functional currency (Sterling) equivalents of the financial assets and liabilities held in currencies other than Sterling at 31 December 2010 were as follows:

	Cash and amounts due from brokers (£)	Financial assets at fair value through profit or loss (£)	Other assets/Liabilities (£)	Total assets (£)
CHF	(49)	592,384	-	592,335
EUR	(87,610)	3,877,886	(40,131)	3,750,145
HKD	(635)	2,634,385	-	2,633,750
KRW	-	265,633	-	265,633
MYR	-	426,104	-	426,104
NOK	(40)	956,817	-	956,777
SGD	(161)	1,024,321	-	1,024,160
THB	(462)	474,868	-	474,406
TWD	23,304	925,068	-	948,372
USD	(35,800)	5,940,891	113,183	6,018,274
Total	(101,453)	17,118,357	73,052	17,089,956



## 11. Derivatives and other financial instruments (continued)

**Management of the risk (continued)**

The functional currency (Sterling) equivalents of the financial assets and liabilities held in currencies other than Sterling at 31 December 2009 were as follows:

	Cash and amounts due from brokers (£)	Financial assets at fair value through profit or loss (£)	Other assets/Liabilities (£)	Total assets (£)
CHF	(42)	410,934	-	410,892
EUR	(634)	2,657,133	(29,279)	2,627,220
HKD	(594)	1,938,840	5,792	1,944,038
MYR	-	352,570	-	352,570
NOK	(56,511)	416,663	-	360,152
SGD	(137)	339,184	-	339,047
THB	(388)	497,767	-	497,379
TWD	8,307	151,978	-	160,285
USD	(12,849)	1,793,108	57,905	1,838,164
Total	(62,848)	8,558,177	34,418	8,529,747

*Exchange rate sensitivity*

In the event that Sterling had strengthened by 10 per cent in relation to all other currencies, with all other variables held constant, the decrease in Net Assets attributable to holders of redeemable shares for the year ended 31 December 2010 would have been £1,727,509 (2009: £863,714) (net of fees). A 10 per cent weakening of Sterling against the above currencies would have resulted in an equal but opposite effect on the above financial statement amounts shown above, on the basis that all other variables remained constant. This is not a true perspective of market moves, but rather an estimate for information purposes only.

**Interest rate risk**

Interest rate risk is the risk that income and capital values may be affected by interest rate movements.

**Management of the risk**

Certain of the Company's net assets are held in fixed interest instruments, the value of which are correlated to movements in interest rates. In the period under review, the exposure to fixed interest instruments is limited to the Polar Capital Financials Income Fund. The Polar Capital Asian Financials Fund and Polar Capital European Financials Fund has exposure to movements in interest rates through the cash holdings at the year end. At the year end 31 December 2010 and 2009 a movement of 0.25% in interest rates would not have a material effect on either sub-fund. The Investment Manager monitors the Company's exposure on a regular basis.

The only sub-fund which invests in interest bearing securities is the Polar Capital Financials Income Fund and as such its net asset value is exposed to change in interest rates. The risk being that they will rise, causing the value of the portfolio to decline. The portfolio consists of a variety of positions with varying maturity dates; in general the longer the period to maturity of the portfolio, the greater the risk that the net asset value will decline as a result of an increase in interest rates. The Investment Manager regularly monitors the portfolio and particularly the spread of maturity dates and portfolio balances to achieve the sub-fund investment objective in line with change in interest rates.

As part of its monitoring process the Investment Manager, when looking at individual bonds and the portfolio as a whole, will consider their sensitivity to changes in interest rates. This will include taking into account their position in the capital structure, whether they have fixed maturities or are perpetual, and whether they have call dates. If they have call dates, the terms if not called will be looked at, whether fixed or floating, and what margin over LIBOR that the bond will yield if not called. The Investment Manager will also compare the yield on corporate bonds relative to government bonds and the impact that this may have in increasing or reducing the sensitivity of the portfolio to moves in interest rates.

## 11. Derivatives and other financial instruments (continued)

## Management of the risk (continued)

Polar Capital Financials Income Fund					
31 December 2010	Less than 1 month (£)	1 months – 1 year (£)	Greater than 1 year (£)	Non Interest bearing (£)	Total (£)
Financial Assets at fair value through profit or loss	-	-	14,997,814	18,725,036	33,722,850
Cash at bank	3,157,802	-	-	-	3,157,802
Other debtors	-	-	346,704	458,541	805,245
Fees and Expenses	-	-	-	(666,951)	(666,951)
	3,157,802	-	15,344,518	18,516,626	37,018,946
31 December 2009	Less than 1 month (£)	1 months – 1 year (£)	Greater than 1 year (£)	Non Interest bearing (£)	Total (£)
Financial Assets at fair value through profit or loss	-	-	5,290,814	8,886,023	14,176,837
Cash at bank	141,391	-	-	-	141,391
Other debtors	-	-	161,984	349,330	511,314
Fees and Expenses	-	-	-	(56,069)	(56,069)
	141,391	-	5,452,798	9,179,284	14,773,473

As at 31 December 2010 should interest rates have fallen by 0.25%, with all other variables remaining constant, assuming an average yield of 8.0% and an average duration of 4.67 years, the increase in net assets attributable to the holders of redeemable shares for the period would amount to approximately £178,335 (2009: £58,745). An equal change in interest rates in the opposite direction would have decreased net assets attributable to the holders of redeemable shares for the period by an equal but opposite amount.

**Credit risk**

Credit risk is primarily the risk of failure of a counterparty to a transaction failing to discharge its obligations to settle a trade. The Company also has cash holdings and consequently has a credit risk in relation to the custodian and of counterparty cash holdings.

**11. Derivatives and other financial instruments (continued)****Credit risk (continued)****Management of the risk**

The majority of transactions are settled and paid for, upon delivery of stock and by using approved and reputable brokers. The Company pays a broker for a purchase once the securities have been received by the custodian. The Company could also transact on a free basis (free delivery/receipt of cash/securities). In some markets, although the transaction may show as delivery versus payment, in fact the cash needs to settle before the security side. Free transactions should be advised to, and approved by, the Custodian. The risk of default is considered minimal, as the majority of securities are only delivered to the broker once the broker has made payment.

In terms of custodian risk, the Company has appointed BNP Paribas Securities Services, Dublin branch to act as Custodian to the Company. The Custodian is a branch of BNP Paribas Securities Services S.A., a Société Anonyme, regulated in France by Commission Bancaire and is wholly owned by the BNP Paribas S.A., one of Europe's largest banking groups, the latter of which had a Standard & Poor's rating of 'AA' as at 31 December 2010 (31 December 2009: 'AA'). Client assets are maintained in accounts segregated by sub-fund. Records are maintained by the Custodian so as to ensure that it is readily apparent that the investments and cash are held solely on behalf of and belong to the Company and do not belong to the Custodian or any of its affiliates.

The Custodian is authorised to delegate, in whole or in part, its safekeeping duties for the securities, cash and other authorised assets to a sub custodian. The Custodian acts with normal commercial care in the selection of sub-custodians.

There were no material changes to the Company's policies and processes for monitoring credit risk.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The sub-funds are exposed to daily cash redemptions so they are therefore exposed to the liquidity risk of meeting shareholder redemptions at any time. At 31 December 2010 and 2009, substantially all liabilities of the sub-funds were payable on demand within 1 to 3 months.

**Management of the risk**

The Company invests the majority of its assets (with the exception of cash holdings) in equities and fixed income securities that are traded in an active market most of which can be readily disposed of with daily trading. Prior to any investments being undertaken, the Investment Manager assesses the liquidity of the investments (in terms of the daily volumes of shares or bonds traded) and the ease with which these investments can be sold or purchased (relative to the size of the investment held by the Company). Cash holdings pose very limited liquidity risks.

There were no material changes to the Company's policies and processes for monitoring the liquidity risk.

**12. Fair Value of Financial Instruments**

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FRS 29 are as follows:

In determining an instrument's placement within the hierarchy, the Directors separate the Company's investment portfolio into two categories: investments and derivative instruments. Each of these categories can further be divided between those held long or sold short.

- **Level 1** Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities and fixed income securities. The Directors do not adjust the quoted price for such instruments, even in situations where the sub-funds hold a large position and a sale could reasonably impact the quoted price.

- **Level 2** Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

- **Level 3** Inputs that are unobservable.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

**12. Fair Value of Financial Instruments (continued)**

Valuation requires inputs that are both significant to the fair value measurement and unobservable.

	<b>Assets at Fair Value as of 31 December 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Polar Capital Asian Financials Fund</b>				
<i>Financial assets held for trading</i>	67,133,069	-	-	67,133,069
	67,133,069	-	-	67,133,069

	<b>Assets at Fair Value as of 31 December 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Polar Capital Asian Financials Fund</b>				
<i>Financial assets held for trading</i>	53,987,103	-	-	53,987,103
	53,987,103	-	-	53,987,103

	<b>Assets at Fair Value as of 31 December 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Polar Capital European Financials Fund</b>				
<i>Financial assets held for trading</i>	21,357,262	-	-	21,357,262
	21,357,262	-	-	21,357,262

	<b>Assets at Fair Value as of 31 December 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Polar Capital European Financials Fund</b>				
<i>Financial assets held for trading</i>	25,507,115	-	-	25,507,115
	25,507,115	-	-	25,507,115

	<b>Assets at Fair Value as of 31 December 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Polar Capital Financials Income Fund</b>				
<i>Financial assets held for trading</i>	33,722,850	-	-	33,722,850
	33,722,850	-	-	33,722,850

	<b>Assets at Fair Value as of 31 December 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Polar Capital Financials Income Fund</b>				
<i>Financial assets held for trading</i>	14,041,707	-	-	14,041,707
	14,041,707	-	-	14,041,707

There were no transfers between level 1 and level 2 for any sub-fund during the financial year.

**13. Dilution levy**

Each of the sub-funds can exercise a dilution levy in the event of large trades, as defined in the prospectus. If more than 2% of the net asset value is redeemed on any one day a dilution levy of up to 1% can be charged respectively by the sub-fund. The amount to be charged can be adjusted (on a sliding scale) by other transactions on the relevant dealing date. The Directors have the right to waive it if necessary.

The Company may in the case of net subscriptions add to the issue price, for its own account, an amount, expressed as a per share figure, in respect of the charges and duties which would have been incurred on the assumption that all investments held by the Company at the Valuation Point had been purchased at the Valuation Point at prices equal to their respective values as at the Valuation Point.

The Company may deduct in the case of net redemptions from the Redemption Price, for its own account, an amount, expressed as a per share figure, in respect of the charges and duties which would have been incurred on the assumption that all investments of the Company had been realised as at the Valuation Point at prices equal to their respective values as at the Valuation Point.

**14. Efficient portfolio management**

The Company may, for the purposes of efficient portfolio management and helping of the management of risk, enter into futures contracts or write call options and purchase put options provided that these transactions may only concern contracts, which are traded on a regulated market operating regularly, being organised and open to the public. The Company may also enter into forward purchases or sales of securities or currencies on the basis of "over the counter" arrangements with highly rated financial institutions specialising in this type of transaction.

During the year, the Company did not enter into futures contracts or forward currency transactions.

**15. Significant shareholdings**

The shareholders who held 20% or more of the voting capital of the sub-funds as at 31 December 2010 were as follows:

**Polar Capital Asian Financials Fund**

HSH Nordbank Securities S.A.	47%
Hiscox Insurance Company	25%

**Polar Capital European Financials Fund**

Hiscox Insurance Company	58%
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**Polar Capital Financials Income Fund – B1**

Nortrust Nominees Ltd	22%
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**Polar Capital Financials Income Fund – B2**

Hiscox Insurance Company	21%
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The shareholders who held 20% or more of the voting capital of the sub-funds as at 31 December 2009 were as follows:

**Polar Capital Asian Financials Fund**

HSH Nordbank Securities S.A.	40.8%
Hiscox Insurance Company	25.9%

**Polar Capital European Financials Fund**

Hiscox Insurance Company	57.3%
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**Polar Capital Financials Income Fund**

Hiscox Insurance Company	39.4%
Nortrust Nominees Ltd	21.2%

**16. Comparative period**

The comparative figures cover the period 1 January 2009 to 31 December 2009.

**17. Subsequent events**

There were no subsequent events affecting the Company, except dividend distributions as disclosed in Note 4.

**18. Approval of financial statements**

The Directors approved the financial statements on 19 April 2011.

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**PORTFOLIO CHANGES (UNAUDITED)**

**Polar Capital Asian Financials Fund**

Statement of purchases and sales for the year ended 31 December 2010

<b>Purchases</b>		<b>US\$</b>	<b>Sales</b>		<b>US\$</b>
1	HSBC	4,311,818	1	HSBC	3,131,968
2	China Citic Bank	4,060,172	2	ICICI Bank ADR	2,245,284
3	Daegu Bank	2,040,817	3	Tisco Financial	2,183,354
4	China Merchants Bank	1,847,170	4	BOC Hong Kong	2,155,596
5	Korea Exchange Bank	1,814,835	5	Korea Exchange Bank	2,003,274
6	Axis Bank	1,696,392	6	China Citic Bank	1,985,435
7	Industrial & Commerical Bank of China	1,594,641	7	Wing Hang Bank	1,684,592
8	Security Bank	1,482,887	8	DBS Group	1,525,339
9	AIA Group	1,383,653	9	Kasikornbank Foreign	1,469,709
10	China Life Insurance	1,340,350	10	Fubon Financial	1,357,280
11	Yuanta Financial	1,320,946	11	Samsung Fire & Marine	1,313,979
12	Housing Development Finance	1,152,329	12	China Life Insurance	1,186,057
13	Wing Hang Bank	1,097,853	13	Infrastructure Development Finance	1,177,624
14	Infrastructure Development Finance	1,070,742	14	Industrial & Commerical Bank of China	1,064,934
15	Bank of Ayudhya Public	1,047,164	15	Siam Commercial Bank	1,001,063
16	MCB Bank	1,012,897	16	Yes Bank	983,104
17	China Taiping Insurance	978,118	17	Bangkok Bank Public	970,813
18	Hang Seng Bank	918,494	18	KB Financial Group	906,906
19	Oversea Chinese Banking	908,541	19	Bank of Communications	906,221
20	Yes Bank	863,054	20	Dah Sing Financial	876,536
21	Capitamalls Asia	710,041	21	China Construction Bank	838,271
22	Kiwoom Securities	689,514	22	Tisco Financial - Foreign Market	716,517
23	Hong Leong Bank Berhad	649,434	23	Aeon Credit Service	673,989
24	Bangkok Life Assurance	631,664	24	Yuanta Financial	625,355
25	Dongbu Insurance	630,531	25	Daegu Bank	623,321
26	PT Bank Central Asia	623,321	26	Dongbu Insurance	604,695
27	Sinopac Holdings	621,152	27	Karur Vysya Bank	585,683
28	PT Bank Danamon	618,500	28	Sinopac Holdings	568,520
29	Sun Hung Kai Properties	613,731	29	United Overseas Bank	563,044
30	CNINSURE	605,591	30	Hang Seng Bank	558,666
31	Henderson Land Development	599,823	31	Hana Financial	555,093
32	HDFC Bank	587,967	32	Henderson Land Development	551,060
33	Hong Kong Exchange & Clearing	565,483	33	Public Bank - Foreign Market	528,064
34	Hana Financial	561,872	34	Hong Kong Exchange & Clearing	522,011
35	Commerce Asset Holding	551,216	35	PT Bank Central Asia	521,111
			36	China Merchants Bank	502,778
			37	Sun Hung Kai Properties	484,587
			38	Korea Investment Holdings	472,739

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**PORTFOLIO CHANGES (UNAUDITED)**

**Polar Capital European Financials Fund**

Statement of purchases and sales for the year ended 31 December 2010

	<b>Purchases</b>	<b>€</b>		<b>Sales</b>	<b>€</b>
1	Turkiye Halk Bankasi	805,863	1	Banco Santander	1,231,000
2	BNP Paribas	804,446	2	Alpha Bank	1,079,287
3	Banco Santander	757,909	3	Societe Generale	958,756
4	Aviva	666,830	4	DNB NOR ASA	883,724
5	Societe Generale	636,770	5	Munich Re	846,845
6	UBS	632,994	6	BBVA	839,517
7	Svenska Handelsbanken	545,347	7	Intesa SanPaolo	796,405
8	HSBC	544,378	8	Bank of Cyprus	712,773
9	Lloyds Banking Group	512,333	9	Ing Groep	682,927
10	Turkiye Garanti Bankasi	501,252	10	AXA	648,718
11	Akbank	500,024	11	BNP Paribas	620,208
12	Credit Suisse	409,988	12	Lloyds Banking Group	599,234
13	Munich Re	399,176	13	Amlin	574,194
14	Asya Katilim Bankasi	394,173	14	International Personal Finance	550,428
15	Bank Pekao	374,146	15	Unicredito Italiano	527,741
16	Intesa SanPaolo	357,614	16	Turkiye Halk Bankasi	501,260
17	City of London Investment Group	319,431	17	EFG International	470,079
18	London Stock Exchange Group	296,706	18	Raiffeisen International Bank	433,514
19	Hargreaves Landsdown	291,334	19	Aberdeen Asset Management	412,154
20	National Bank of Greece	279,254	20	National Bank of Greece	389,199
21	Raiffeisen International Bank	258,086	21	Standard Chartered	381,123
22	Baloise	257,358	22	HSBC	377,365
23	FBD	254,604	23	Deutsche Bank	354,061
24	Bank of Cyprus	251,652	24	Banco Espirito Santo	341,775
25	BBVA	251,370	25	Catlin Group	331,639
26	Alpha Bank	250,380	26	CNP Assurances	326,357
27	Bank Sarasin	239,524	27	Beazley	305,400
28	Komercni Bank	238,734	28	Man Group	289,936
29	Deutsche Bank	136,078	29	London Stock Exchange Group	287,013
30	Amlin	136,046	30	Marfin Popular Bank	273,029
31	Ing Groep	134,566	31	Aviva	271,084
32	Barclays	133,359	32	Prudential	257,757
			33	Asya Katilim Bankasi	253,732
			34	Barclays	242,327
			35	Erste Bank der Oester Spark	241,244

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**PORTFOLIO CHANGES (UNAUDITED)**

**Polar Capital Financials Income Fund**

Statement of purchases and sales for the year ended 31 December 2010

	<b>Purchases</b>	<b>£</b>		<b>Sales</b>	<b>£</b>
1	Wachovia Cap III 29/03/49	825,180	1	Jupiter Fund Management	610,716
2	Prudential FRN 29/12/49 Index Linked UK Treasury 2.5%	579,268	2	Barclays Bank FRN 29/11/49 Industrial & Commercial Bank of	594,450
3	17/07/24	549,725	3	China	467,217
4	Oversea Chinese Banking	544,436	4	RLI	430,015
5	Beazley 17/10/26	539,250	5	DBS Group	410,152
6	Arch Capital International Personal Finance	519,809	6	Schroders	396,157
7	11.5% 06/08/15	511,789	7	Banco Santander	394,718
8	UK Treasury 1.25% 22/11/17	504,293	8	Catlin Group	393,093
9	Provident Finance 8% 23/10/19	500,225	9	Chaucer	389,675
10	Partnerre	490,607	10	Prudential 6.5% 29/06/49	387,293
11	RLI	482,412	11	Allianz	385,007
12	Jardine Lloyd Thompson	481,082	12	Sun Hung Kai Properties	358,371
13	HBOS Capital 29/11/49	471,250	13	Berkshire Hathaway	351,567
14	Tullett Prebon	459,100	14	CA Pref Fund 7% 29/01/49	313,245
15	WR Berkley	437,251	15	The Link Real Estate	307,432
16	Wells Fargo	437,047	16	Alterra Capital	306,314
17	Allianz	422,630	17	Aviva	305,400
18	Hargreaves Lansdown	422,057	18	JP Morgan 29/04/49 FRN	269,373
19	Medicx Fund	417,375	19	Provident	267,381
20	Investec Finance 01/03/16	412,125	20	Legal & General	262,378
21	Frasers Centrepoint Trust	403,954	21	Investec Finance 01/03/16	250,000
22	Unicredit Intl. FRN 29/12/49	397,626	22	Prudential	249,262
23	Personal Group Holdings	397,500	23	Intesa SanPaolo FRN 29/04/49	245,856
24	Public Financial Holdings	397,264	24	ICAP 7.5% 28/07/14	234,185
25	Intesa SanPaolo FRN 29/04/49	396,537	25	Wells Fargo 29/03/49 FRN	230,936
26	F&C Finance 9% 20/12/16	385,937	26	Siam Commercial Bank	215,040
27	Scottish Amicable 8.5% 29/06/49	383,406	27	BOC Hong Kong	212,016
28	HSBC	379,776	28	London Stock Exchange	209,790
29	Catlin Group	376,092	29	Public Bank - Foreign Market	200,996
30	CNP Assurances	375,683	30	Old Mutual FRN 21/01/16	197,000
31	Amlin	375,351	31	Cielo	190,635
32	Brit Insurance FRN 09/12/30	368,667	32	Credit Suisse	188,397
33	City of London Investment Group	367,175	33	Eurazeo	179,177
34	Jupiter Fund Management	362,850	34	Aberdeen Asset Management	175,050
35	Northern Rock 13/01/15	359,625	35	Societe Generale	172,808
36	Wilmington Trust 8.5% 02/04/18	353,157	36	Tisco Financial	166,876
37	Fubon Financial	338,224	37	Bank of Cyprus	153,436
38	Aviva	335,755	38	Equity Partnership	147,200
39	Alterra Capital	328,337	39	Catlin Insurance FRN	146,168
40	Sampo Oyj	327,859	40	Man Group	120,620
41	Korea Exchange Bank	321,922			
42	Credit Agricole FRN 29/10/49	303,750			
43	Yuanta Financial	299,946			
44	Hang Seng Bank	299,473			
45	Nordea FRN 29/09/49	298,364			



**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**DIRECTORS AND OTHER INFORMATION**

Board of Directors:	Alexander Hammond-Chambers (Chairman) Peter Blessing Dermot Butler Colin McGill David Astor (all Directors serve as independent non-executive Directors)
Registered office:	25/28 North Wall Quay Dublin 1 Ireland
Investment manager and distributor:	HIM Capital Limited 4 Matthew Parker Street London SW1H 9NP United Kingdom
Secretary:	Goodbody Secretarial Ltd 25/28 North Wall Quay Dublin 1 Ireland
Sponsoring brokers:	Goodbody Stockbrokers Block B Ballsbridge Park Dublin 4 Ireland
Administrator and registrar:	BNP Paribas Fund Services Dublin Ltd 6 George's Dock IFSC Dublin 1 Ireland
Custodian and Trustee:	BNP Paribas Securities Services, Dublin Branch 5 George's Dock IFSC Dublin 1 Ireland
Independent auditors:	Grant Thornton Chartered Accountants 24-26 City Quay Dublin 2 Ireland
Legal advisers (as to Irish law):	A&L Goodbody 25/28 North Wall Quay Dublin 1 Ireland
Legal advisers (as to U.K. law)	Dechert LLP 2 Serjeants' Inn London EC4Y 1LT United Kingdom
Legal advisers (as to U.S. law):	Dechert LLP 1775 I St. N.W. Washington DC 20006-2402 United States of America

**POLAR CAPITAL FINANCIAL FUNDS PLC**  
**GENERAL INFORMATION (UNAUDITED)**

The Company is an open-ended umbrella investment company with variable capital organised under the laws of Ireland as a public limited company pursuant to the Companies Act 1963 to 2009 and the European Communities (Undertaking for Collective Investments in Transferable Securities) Regulations, 2003 (as amended). It was incorporated in Ireland on 29 November 1999 and has been approved by Central Bank of Ireland as a UCITS.

<b>Fund</b>	<b>Denomination</b>	<b>Minimum Initial Investment</b>
Polar Capital Asian Financials Fund	US\$	US\$1,000
Polar Capital European Financials Fund	€	€1,000
Polar Capital Financials Income Fund		
Class A1	£	£1,000
Class A2	£	£1,000
Class B1	£	£500,000
Class B2	£	£500,000

The Company is listed on the Irish Stock exchange and is recognised by the Financial Services Authority.

If sufficient net income after expenses is available in respect of Polar Capital European Financials Fund or Polar Capital Asian Financials Fund, the Directors' current intention is to make distributions in each financial year of substantially the whole of the net income (including interest and dividends) of Class A Shares in the Polar Capital European Financials Fund and the Polar Capital Asian Financials Fund. The net amount of all realised and unrealised gains (less realised and unrealised losses) arising on the disposal of investments shall not be distributed but shall form part of the assets of the sub-fund.

If sufficient income is available in respect of the Polar Capital Financials Income Fund, the Directors current intention is to make distributions in each financial year of substantially the whole of the income (including interest and dividends) of Class A1 Retail and Class B1 Institutional Shares of the Polar Capital Financials Income Fund. In order to enable the sub-fund to pay a larger distribution amount the expenses which are attributable to Class A1 Retail and Class B1 Institutional Shares of the Polar Capital Financials Income Fund are charged to the capital. The effect of this is that capital will be eroded to allow higher dividends to be paid, thereby reducing the potential for future capital growth.

Audited annual reports and unaudited semi-annual reports are available at the office of the Secretary and are sent to shareholders at their registered address.