



SOCIETE GENERALE GROUP



**SG Kleinwort Hambros Bank Limited**  
**Annual Report and Financial Statements**  
**for the year ended 31 December 2019**

Company Number: 964058



## Directors and other information

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### Directors and other information

Directors	Chair:	S W Barnett
	Chief Executive:	J W Maitland
	Other Directors:	M P Newman K N Graf von Schweinitz J-F Mazaud (resigned 2 July 2019) E E Barnett (resigned 24 June 2019) S B Ricke (resigned 7 February 2020) X P Lofficial E V Perez G A Branson O D Meredith M Choukeir A Ewing P Follea (appointed 2 July 2019)
Secretary	K Singh	
	5 <sup>th</sup> Floor 8 St James's Square London SW1Y 4JU United Kingdom	
Registered Office	5 <sup>th</sup> Floor 8 St James's Square London SW1Y 4JU United Kingdom	
Independent Auditor	Ernst & Young LLP 25 Churchill Place London E14 5EY United Kingdom	

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## Strategic Report on the Financial Statements

### Business strategy and objectives

The Company is part of the Kleinwort Hambros group which also includes the Channel Islands bank and trust company and the Gibraltar bank. These firms provide Wealth management services to clients in their local jurisdictions and international clients.

On 6 November 2017, the Company acquired the whole of the banking business of Kleinwort Benson Bank Limited ("KBBL") from its immediate parent company. This completed the legal integration programme of activity to bring together the UK banks under a single "Kleinwort Hambros" brand. In 2019 the Company completed the final migration of clients from the legacy Kleinwort Benson banking platform onto the combined Kleinwort Hambros platform, combining both banks' legacy operations on one core system.

The board sees opportunities to build on the expertise and products of both firms, from banking, wealth planning and fiduciary services, to investment management and structured products.

### Measurement and performance / KPI

(In GBP m)	2019	2018
Operating income (net, excluding dividend received)	79.6	84.9
Dividend income	1.3	64.8
Operating expenses	(79.0)	(90.6)
Impairment of goodwill	(37.2)	-
<b>Profit / (loss) before income tax</b>	<b>(35.2)</b>	<b>59.1</b>
Asset under management (AuM) (In GBP m)	6,443	7,087
Tier 1 ratio	20.49%	23.69%

The loss on ordinary activities before tax for the financial year ended 31 December 2019 is £35.2m (2018 profit: £59.1 m). The Company's loss for the year has been influenced by a variety of factors.

Operating income has fallen in the year reflecting a reduction in clients AuM, and a reduction in global interest rates particularly in the latter part of the year. Operating expenses has been increased by an impairment to goodwill, reflecting a reduction in future profitability; other expenses have dropped year on year reflecting the Company's costs saving initiatives. The Company's profit for the prior year was substantially increased by the dividends received from its subsidiaries after a review of capital requirements and utilisation. Excluding both impairment of goodwill and dividend income the Company made an underlying profit of £0.7m (2018 loss of £5.7m). During the year a dividend of £56.7m was paid to SG. Subsequent to that decision, an impairment of goodwill has been recognised reflecting updated forecasts, inter alia, the impact of COVID-19 identified in 2020. This was not foreseeable at the time the dividend was paid. In February 2020 a dividend of £11.5m has been received from a subsidiary restoring positive retained earnings.

### Income

During the year client deposits decreased by 16.2% to £1.8billion (2018: £2.2 billion) and loans and advances to customers has increased 4.2% to £1.119 billion (2018: £1.074 billion). This fall in deposits was as a consequence of a number of factors including deliberate de-risking by the Company and some clients opting to move money to other jurisdictions with end of year election concerns. This loss of deposits has been from on-demand deposits and has led to a significant loss of margin from their re-investment in the Company's treasury portfolio. Margins have also been squeezed in the market. Net interest income is £33.1m (2018: £39.6m), down 16.5% on 2018.

Assets under management ("AuM") of the Company decreased 9.1% to £6.4 billion (2018: £ 7.1 billion). Net fee and commission income in 2019 is £50.0m (2018: £50.3 m) and has decreased by 0.5% from 2018. This is due in part to a fall in asset management fees of £2.7m (9.4%) in line with AuM which has been partially offset with a rise in retail banking customer fees of £1.9 m, 14.0% when compared to prior year.

### Costs

Costs overall have increased by £25.6m in 2019 of which an impairment of goodwill has been booked of £37.2m during the year predominately recognised with the acquisition of KBBL. A lower profit-base, coupled with the challenging economic environment that will be further impacted by the COVID-19 virus on the Company's future profitability, have decreased the future cash flows over which the goodwill asset is assessed and consequently the Company can no longer support the valuation of this asset. Operational savings made in the year and a reduction in project costs have offset this write-down of the goodwill.

Average full-time staff headcount decreased to 330 (2018: 342), as the Company rationalised its processes throughout the year.

# Strategic Report on the Financial Statements

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## Measurement and performance / KPI (continued)

### Capital Management

The Tier 1 capital ratio as at 31 December 2019 is 20.49% (31 December 2018 : 23.69%). The reduction in the capital ratio is mostly due to an increase in risk weighted assets (RWA) of approximately £140m. The increase in RWA is driven primarily by operational risk £114.5m, which is due to an increase in the allocation key driven by risk events in the Advanced operational risk model of Societe Generale. The company will keep the allocation keys under review throughout 2020.

A dividend of £56.7m (2018: £nil) has been paid during the year. The directors do not recommend payment of a final dividend for the year.

Despite the dividend, regulatory capital has changed very little compared to the prior year as prior year profits are only recognised from the point at which the financial statements, to which they relate, have been audited. The 2018 financial statements were signed in April 2019 and the dividend was paid in November 2019. Regulatory capital therefore increased in April 2019 as a consequence of recognising the prior year profit after tax of £62.2m; and decreased in November 2019 as a consequence of paying the dividend.

### Duty to promote the success of the company

Kleinwort Hambros is committed to being a responsible private bank. This is achieved through making a positive difference to the development of our communities and people across the UK, Channel Islands and Gibraltar, as well as helping our clients to build sustainable legacies.

Our core values - innovation, team spirit, responsibility and commitment - are the foundation of our culture and commitments. They define our expectations and create a strong corporate governance when it comes to the behaviour of our employees and the role we want to play in society.

**INNOVATION** - We welcome diversity of thought in all our decisions

**TEAM SPIRIT** - We ensure everyone is respected, valued and heard

**COMMITMENT** - We promote an inclusive culture based on integrity and respect

**RESPONSIBILITY** - We believe in accountability and sustainability to build a fair environment

#### Our Community

We have a talented and knowledgeable team of employees who are keen to share that wealth of expertise within our local communities.

To help them, we offer 24 hours of volunteering time per year. They can use this to undertake their own personal volunteering, or to contribute to the range of Citizenship programmes organised by the bank

#### Our people

We are convinced that having a diverse and inclusive workforce can drive the success of an organisation.

We are leading on diversity initiatives, including educating all employees to 'Work with Respect' and training managers on how to 'Manage an Inclusive Environment'. We promote flexible and agile working practices as well as various family and gender networks to support sustainable and healthy lifestyles. We promote equality through our recruitment, talent development and reward practices.

Employee wellbeing is essential to build a sustainable business.

We provide various benefits to help promote wellbeing with initiatives that run through the year, such as mental and physical health education workshops, mental health training and first aiders, GP medical services, sports and social events, on-site physiotherapy and massages, agile working and exercise classes. We also run an annual wellbeing campaign week by hosting workshops and exercise challenges.

Our senior managers and Executive Committee regularly engage with staff via a number of informal and formal initiatives, including an annual employee survey, regular team meetings, townhalls, breakfasts and sports and social events.

#### Our Clients

At Kleinwort Hambros, responsible investing fits naturally within our investment philosophy. Drawing on the VaMoS (Valuation, Momentum and Sentiment) framework, we have carefully developed our responsible investment policy to integrate our clients' current and future goals and aspirations.

#### Our investment principles

- Get the big decisions right
- Take risk only when risk is likely to be well rewarded
- Avoid large losses
- Invest responsibly

## Strategic Report on the Financial Statements

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### Duty to promote the success of the company (continued)

We believe that a robust investment process implemented in a responsible way puts our clients' interest at the heart of what we do. As a responsible private bank, our values are deeply rooted in the belief that investors can and must participate in a change for good.

We incorporate ESG (Environmental, Social and Governance) principles into our investment process and philosophy. Across all of our portfolios, we strive to limit exposure to sectors such as: Adult entertainment, Thermal coal, Tobacco, Gambling and Controversial weapons.

To further demonstrate our commitment, we have also designed a dedicated proposition, which specifically supports our proactive approach to responsible investing.

Investing responsibly does not have to mean financial compromise; in fact, we believe incorporating sustainability criteria can improve risk and return of an investment portfolio. In other words, there is no trade-off between doing well and doing good.

### Principal risks and uncertainties

The Company's activities expose it to a variety of financial and other risks which are described in more detail in Note 26. These are managed within an overall risk management framework, comprised of 10 risk appetite statements (approved by the Board), supported by around 100 key risk indicators ("KRIs"). These are reviewed at various committees, including the Group Executive Risk and Compliance Committee, the Asset and Liability ("ALCO") Committee, the Risk Committee of the Board, and the Company Board. The principal risks of the Company include credit, liquidity, regulatory, operational, conduct and cyber.

The following financial risks are described at Note 26 in the Notes to the Financial Statements:

- Market risk, comprising interest rate and foreign exchange risk
- Credit risk, including counterparty risk and large exposures
- Liquidity risk

Other non-financial risks to which the Company is exposed include:

#### Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic or reputational risk.

Within the Company, a number of processes are used to measure, monitor and mitigate instances of operational errors. A summary of the approaches used is as follows:

- Risk & Control Self-Assessment ("RCSA") – A periodic RCSA assessment is undertaken to assess and quantify the inherent risk exposure, the quality of controls in place and the resultant residual risk exposures across the Company's core areas of business and for each Basel II event category.
- Loss Recording and Analysis – All operational errors and commercial ex-gratia payments in excess of EUR 10,000 for losses and EUR 50,000 for gains, are required to be captured and reported on a monthly basis to the Company's Group Executive Risk Committee and Front Office Risk and Control Committee. Additionally, all losses, gains and commercial ex-gratia payments falling beneath these reporting thresholds are captured using the Company's incident reporting tool ("Phoenix") and distributed to the Company's business heads and senior management. The operational risk teams will produce root-cause analysis on any significant incidents, which are also sent to senior management. They also review all incidents for trends and recommend enhanced procedures or other measures should they be necessary.

#### Regulatory risk

The Company is subject to financial services laws, regulation and regulatory oversight. Failure to comply with any of these constitutes a significant risk. The Prudential Regulation Authority ("PRA") is responsible for the authorisation and prudential supervision of the Company while the Financial Conduct Authority ("FCA") is responsible for conduct of business supervision. The Company has invested in systems and people to comply with and benefit from increased regulatory oversight and to improve information exchange with the regulator.

There remains a high level of scrutiny regarding financial institutions' treatment of customers and overall business conduct from the FCA.

The Company is required by the PRA to maintain adequate capital and is therefore subject to the risk of having insufficient capital resources to meet its minimum regulatory capital requirements. These minimum regulatory requirements may increase in the future and/or the PRA may change the manner in which it applies existing regulatory requirements to the Company. Note 25 describes the Company's capital management process.

## Strategic Report on the Financial Statements

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### Principal risks and uncertainties (continued)

#### Conduct risk

Conduct risk is any risk that could result in unfair outcomes to our clients, counterparties or the Company through inappropriate judgement in the execution of the Company's business activities. The Board recognises that its long-term sustainability depends upon the strength and protection of its reputation and its relationship with its clients. Therefore, strategically the Company has a very small appetite for risks that could materially impair clients and thereby damage its reputation. The Board accepts that there is inherent risk in being in the business of offering and providing banking and investment services to (primarily) high net worth retail clients and therefore acknowledges that a zero-risk appetite is unfeasible.

The Company mitigates, manages and monitors conduct risk on an on-going basis through a strong risk and compliance culture, an appropriate governance framework, defined senior management oversight arrangements and conduct risk management information which includes quantitative and qualitative ratios and indicators that measure crystallised and un-crystallised issues. A conduct risk dashboard is maintained and is an important element of the annual risk and compliance ratings process, which in turn has a material impact on the annual compensation review process.

Senior management are responsible for conducting an annual conduct risk assessment and reporting to the Board on an at least annual basis. The Board accepts a low conduct risk appetite on the basis that material risks identified by the conduct risk assessment are appropriately mitigated via a conduct risk action plan.

#### Cyber risk

Cyber risk is a rapidly evolving area. All banks, including the Company, are exposed to this risk, and the number and variety of risks are increasing. The results of a cyber event can range from financial loss through to reputational damage. Whilst everyone has a key role to play in mitigating these risks, the Company also has developed specific tools, and a dedicated Infosec team to monitor the risks, implement the many tools designed to combat cyber events, and also to oversee and coordinate staff training.

The key controls include dedicated Infosec personnel, anti-virus software, firewalls, Infosec policies, a clear desk policy, auditing of Internet connected services, contractual obligations that require third parties to report security breaches, monitoring of in-house internet facing services, data leakage detection technologies which monitor email and browser channels, systems monitoring and alerting tools and weekly change management review meetings.

The Company has also run annual cyber event response tests – designed to mimic an actual event and assess the strengths and weaknesses in the Company's responses. This is fed back into an action plan to continuously improve our defences and responses to any future event.

#### Integration risk

Integration risk has been identified as a principal risk due to the on-going risk related to the move to a single Banking platform. The risk manifests as increased opportunities for capital losses and reputational damage as a result of pressures on systems and resources due to the continued delay in integration of the two legacy systems. The integration risk has significantly reduced in 2019 due to the completion of Project Arena in late October, migrating the legacy KB business onto Olympic.

### Future plans, trends and developments

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#### COVID-19

The COVID situation is evolving rapidly across Europe and the Company has taken a number of steps to minimise risks.

We have put in place the necessary measures to ensure business continuity, whilst protecting the health of our staff, suppliers and clients. Our teams are fully prepared and equipped to work remotely, accessing the Company's systems by means that maintain the confidentiality, integrity and availability of our data. Client meetings continue on telephone and video conference where appropriate.

We are also grappling with the market effects of the spread of COVID. The Kleinwort Hambros Investment Committee is meeting regularly throughout this period of volatility to deliver the best possible outcomes for our clients. We remain highly vigilant as always and are watching momentum and other signals to guide our actions in the near-term.

Revenue for 2020 is expected to reduce due to the impact of falling market interest rates on the financial instruments held by the Company. Credit losses are not expected to significantly increase on client loans as a consequence of the pandemic due to the typically low LTV ratios for Lombard and real estate lending, and the ability of the Company's clients to service loans from other sources of wealth.

## Strategic Report on the Financial Statements

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### Future plans, trends and developments (continued)

#### Brexit

The Company has planned for and modelled a number of Brexit scenarios at the end of the transition period. Its central planning assumes several factors impacting the KH group:

- "Hard Brexit" with loss of passporting rights for KH UK and KH Gibraltar
- No immediate impact on EU Nationals working in KH
- Gibraltar / Spain border to remain open on a BAU basis
- Continuing of current arrangements in the medium term regarding Crown dependencies

The Company has also identified £460 m of AUM and £42 m of loans across the KH group that are from clients located within the EU and that are therefore at risk with respect to loss of business. Under certain Brexit scenarios business can continue with these clients but the Company recognises that this may be difficult. In those circumstances efforts will be made to transfer these clients to other entities within the Societe Generale Private Banking group.

#### IBOR Replacement

In preparation for the cessation of certain Interbank Offered Rate ( "IBOR" ) benchmarks at the end of 2021, Kleinwort Hambros has implemented a project to execute the transition to alternative interest rate benchmarks. The project team, operating in conjunction with the equivalent project in Societe Generale, provide full coverage of all IBOR-linkages in the business and have delivered significant developments in 2019. These developments have focussed on the live product offering, with actions now underway to transition legacy IBOR-linked products and contracts to alternative benchmarks. The project is on course to ensure a full migration prior to the deadline in 2021. The Company is closely monitoring the evolution, with periodic updates on the progression to the relevant regulatory bodies.

The Company is also committed to implement other legislative and regulatory changes in a timely manner and has implemented new systems and controls to ensure it complies with significant regulatory developments during 2020. Preparations are underway to enable the Company to comply with future regulatory developments.

Approved by the Board of Directors

Signed on behalf of the Board



O D Meredith

Director

SG Kleinwort Hambros Bank Limited

Company No 964058

5th Floor, 8 St James's Square, London SW1Y 4JU

20 May 2020



## Directors' Report on the Financial Statements

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The directors have pleasure in presenting their report, together with the audited financial statements for the year ended 31 December 2019. The Strategic Report on the Financial Statements, including future trends and developments and risks relating to financial instruments, forms an integral part of the Directors Report on the Financial Statements.

### Principal activity

SG Kleinwort Hambros Bank Limited ("the Company"), and its subsidiaries (together the "KH Group") are part of the private banking arm of the Société Générale Group ("SG Group") operating in the UK, the Channel Islands and Gibraltar. It has established a sound reputation for wealth management and related banking services. The Company, a licenced bank, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The principal activity of the Company is the provision of wealth management and related banking services, and offers its clientele an integrated wealth management service, including the provision of full banking, lending and fiduciary services as well as investment management advice.

The KH Group of entities have £13.8 billion (2018: £14.2 billion) of assets under management and operate under the Kleinwort Hambros brand name. The Company is not required to prepare consolidated financial statements and hence, the report that follows relates only to the UK bank operations.

Société Générale is one of the largest European financial services groups. Based on a diversified universal banking model, the SG Group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised in its markets, close to clients and chosen for the quality and commitment of its teams.

### Directors and directors' interests

The following directors have held office during the year:

S W Barnett, Chair  
J W Maitland  
E E Barnett (resigned 24 June 2019)  
P. Follea (appointed 2 July 2019)  
M P Newman  
A S Ewing  
K N Graf von Schweinitz  
J-F Mazaud (resigned 2 July 2019)  
S B Ricke (resigned 7 February 2020)  
X P Lofficial  
E V Perez  
G A Branson  
O D Meredith  
M Choukeir

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The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in-force at the date of this report.

No director had a beneficial interest in the shares of the Company or its subsidiaries during the year.

## Directors' Report on the Financial Statements

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### Corporate governance

The Board of the Directors holds the Company to a high standard of Corporate Governance including following the SG Group model for corporate governance.

As at 31 December 2019, the Board of Directors comprised five executive directors and seven non-executive directors. Four of the non-executive directors are fully independent and all are considered to be independent in character and judgement. The non-executive directors participate fully with their executive colleagues in Board Meetings and have access to all information they need to perform their duties.

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

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

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

The Company believes in promoting and fostering an environment and culture where all employees feel able to speak up and report any concerns. The Board has adopted a Speak Up and Whistle Blowing Policy (the "Policy") and has adopted the Chartered Institute for Securities and Investments' recommended "Step Up" and "Speak Up" approach which is detailed in the Policy. The Board receives an annual report on Whistle Blowing.

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

The Board has appointed the following Board Committees, with formal terms of reference covering its authority and duties, which are regularly reviewed by the Board.

### SG Kleinwort Hambros Audit Committee ("KH Group Audit Committee")

The members of the KH Group Audit Committee are M Newman (Chair), K Graf Von Schweinitz. S Ricke was a member prior to her resignation 7 February 2020.

The functions of the KH Group Audit Committee have been reviewed and aligned to local regulation and the internal Société Générale Corporate Governance principles. The KH Group Audit Committee advises the Board on issues related to the preparation and control of accounting, financial information and corporate reporting, on the arrangements for internal controls (governance, risk and control systems) and ensures an appropriate relationship with the Company's auditors is maintained. Duties relating to legal reviews, compliance and financial crime were moved to the KH Group Audit Committee to align to the SG Corporate Governance principles.

The Audit Committee reviews the effectiveness of the Company's internal controls and risk management systems, primarily by the assessment of the annual financial statements, the scope and findings of the annual external audit, and of Internal Audit Reviews, reports produced by the MLRO, the Head of UK Compliance and the control functions, and periodic reviews of identified risks and mitigating controls undertaken by senior management, together with the assessment of the work of the Internal Audit department.

The internal audit function reviews operations on a continuing basis. A risk-based internal audit programme details the frequency and intensity of reviews and is presented to and approved by the KH Group Audit Committee. Over the course of 2019 the KH Group Audit Committee received regular reports on the activities of the internal audit function and on progress with the agreed recommendations.

The internal audit function is fulfilled by the Société Générale Internal Audit team, who have access to the full resources of the Société Générale group, which will ensure continued best practice and access to industry and regulatory internal audit guidance.

The KH Group Audit Committee is responsible for reviewing the external auditors' independence, the nature of non-audit services supplied and non-audit fee levels relative to the audit fee, together with the quality of service provided and are content with the independence of the auditors.

The KH Group Audit Committee meets on a quarterly basis each year. The KH Group Audit Committee has regular discussions with the external auditor and the Head of Internal Audit and has a formal meeting without management present at least annually. The Chair of the Board has an ongoing invitation to attend the KH Group Audit Committee.

## Directors' Report on the Financial Statements

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### **SG Kleinwort Hambros Risk Committee ("KH Group Risk Committee")**

The members of the KH Group Risk Committee are K Schweinitz (Chair), M Newman and X Lofficial.

The functions of the KH Group Risk Committee have been reviewed and are aligned to local regulation and the Société Générale Corporate Governance principles. The KH Group Risk Committee advises the Board on: the efficacy of the risk management framework; the appropriateness of the risk appetite; overall assessment of risk (including the principal and prospective risks it is willing to take in achieving its strategic objectives, inform key business decisions and ensure fair customer outcomes); the examination of the supervision systems to ensure the effective oversight of risk management and internal controls; and the monitoring of banking and financial risks measurements.

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

The KH Group Risk Committee considers the Risk Appetite Statement and recommends it to the Board, taking into account the current and prospective macroeconomic and financial environment; this includes the ICAAP and ILAAP pre-Board reviews. This document outlines the nature and quantum of risk the Company wishes to bear in order to achieve its strategic, profitability and growth objectives whilst remaining within regulatory constraints. It also notes the key policies established by the Company to manage these risks and the approval process governing those policies.

The KH Group Risk Committee meets quarterly each year; there were four Risk Committee meetings in 2019 with an additional meeting to consider the ICAAP and ILAAP in detail. The Chief Risk Officer always attends the meetings. The Chair of the KH Group Risk Committee has regular informal discussions with the CRO and the Chairman of the Board has an ongoing invitation to attend the KH Group Risk Committee.

### **SG Kleinwort Hambros Remuneration and Nomination Committee ("KH Group Remuneration and Nomination Committee")**

The members of the KH Group Remuneration and Nomination Committee are S Barnett (Chair), P Follea (appointed 2 July 2019) and K Graf Von Schweinitz.

The functions of the KH Group Remuneration and Nomination Committee have been reviewed and are aligned to local regulation and the Société Générale Corporate Governance principles. The Remuneration and Nomination Committee recommends to the Board total compensation for key individuals and material risk takers and does so to promote the long-term success of the Group, stakeholders and the public interest.

The KH Group Remuneration and Nomination Committee recommends future directors, senior Executive roles and Committee members to the Board; carries out robust succession planning; examines the appointment policies and processes of the Board; and proposes to the Board a gender balance target.

The KH Group Remuneration and Nomination Committee has at least three substantive meetings each year. The Chief Executive Officer, HR Director and Group General Counsel of the Company normally attend meetings. Terms of Reference detail the roles and responsibilities of the Remuneration and Nomination Committee; these are normally reviewed annually.

# Directors' Report on the Financial Statements

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## Employees

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

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

The Company pays particular regard to the involvement of employees generally in the Company's activities and achievements. Communication with employees has continued through presentations, intranet announcements and e-mails, so all employees are aware of the key priorities for the business, the financial and economic performance of their business units and of the Company as a whole.

Annual employee engagement surveys are performed to highlight areas of improvement within the Group. The Board considers the results of the surveys and receives updates from Senior Management on initiatives that have been implemented to address the findings of the surveys.

During 2019, the Bank introduced the KH Career Returner Programme which helped women to return to the workforce.

In 2017 the Bank introduced both Gender Pay Gap Reporting and Payment Practices and Performance Reporting.

Throughout 2020, the Board will continue to review and challenge how the Bank can improve engagement with its employees and stakeholders.

## Disclosure of information to auditors

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

## Auditors

Ernst & Young LLP have indicated their willingness to be reappointed for another term. Appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

## Results and dividends

For the year ended 31 December 2019, the Company reported a total comprehensive loss of £31.9m (2018 profit: £60.3m).

The performance of the Company during the year is examined in the Strategic Report.

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The directors do not recommend the payment of a final dividend for the year 2019 (2018: £Nil).

## Going concern

Note 25 and Note 26 to the financial statements include the Company's objectives, policies and processes for managing its capital, including its Individual Capital Adequacy Assessment Process ("ICAAP"); its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has maintained at all times over the year sufficient liquid asset buffer investments to operate within the business risk appetite as defined in its Internal Liquidity Adequacy Assessment Process document and for survival under prescribed stress scenarios including combined stress scenarios. Liquidity monitoring under stress is monitored frequently by the Executive KH Group Asset Liability Committee which meets on a monthly basis and reported regularly to the Directors of the Board.

COVID-19 with its social and economic impacts is of specific consideration for the capital and liquidity risk of the Company. The Company is expecting reduced revenue for 2020 as a consequence of the crisis and has a number of different risk mitigation plans that it is able to enact if circumstances changed further. Also, in response to the crisis, as part of a consistent approach to the industry, the PRA has eased capital requirements for the Company by allowing the Company to use, if required, the counter cyclical buffer that the Company is required to hold. After considering the Company's current position and environment the directors believe the Company has sufficient resources and ability to operate throughout the crisis.

## Directors' Report on the Financial Statements

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### Going concern (continued)

The directors believe that the Company is well placed to manage its business risks successfully. After consideration, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis will continue to be adopted in preparing the annual report and financial statements.

### Statement of Directors' responsibilities

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

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including Financial Reporting Standard 101 'Reduced Disclosure Framework and applicable law'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Approved by the Board of Directors

Signed on behalf of the Board



O D Meredith

Director

SG Kleinwort Hambros Bank Limited

Company No 964058

5th Floor, 8 St James's Square, London SW1Y 4JU

20 May 2020

# Auditors Report on the Financial Statements

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SG KLEINWORT HAMBROS BANK LIMITED

### Opinion

We have audited the financial statements of SG Kleinwort Hambros Bank Limited for the year ended 31 December 2019 which comprise the Statement of Profit and Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"><li>• Revenue recognition</li><li>• Loan impairment provisioning</li><li>• IT system migration</li><li>• Going concern basis used in preparing the Annual Report and Financial Statements</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall materiality of £4.5m which represents 1% of total equity</li></ul>

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

## Auditors Report on the Financial Statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue Recognition: Interest Income £47.3m, PY £51.3m; Fee and Commission Income £51.0m, PY £51.3m</b></p> <p><i>Refer to the accounting policies (pages 34 and 35); notes 5 and 6 of the financial statements (pages 38 and 39).</i></p> <p>Risk of inappropriate recognition of revenue whether from an existence or measurement perspective particularly focused on complexity of system calculations and likelihood of misstatements due to error.</p> <p>In addition, we focus on non-systematic generated revenue streams (ad-hoc fees, commission income) are subject to manual intervention or adjustment due to management override.</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• performed an assessment of the risk of material misstatement for each material revenue stream considering the level of automation and use of judgement;</li> <li>• performed walkthroughs for all significant revenue streams, of the key processes and controls underpinning the recognition of revenue;</li> <li>• tested the key controls around customer onboarding, loan origination and input of static data within the systems;</li> <li>• tested the controls over new fee agreements and any amendments made to existing fee agreements;</li> <li>• tested the controls over the access to and changes to the IT systems underpinning the revenue process;</li> <li>• tested the IT Application Controls for automated revenue processes such as automated interest income and fee calculations;</li> <li>• selected a sample of manual fee &amp; commission revenue items to validate the fee rates through to customer agreements and recalculated the fee income;</li> <li>• tested the retrocession fee calculation and agreed the receivable balance to subsidiary entities;</li> <li>• tested the revenue accrual raised at year end by substantiating the amount through recalculation of the last quarter fees and commissions;</li> <li>• tested the appropriateness of journal entries recorded in the sub-ledgers and general ledger and any other adjustments made in the preparation of the financial statements by auditing a sample of journal entries back to supporting documentation;</li> <li>• performed substantive analytical procedures on the asset management fee by setting an expectation based in the value of AuM (assets under management) and average returns;</li> <li>• tested the completeness of the AuM by agreeing the listing to the independent confirmation of AuM from custodians; and</li> <li>• performed an independent revaluation of a sample of AuM.</li> </ul>	<p>All transactions tested have been recognised in accordance with the underlying agreements or other supporting documentation. Based on the procedures performed, we have no matters to report in respect of revenue recognition.</p>

## Auditors Report on the Financial Statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Loan Impairment Provisioning: Loans and Advances to Customers £1,124m, PY £1,078m; Impairment Provision £4.7m, PY £3.9m</b></p> <p><i>Refer to the accounting policies (pages 30 and 31); and note 14 of the financial statements (pages 50 and 51).</i></p> <p>Risk that the IFRS 9 loan impairment provision against the retail loan portfolio is miscalculated due to inappropriate staging of the loans and/or inappropriate assumptions used by management in the expected credit loss ('ECL') calculation.</p> <p>We have focused our testing on higher risk stage 2 and 3 loan exposures, where the risk of material misstatement is higher.</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• performed a walkthrough and testing the design and implementation of relevant controls, including loan monitoring, provision calculations and IFRS 9 provision models;</li> <li>• tested the IT general controls and IT application controls around the loan arrears monitoring process and provision calculation;</li> <li>• performed data analytics over the portfolio of loans in order to select a risk-based sample for detailed credit file review testing;</li> <li>• performed the following procedures on the IFRS 9 model: <ul style="list-style-type: none"> <li>• benchmarked the key inputs: Probability of Default ('PD') and Loss Given Default ('LGD') with comparable private banks;</li> <li>• challenged the assumptions to third party support and historical data;</li> <li>• recalculated the expected credit loss ('ECL') across the population of Stage one loans;</li> </ul> </li> <li>• tested the completeness of the loan exposures included in the IFRS 9 model by agreeing the balances to the source systems;</li> <li>• tested the Stage 3 migration, including the deterioration in the impacted exposure and arrears levels;</li> <li>• tested the collateral valuations to 3rd party sources for a sample of loans in all ECL stages;</li> <li>• tested the recovery strategy, DCF calculations, and collateral valuation analysis for loans for a sample of Stage 3 ECL provisions; and</li> <li>• assessed the compliance of Management's accounting policies and disclosures with IFRS 9 - Financial Instruments.</li> </ul>	<p>We have assessed the loan loss provisions recorded and the disclosures included under IFRS 9 – Financial Instruments. Based on the procedures performed, we have no matters to report in respect of the loan impairment provision.</p>



## Auditors Report on the Financial Statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>IT system migration</b></p> <p><i>Refer to the Strategic Report (pages 4 and 7); and the basis of preparation note 2.3 (page 27).</i></p> <p>The migration of data from OBS (legacy Kleinwort Benson system) to the Olympic banking application occurred during the year.</p> <p>There is a risk that account balances and associated static information were not migrated completely or accurately.</p> <p>This is a new risk in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed the programme governance and project management of the migration.</li> <li>• checked the overall reconciliation of the OBS trial balance at the pre-migration date to the appropriate balances in Olympic post-migration;</li> <li>• for a sample of balances within assets, liabilities, and the income statement, checked that the balances were accurately migrated to the correct account classification from OBS to Olympic;</li> <li>• verified that the static data for a sample of loans and deposits was migrated accurately;</li> <li>• for a sample of assets under management we ensured they were accurately migrated from OBS to Olympic and the appropriate customer tariff associated to these assets.</li> </ul>	<p>Based on procedures performed, we did not identify any significant findings in relation to the migration from OBS to Olympic.</p>

## Auditors Report on the Financial Statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Going concern basis used in preparing the Annual Report and Financial Statements</b></p> <p><i>Refer to the Strategic Report (pages 4 to 8); the Directors Report (pages 12 and 13); the Basis of preparation note 2.3 (pages 27 to 28); and note 27 of the financial statements (page 68)</i></p> <p>Risk that the financial statements may be incorrectly prepared on a going concern basis due to inaccurate management information or forecasts.</p> <p>The Bank's Annual Report and Financial Statements are prepared on the going concern basis of accounting. This means the Bank is able to operate for the foreseeable future, but at least 12 months from the opinion date. This basis is dependent on a number of factors including the Bank's financial performance, and ability to comply with regulatory requirements.</p> <p>The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy. There is a significant degree of uncertainty about the further spread of the virus and the final impact on the world economy. The bank has no external debt as such the key risks relates to future profitability, liquidity and capital.</p> <p>The risk is new and has increased in significance in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• attended the most recent Audit Committee meetings where the Directors considered the impact of COVID-19 on the business and discussed whether, in their opinion, there is any material uncertainty regarding the bank's ability to continue as a going concern for the foreseeable future;</li> <li>• challenged management on their revised forecast profitability verifying the impact to third party economic analysis;</li> <li>• challenged the revised forecasts used by management of income and cost rates using valuation specialists;</li> <li>• assessed the credit quality of the assets on balance sheet for potential deterioration since year end;</li> <li>• performed a detailed review of the latest ICAAP, ILAAP and COVID-19 scenario analysis prepared by management, including: <ul style="list-style-type: none"> <li>• challenged the key stress cases for their impact considering the current economic environment;</li> <li>• challenged the reverse stress test scenarios to assess them for reasonableness in the current economic environment;</li> <li>• assessed whether the capital headroom was sufficient based on current risk factors in the forecasts;</li> <li>• assessed whether the liquidity ratios were still appropriate in the current economic environment;</li> </ul> </li> <li>• revisited the following key estimates and judgements for the impact of revised forecasts and COVID-19 impact on these assessments, using our specialists where appropriate: <ul style="list-style-type: none"> <li>• impairment assessment of Investment in subsidiaries;</li> <li>• recognition of deferred tax assets related to retained losses;</li> </ul> </li> <li>• reviewed all key management, committee and board of directors meeting minutes for any indications that the going concern basis of preparation may not be appropriate; and</li> <li>• assessed the adequacy of COVID-19, subsequent events and going concern disclosures in the financial statements.</li> </ul>	<p>We have no issues to communicate with respect to our procedures over the risk that the going concern assumption is incorrectly applied.</p>

In the prior year, our auditor's report included a key audit matter in relation to goodwill impairment valuation. The Bank has written down the goodwill to £nil in the current year so is no longer deemed to be a key audit matter. In the current year, we have added key audit matters in

# Auditors Report on the Financial Statements

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relation to the IT systems migration given the additional risk associated with this and going concern basis of preparation for the financial statements for the potential impact of the COVID-19 pandemic and the additional work management and we have performed to assess this.

## **An overview of the scope of our audit**

### **Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team with the support of internal specialists where required. The audit team is supported by an EY team in the Channel Islands who test the key IT systems, as well as key operational processes and controls which reside in that location.

## **Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### **Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Bank to be £4.5 million (2018: £5.1million), which is 1% (2018: 1%) of total equity. The basis used is consistent with the basis from the prior year and we consider this to be the most appropriate factor to the users of the financial statements.

During the course of our audit, we reassessed initial materiality and determined there were no significant changes to be made to our materiality calculations.

### **Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £3.4m (2018: £3.8m). We have set performance materiality at this percentage due to the engagement being moderate risk and the framework remaining the same as prior year.

### **Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We have reported to the Audit Committee all uncorrected audit differences in excess of £226k (2018: £254k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

# Auditors Report on the Financial Statements

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### *Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud*

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice) and, as regards to the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006. Also significant are regulation, license conditions and supervisory requirements of the Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA'). We understood how SG Kleinwort Hambros Bank Limited is complying with those frameworks through the implementation of a corporate governance framework that ensures compliance with laws and regulations.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by overstating revenue through the manual override of controls
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of internal legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters above.
- The Bank operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the expertise of the engagement team to ensure that the team has the appropriate competence and capabilities, which included the use of specialists where appropriate
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise see to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk included in our testing of Key Audit matters above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Other matters we are required to address

- We were appointed by the Bank on 28 September 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2015 to 31 December 2019.

## Auditors Report on the Financial Statements

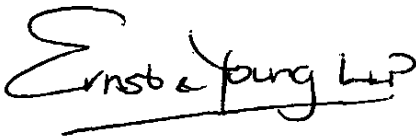
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- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sarah Williams (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

26 May 2020

## Statement of Profit and Loss

For the year ended 31 December 2019

(In GBP thousands)	Note	2019	2018
Interest income calculated using EIR		34,595	35,545
Interest income at FVOCI		12,732	15,748
Interest expense		(14,255)	(11,655)
<b>Net interest income</b>	<b>5</b>	<b>33,072</b>	<b>39,638</b>
Fee and commission income		50,995	51,348
Fee and commission expense		(1,004)	(1,062)
<b>Net fee and commission income</b>	<b>6</b>	<b>49,991</b>	<b>50,286</b>
Losses on financial instruments at fair value	7	(2,000)	(3,763)
Other expense		(1,422)	(1,250)
Dividend income	8	1,308	64,809
<b>Total operating income</b>		<b>80,949</b>	<b>149,720</b>
Administrative expenses	9	(76,615)	(90,695)
Amortisation	17	(589)	(228)
Depreciation	18	(254)	(260)
Impairment losses and other provisions		(1,503)	608
Impairment of goodwill	17	(37,190)	-
<b>Total operating expenses</b>		<b>(116,151)</b>	<b>(90,575)</b>
<b>(Loss) / profit before income tax</b>		<b>(35,202)</b>	<b>59,145</b>
Income tax relief/(expense)	11	1,207	3,065
<b>(Loss) / profit for the year</b>		<b>(33,995)</b>	<b>62,210</b>

The results for the years ended 31 December 2019 and 31 December 2018 are derived from continuing operations and are entirely attributable to owners of the Company.

The notes to the financial statements on pages 27 to 71 are an integral part of these statements.

## Statement of Comprehensive Income

For the year ended 31 December 2019

(In GBP thousands)	Note	2019	2018
<b>(Loss) / profit for the year</b>		<b>(33,995)</b>	<b>62,210</b>
<b>Items that may be reclassified to the Statement of profit or loss:</b>			
<b>Other recognised gains and losses:</b>			
Gains / (losses) on revaluation of FVOCI investments taken to equity		4,256	(6,537)
Tax on FVOCI investments taken to equity		(469)	739
Transfer to statement of profit or loss on disposal of FVOCI financial investments	7	(275)	3,846
<b>Other comprehensive income / (loss) for the year net of tax</b>		<b>3,512</b>	<b>(1,952)</b>
<b>Total comprehensive (loss) / income for the year</b>		<b>(30,483)</b>	<b>60,258</b>

The total comprehensive (loss) / income is entirely attributable to owners of the Company.

The notes to the financial statements on pages 27 to 71 are an integral part of these statements.

## Statement of Financial Position

As at 31 December 2019

(In GBP thousands)	Note	2019	2018
<b>Assets</b>			
Cash and balances at central banks		52,993	169,360
Derivative assets	12	7,130	12,342
Loans and advances to banks	13	41,744	31,344
Loans and advances to customers	14	1,119,362	1,074,474
Debt and investment securities	15	846,575	1,253,521
Shares in group undertakings	16	232,835	232,883
Intangible assets	17	3,175	38,271
Tangible assets	18	425	332
Current income tax assets	11	2,779	-
Deferred income tax assets	11	2,288	4,140
Trade and other receivables	19	23,292	26,577
<b>Total assets</b>		<b>2,332,598</b>	<b>2,843,244</b>
<b>Liabilities and equity</b>			
Deposits by banks	20	11,543	41,768
Customers' accounts	21	1,836,229	2,191,216
Financial liabilities at fair value through profit or loss	12	9,526	35,478
Derivative liabilities	12	6,307	6,049
Current income tax liabilities	11	-	896
Other liabilities	22	48,909	60,018
Provisions for liabilities	23	1,696	2,365
<b>Total liabilities</b>		<b>1,914,210</b>	<b>2,337,790</b>
Share capital	24	328,266	328,266
Share premium		45,500	45,500
Share-based capital contribution		2,383	2,264
Undistributable reserves		42,500	42,500
FVOCI reserves		5,727	2,215
Retained earnings		(5,988)	84,709
<b>Equity attributable to owners of the Company</b>		<b>418,388</b>	<b>505,454</b>
<b>Total equity and liabilities</b>		<b>2,332,598</b>	<b>2,843,244</b>
<b>Memorandum Items:</b>			
Contingent liabilities	28	34,978	52,719
Commitments	28	47,644	62,773

The notes to the financial statements on pages 27 to 71 are an integral part of these statements

Approved and authorised for issue by the Board of Directors on 19 May 2020 and signed on its behalf by:



O D Meredith  
Director  
20 May 2020



## Statement of Changes in Equity

For the year ended 31 December 2019

(In GBP thousands)	Share capital	Share premium	Share based capital contribution	Undistributable reserves	OCI reserves	Retained earnings	Total equity
<b>Balance at 1 January 2019</b>	<b>328,266</b>	<b>45,500</b>	<b>2,264</b>	<b>42,500</b>	<b>2,215</b>	<b>84,709</b>	<b>505,454</b>
<b>Total comprehensive income/(expense)</b>	-	-	-	-	<b>3,512</b>	<b>(33,995)</b>	<b>(30,483)</b>
<b>Transactions with owners</b>							
Capital increase	-	-	-	-	-	-	-
Equity settled payments	-	-	<b>119</b>	-	-	-	<b>119</b>
Dividends paid	-	-	-	-	-	<b>(56,702)</b>	<b>(56,702)</b>
<b>Transactions with owners, recorded directly in equity</b>	-	-	<b>119</b>	-	-	<b>(56,702)</b>	<b>(56,583)</b>
<b>Balance at 31 December 2019</b>	<b>328,266</b>	<b>45,500</b>	<b>2,383</b>	<b>42,500</b>	<b>5,727</b>	<b>(5,988)</b>	<b>418,388</b>

The notes to the financial statements on pages 27 to 71 are an integral part of these statements.

## Statement of Changes in Equity

For the year ended 31 December 2018

(In GBP thousands)	Share capital	Share premium	Share based capital contribution	Undistributable reserves	OCI reserves	Retained earnings	Total equity
<b>Balance at 1 January 2018</b>	<b>303,266</b>	<b>45,500</b>	<b>2,145</b>	<b>42,500</b>	<b>4,495</b>	<b>23,000</b>	<b>420,906</b>
Impact of adopting IFRS 9 (Note 4)							
Impairments adjustment	-	-	-	-	-	(1,139)	(1,139)
Tax effect	-	-	-	-	-	310	310
Transfer from OCI reserves to Retained earnings	-	-	-	-	(328)	328	-
<b>Restated opening balance under IFRS 9</b>	<b>303,266</b>	<b>45,500</b>	<b>2,145</b>	<b>42,500</b>	<b>4,167</b>	<b>22,499</b>	<b>420,077</b>
<b>Total comprehensive income/(expense)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,952)</b>	<b>62,210</b>	<b>60,258</b>
<b>Transactions with owners</b>							
Capital increase	25,000	-	-	-	-	-	25,000
Equity settled payments	-	-	119	-	-	-	119
Dividends	-	-	-	-	-	-	-
<b>Transactions with owners, recorded directly in equity</b>	<b>25,000</b>	<b>-</b>	<b>119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,119</b>
<b>Balance at 31 December 2018</b>	<b>328,266</b>	<b>45,500</b>	<b>2,264</b>	<b>42,500</b>	<b>2,215</b>	<b>84,709</b>	<b>505,454</b>

The notes to the financial statements on pages 27 to 71 are an integral part of these statements.

# Notes to the Financial Statements

## 1. Reporting entity

The Company is incorporated and domiciled in the United Kingdom. The Company, which operates under the trading name Kleinwort Hambros, is a wholly owned subsidiary whose immediate parent is SG Kleinwort Hambros Limited, a company incorporated in the United Kingdom, which is wholly owned by the ultimate parent Société Générale S.A..

The registered address of the Company is 5th Floor, 8 St James's Square, London SW1Y 4JU. The principal activity of the Company is the provision of wealth management and related banking services. The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

These are separate non-consolidated financial statements as the Company is exempt from preparing consolidated financial statements due to being consolidated into a publicly listed EU parent.

The Company's ultimate parent undertaking and controlling party is Société Générale S.A., incorporated in France under French Law. It is also the smallest and largest group in which the publicly available results of the Company are consolidated. The financial statements of Société Générale S.A. are available to the public and may be obtained from [www.societegenerale.com](http://www.societegenerale.com).

## 2. Basis of preparation

### 2.1. Statement of compliance

The Company's financial statements, which show a true and fair view, have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards, and comply with the Companies Act 2006, including the provisions of Schedule 2 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The financial statements have been authorised for issue by the Board of Directors on 19 May 2020.

### 2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- debt and investment securities are measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs are unobservable inputs for the asset or liability.

### 2.3. Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report on pages 8-14. Key to the Company's return to profitability was the migration of the two legacy businesses onto one core banking platform which was completed at the beginning of October 2019. The Company's business plans, prior to the effects of COVID-19, projected a return to core profitability now that implementation has been completed and cost savings can be realised. COVID-19 with its social and economic impacts is of specific consideration for the capital and liquidity risk of the Company. The Company is expecting reduced revenue for 2020 as a consequence of the crisis and has a number of different risk mitigation plans that it is able to enact if circumstances changed further. The Company holds capital resources in excess of regulatory requirements and its capital forecasts anticipate this to continue to be the case into the future whilst supporting final cost saving measures, revenue growth of the business and the current economic crisis. Also, in response to the crisis, as part of a consistent approach to the industry, the PRA has reduced capital requirements for the Company by reducing the counter cyclical buffer that the Company is required to hold. Liquidity positions within the Company are actively managed on a daily basis to ensure sufficient liquidity is maintained at all times to support businesses while at the same time remaining well within regulatory and internal limits. If needed and notably in order to respect prudential ratios, the ultimate parent company is ready to consider a request to increase regulatory capital. Taking these factors into consideration, the directors believe that the Company is well placed to manage its business risks successfully.

## Notes to the Financial Statements

### 2. Basis of preparation (continued)

#### 2.3. Going concern (continued)

After undertaking a detailed analysis of its financial resource requirements under both normal and stressed operating conditions, the directors have a reasonable expectation that the Company has adequate resources to meet its minimum capital and liquidity regulatory requirements and appropriate contingency plans to ensure that the Company continues to operate with a prudent capital and liquidity buffer over its internal requirements for the foreseeable future. Therefore, the Company continues to adopt the going concern basis in preparing the annual report and financial statements.

#### 2.4. Accounting policies

The accounting policies and methods of computation are consistent with those applied in the Company's 2018 Annual Report and Accounts with the exception of new accounting policies in respect of IFRS 16 'Leases' which was adopted on 1 January 2019.

IFRS 16, Leases (IFRS 16), replaces IAS 17, introducing a single lessee accounting model for all leases by eliminating the distinction between operating and financing leases. IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for most leases. Lessees also recognise depreciation expense on the right-of-use asset and interest expense on the lease liability in the statement of income. Short-term leases, which are defined as those that have a lease term of 12 months or less; and leases of low-value assets are exempt. Lessor accounting remains substantially unchanged. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 for the Company and is applied retrospectively. The Company realised an impact of £340k on the balance sheet on adoption of this standard.

#### Disclosure exemptions

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council and has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payment, because the arrangement concerns the instrument of another group entity;
- b) the requirements of IAS 7 Statement of Cash Flows;
- c) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- d) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- e) the requirements of paragraphs 10(d), 10(f) and 39(c) of IAS 1 Presentation of Financial Statements;
- f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

#### 2.5. Adoption of new and revised Standards

##### Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

As indicated in the accounting policies, the Company elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

*As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.*

# Notes to the Financial Statements

## 3. Significant accounting policies

### 3.1.1. Financial assets and liabilities

Classification is based on the objectives of the Company's business model for managing its financial assets and the contractual cash flow characteristics of the instruments.

The business model reflects how the UK Company manages the assets in order to generate cash flows. One of the following business models is identified for each financial instrument depending on how the risks are managed, past experience with the financial asset and how performance is measured and reported:

- hold to collect: it is intended to collect the contractual cash flows from the assets (Amortised cost classification);
- hold to collect and to sell: it is intended to collect both the contractual cash flows and cash flows arising from the sale of the asset (FVOCI classification); or
- hold to sell: it is intended to sell the financial asset in the short to medium term, or the asset is designated FVPL to minimise an accounting mismatch (FVPL classification).

Where the business model is 'held to collect' or 'held to collect and sell' the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with previously separable embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Company reclassifies debt investments only when its business model for managing those assets changes. Such changes are expected to be very infrequent and none occurred during the period.

The accounting requirements of the three measurement categories are as follows:

#### **Amortised cost**

Financial assets at amortised cost are initially recognised at fair value, including direct and incremental transaction costs. Subsequent measurement is at amortised cost using the effective interest method. The Company's secured and unsecured loan portfolios are classified as amortised cost.

The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income is included in 'Interest income' using the effective interest method.

#### **Fair value through other comprehensive income (FVOCI)**

Financial assets at FVOCI are initially measured at fair value, including direct and incremental transaction costs. Subsequent measurement is at fair value, with changes in fair value being recognised in other comprehensive income, with the exception of impairment gains or losses, interest income and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. Interest income from these financial assets is included in 'interest income' using the effective interest method. The Company's investments in debt securities are classified as FVOCI.

On derecognition of a financial asset, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Fair value gains/losses on financial instruments'.

#### **Fair value through profit or loss (FVPL)**

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL on initial recognition and at each reporting date.

Any gain or loss on an asset that is subsequently measured at FVPL, and is not part of a hedging relationship, is recognised in profit or loss and presented in the profit or loss statement within 'Fair value gains/losses on financial instruments'.

Interest income from these financial assets is included separately in 'Net Interest Income'.

## Notes to the Financial Statements

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### 3. Significant accounting policies (continued)

#### 3.1.1. Financial assets and liabilities (continued)

##### **Equity instruments**

Equity instruments are instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets (e.g. basic ordinary shares).

The Company measures all equity investments at fair value through profit or loss, except where Management has elected, at initial recognition, to irrevocably designate the non-trading equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses are not reported separately from other changes in fair value. Dividends continue to be recognised in profit or loss as 'Other income' when the Company's right to receive payments is established.

Gains or losses on equity investments at FVPL are included in the 'Fair value gains/losses on financial instruments' line in the Statement of profit or loss.

##### **Fair value measurement**

Fair value measurement is determined by IFRS 13 'Fair Value Measurement' and the accounting policy for determining fair value can be found in note 2.2.

#### 3.1.2. Impairment of financial assets

The Company's loan loss impairment method uses a forward-looking expected credit loss (ECL) approach. The Company records an allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 26.3.1.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2 and Stage 3.

**Stage 1:** When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

**Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Further details of how these are categorised are provided in note 26.3.1.

**Stage 3:** When loans are considered credit-impaired, the Company records an allowance for the LTECLs. Further details of how these are categorised are provided in Note 26.3.1.

##### **The calculation of ECLs**

The Company calculates ECLs based on exposure.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

## Notes to the Financial Statements

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### 3. Significant accounting policies (continued)

#### 3.1.2. Impairment of financial assets (continued)

##### *The calculation of ECLs (continued)*

The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

##### Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to an expected EAD and multiplied by the expected LGD.

##### Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument.

##### Stage 3:

For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

##### Loan commitments and letters of credit

When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down.

For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

##### Financial guarantee contracts

The Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The ECLs related to financial guarantee contracts are recognised within Provisions.

##### *Debt instruments measured at fair value through OCI*

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

## Notes to the Financial Statements

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### 3. Significant accounting policies (continued)

#### 3.1.2 Impairment of financial assets (continued)

##### **Write-offs**

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

##### **Forborne and modified loans**

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

After a restructuring, the declassification of loan stage 3 can only occur at least 12 months after the restructuring, subject to compliance with the process as well as the lack of any instalments to be paid.

The declassification of a debtor from stage 3 can then occur if the debtor is again deemed capable to meet all his commitments. This includes both the new contractual commitments resulting from the restructuring and all the eventual previous commitments not part of the restructuring.

- For retail customers: The declassification from stage 3 can then occur after the minimum one-year period (without any instalments to be paid during this period), if the client has a sustainable capacity to meet his obligations.
- For non-retail customers: The declassification from stage 3 can then occur after the minimum one-year period, on a case by case basis, with an expert judgment based on a financial assessment. As the situation of a non-retail counterparty reverted to being healthy after a restructuring can remain weak, the latter shall be classified as stage 2 for at least 6 months.

During a 2-year probation period after the declassification from stage 3, any client will be re-classified to stage 3 at the first credit event.

After the probation period, the standard Default rules apply again. However, as for any client, a new Default can occur before the first instalment to be paid if we estimate that the client is again in a Default situation (based on a credit risk assessment).

#### 3.1.3. Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. ~~If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.~~

#### 3.1.4. Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### 3.1.5. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and options. Further details of derivative financial instruments are disclosed in the 'Financial instruments' note to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the profit and loss account immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in the profit and loss account depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions, hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.



## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### 3.1.6. Hedge accounting

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices than the current IAS 39 requirements and follow a principles-based approach. However, there is an option in IFRS 9 to maintain existing IAS 39 hedge accounting rules until the IASB completes its project on macro hedging. This option has been provided because the macro hedging project is still in the consultation phase, with a second discussion paper due to be issued by the International Accounting Standards Board (IASB) in the foreseeable future. Management have analysed the benefits of adopting IFRS 9 hedge accounting but currently the preferred approach is to continue applying IAS39 hedge accounting in its entirety. As a result, there is no change from the 2018 Annual Report and Accounts accounting policy. The revised disclosure requirements of IFRS 7 'Financial Instruments: Disclosures' in relation to hedge accounting will be applied.

The Company makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the company hedged item and the hedging instruments, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Company assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of profit or loss.

The Company has early adopted Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 which include a number of reliefs, that apply to all hedging relationships directly affected by interest rate benchmark reform. The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ( "RFR" ). A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

#### Fair value hedges

For designated and qualifying fair value hedges, the change in fair value of a hedging derivative is recognised in the statement of profit or loss in 'Gains and losses on financial instruments at fair value'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is recognised in the statement of profit and loss in 'gains and losses on financial instruments at fair value.'

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated, and the face value is amortised over the remaining term of the original hedge using the effective interest method. If the hedge is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of profit or loss.

In accordance with its wider risk management, it is the Company's strategy to apply fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Company to reduce fair value fluctuations of fixed rate financial assets as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the Company designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss. The Company only hedges changes due to interest rates, which are typically the most significant component of the overall fair value change. The Company assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above. In accordance with its hedging strategy, the Company matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The Company uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items

## Notes to the Financial Statements

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### 3. Significant accounting policies (continued)

#### 3.1.6. Hedge accounting (continued)

##### Micro fair value hedges

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship are fixed rate debt instruments at FVOCI and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis. If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Company decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the company discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement. For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVOCI, changes in fair value that were recorded in the income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the statement of financial position, the fair value hedge adjustments are transferred from the income statement to OCI. There were no such instances in either the current year or in the comparative year. The Company has designated micro hedge relationships as fair value hedges.

#### 3.1.7. Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. This effective interest rate is calculated on the gross carrying amount of a financial asset except for financial assets that have subsequently become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortised cost less impairment of the financial asset in subsequent reporting periods.

### 3.2. Revenue Recognition

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets and liabilities held for trading.

For non-financial assets and liabilities, such as fees and commissions income are recognised using the principles of IFRS15.

To apply these principles of IFRS15 the Company follows a five-step model framework:

Step 1: Identify the contract(s) with a customer.

IFRS 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Identify the performance obligations in the contract.

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A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price.

The transaction price is the amount of consideration (for example, payment) to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4: Allocate the transaction price to the performance obligations in the contract.

For a contract that has more than one performance obligation, an entity should allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### 3.2 Revenue Recognition (continued)

##### 3.2.1. Net interest income

Net interest income comprises income from banking activities, namely interest receivable on loans, advances, deposits placed and investment in debt securities less interest payable on deposits taken. Revenue is recognised as interest accrues using the effective interest method.

##### 3.2.2. Fees and commissions

Fees and commissions not included as part of the effective interest rate are recognised on an accruals basis. Arrangement fees are booked as deferred income on the balance sheet and recognised in the profit and loss account over the period of the arrangement, as per the steps described in IFRS 15.

##### 3.2.3. Dividends

Revenue is recognised when the Company's right to receive payment is established.

#### 3.3. Foreign Currency

The financial statements are presented in Great British Pounds ("GBP"), which is the currency of the primary economic environment in which the Company operates (its functional currency). Unless otherwise stated, all information presented in GBP has been rounded to the nearest thousand.

##### 3.3.1. Foreign currency transactions

Transactions in currencies, other than the functional currency, are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

##### 3.3.2. Exchange rates

The following major exchange rates have been used in preparing the financial statements.

One GBP equals	Closing rate		Average rate	
	2019	2018	2019	2018
Euro ("EUR")	1.176	1.117	1.144	1.130
US Dollar ("USD")	1.320	1.279	1.280	1.331

#### 3.4. Investments in subsidiaries

The carrying value of the Company's investments in subsidiary undertakings is stated at historical cost less any provision for impairment.

#### 3.5. Interests in associates

Participating interests are investments in companies, not being subsidiaries, whose directors include representatives of the Company. The Company intends to hold these investments long term with the purpose of securing a contribution to the Company's profits. Such interests are stated at cost less any provision for impairment.

## Notes to the Financial Statements

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### 3. Significant accounting policies (continued)

#### 3.6. Taxation

##### 3.6.1. Current Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

##### 3.6.2. Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is:

- Calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.
- Charged or credited in the statement of profit or loss, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

##### 3.6.3. Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### 3.7. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. They are written off on the straight-line basis over their estimated useful lives as follows:

- |                                    |           |
|------------------------------------|-----------|
| ▪ Leasehold properties             | 3 years   |
| ▪ Computer equipment               | 3-5 years |
| ▪ Furniture, fixtures and fittings | 10 years  |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### 3.8. Intangible assets

##### 3.8.1. Goodwill

Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised on the balance sheet and recognised in profit or loss over time. Any contingent consideration is included in the cost of the acquisition to the extent that the payment is considered probable and the amount can be measured reliably. If the potential adjustment is not recognised at acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration is treated as an adjustment to the cost of the combination.

## Notes to the Financial Statements

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### 3. Significant accounting policies (continued)

#### 3.8.1 Goodwill (continued)

Goodwill is not amortised but is reviewed for impairment annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the subsequent periods if, and only if, the reasons for the impairment loss have ceased to apply.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

#### 3.8.2 Software and development costs

Software expenditures on individual projects are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use;
- Its intention to complete and its ability and intention to use the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the expenditures as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the expected future useful lives of between 3 and 5 years or assessed individually where deemed significant.

#### 3.9. Leases

The Company recognises right-of-use assets and lease liabilities for significant leases where applicable. The Company recognises depreciation expense on the right-of-use asset and interest expense on the lease liability in the statement of profit and loss. Short-term leases, which are defined as those that have a lease term of 12 months or less; and leases of low-value assets are exempt.

#### 3.10. Pension costs

The Company operates a defined contribution pension scheme and contributes to the Société Générale scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

#### 3.11. Provision for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 3.12. Share-based payment

The Company's employees receive share-based payments from the parent company, Société Générale SA. Details of these can be found in Note 10.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 10.

The fair value determined at the grant date of the equity-settled share-based payments is charged to the statement of profit or loss based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimate (if any) is recognised as a profit or loss such that the cumulative expense reflects the revised estimate (with a corresponding adjustment to the share-based contribution reserves).

For cash-settled share-based payments, a liability is recognised for the services received, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured with any changes in fair value recognised in the statement of profit or loss for the year.

## Notes to the Financial Statements

### 4. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following judgements (apart from those involving estimates) have had the most significant effects on amounts recognised in the financial statements:

#### 4.1. Impairment of loans and advances to customers

Judgement is required to determine the amount of impairment in the customer loan portfolio. Note 14 shows the level of provision that has been made against those assets within that portfolio. The level of judgement is described in note 26.3.

#### 4.2. Impairment assessment of goodwill

Management assess the potential impairment of goodwill on an annual basis using a discounted cash flow model to assess the value in use. Management judgement is applied in the level of cash generating unit (which is the whole Company), future revenue forecasts and the discount rate applied. Note 17 shows the impact of management's assessment.

#### 4.3. Provision for liabilities

Management use judgement based on all information available at the time of preparing the financial statements to estimate the level of provision required. Note 23 shows the level of provision held at year end.

#### 4.4. Fair value of unquoted equity instruments

The unquoted equity instruments have been valued based on the net asset value and are subject to uncertainty due to the lack of observable market prices for these instruments.

#### 4.5. Impairment of software

Management assess the potential impairment of software on an annual basis using a value-in-use model. Management judgement is applied in the cost of remaining development, future level of cost saved, and the discount rate applied.

#### 4.6. Deferred tax asset recoverability

Management assess the recoverability of the deferred tax asset recognised in the balance sheet. Management judgment is applied in the future level of profitability of the Company and other companies within the SG Group that are eligible for group relief where this is applicable to aspects of tax that can be relieved in this manner. A 20% fall in forecast future profitability over the next 3 years would lead to a 20% reduction in the value of the deferred tax asset recognised with respect to the use of tax losses.

### 5. Net interest income

#### Interest income and expense by financial instruments

Interest income receivable and payable is recognised on an effective interest method (EIM) basis.

(In GBP thousands)	2019		
	Amortised cost	FVOCI	Total
Due from banks	1,110	-	1,110
Loans and advances to customers	33,485	-	33,485
Investment securities	-	12,732	12,732
<b>Interest income</b>	<b>34,595</b>	<b>12,732</b>	<b>47,327</b>
Due to banks	(54)	-	(54)
Deposits due to customers	(14,195)	-	(14,195)
Others	(6)	-	(6)
<b>Interest expense</b>	<b>(14,255)</b>	<b>-</b>	<b>(14,255)</b>
<b>Net interest income</b>	<b>20,340</b>	<b>12,732</b>	<b>33,072</b>

## Notes to the Financial Statements

### 5. Net interest income (continued)

(In GBP thousands)	2018		
	Amortised cost	FVOCI	Total
Due from banks	1,048	-	1,048
Loans and advances to customers	34,497	-	34,497
Investment securities	-	15,748	15,748
<b>Interest income</b>	<b>35,545</b>	<b>15,748</b>	<b>51,293</b>
Due to banks	(158)	-	(158)
Deposits due to customers	(11,497)	-	(11,497)
<b>Interest expense</b>	<b>(11,655)</b>	<b>-</b>	<b>(11,655)</b>
<b>Net interest income</b>	<b>23,891</b>	<b>15,748</b>	<b>39,638</b>

### 6. Net fee and commission income

Asset management fees are generally based on an agreed percentage of the valuation of the client's Assets under Management ("AuM") and are recognised as the service is provided and it is almost certain that the fee will be received. If fees are received in advance, the amounts received are only recognised in profit and loss once the Company provides the service for which the client has paid.

Brokerage income comprises fees charged to customers, primarily from corporate finance and private banking transactions. Revenues from trust and fiduciary activities are recognised based on the value of work done and estimated recovery rates. Retail banking customer fees comprise fees charged for the provision of accounts and other retail banking services to customers and are recognised over the duration that services are provided.

(In GBP thousands)	2018	
	2019	2018
Asset management fees	26,176	28,901
Brokerage	1,450	1,726
Corporate commissions	5,815	4,024
Financial advisory fees	1,599	1,865
Retail banking customer fees	15,850	13,906
Other	105	926
<b>Fee and commission income</b>	<b>50,995</b>	<b>51,348</b>
Brokerage	(901)	(937)
Other	(103)	(125)
<b>Fee and commission expense</b>	<b>(1,004)</b>	<b>(1,062)</b>
<b>Net fee and commission income</b>	<b>49,991</b>	<b>50,286</b>

Included in asset management fees is £1.1m (2018: £0.9m) of fee income relating to trust and other fiduciary activities.

## Notes to the Financial Statements

### 7. Gains and losses on financial instruments at fair value

The Company's treasury portfolio includes investments in liquid high-quality corporate bonds. These bonds are measured at fair value and are classified as at fair value through other comprehensive income "OCI" under IFRS 9 as explained in Note 3. The gains and losses representing unrealised market movements are recognised in OCI, which are then recycled to the statement of profit or loss upon realisation of the bond. Also recognised in this line of the statement of profit or loss are any gains and losses on derivative instruments held for trading purposes.

The net gains on items at fair value by financial asset class are as follows:

(In GBP thousands)			2019
	At fair value through profit or loss	At fair value through OCI until realised	Total
Gains from sales of debt securities and corporate bonds	-	3,617	3,617
Losses from sales of debt securities and corporate bonds	-	(3,342)	(3,342)
<i>Hedge ineffectiveness from fair value hedging:</i>			
- Gains on hedged items attributable to the hedged risk	11,987	-	11,987
- Losses on hedging instruments	(12,500)	-	(12,500)
Foreign exchange loss	(1,431)	-	(1,431)
Other interest rate instruments	(331)	-	(591)
<b>Total</b>	<b>(2,275)</b>	<b>275</b>	<b>(2,000)</b>

(In GBP thousands)			2018
	At fair value through profit or loss	At fair value through OCI until realised	Total
Gains from sales of debt securities and corporate bonds	-	224	224
Losses from sales of debt securities and corporate bonds	-	(4,070)	(4,070)
<i>Hedge ineffectiveness from fair value hedging:</i>			
- Losses on hedged items attributable to the hedged risk	(2,146)	-	(2,146)
- Gains on hedging instruments	2,568	-	2,568
Foreign exchange loss	(456)	-	(456)
Other interest rate instruments	117	-	117
<b>Total</b>	<b>83</b>	<b>(3,846)</b>	<b>(3,763)</b>

### 8. Dividend Income

During the year the Company received dividends totalling £1.3 m (2018: £64.8 m) from its subsidiaries. These dividends in 2018 were the result of excess capital being released from those subsidiaries.

### 9. Administrative expenses

The Company's general administrative costs are recognised when the service is provided to the Company.

The largest component of expenses are personnel expenses, which includes wages and salaries, the cost of other benefits provided to employees, the cost to the company of the tax thereon and variable compensation.

(In GBP thousands)	2019	2018
Personnel expenses (Note 9.1)	53,611	61,164
Professional fees	5,618	7,984
Rent, leases and premises costs	3,933	4,900
IT costs	4,239	4,356
Indirect tax and levies	5,496	8,187
Other administrative costs	399	13,193
Intercompany recharges to SG Group entities	(268)	(12,114)
Intercompany recharges from SG Group entities	3,587	3,025
<b>Total</b>	<b>76,615</b>	<b>90,695</b>

In 2018 the Company wrote off significant project costs relating to the implementation of a new banking system. £9.8m of previously capitalised costs are included in other administrative expenses for that year.



## Notes to the Financial Statements

### 9. Administrative expenses (continued)

#### 9.1. Personnel expenses

(In GBP thousands)	2019	2018
Wages and salaries	33,437	34,805
Temporary staff	10,371	14,279
Compulsory social security contributions	4,408	5,592
Contributions to defined contribution plans	2,538	2,662
Share-based payment transactions	97	774
Restructuring expenses – redundancy costs	2,144	1,117
Other staff costs	616	1,935
<b>Total</b>	<b>53,611</b>	<b>61,164</b>

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

The average number of employees employed by the Company was: 429 (2018: 472) .

	2019	2018
Full time employees	330	342
Contract and temporary employees	99	130
<b>Total</b>	<b>429</b>	<b>472</b>

#### 9.2. Audit fees

Audit fees include fees payable to the Company's auditors, Ernst & Young, for the audit of the annual accounts and those of its UK based subsidiaries, together with related assurance services:

(in GBP thousands)	2019	2018
Audit fees	703	494
Audit of subsidiaries	36	36
Assurance services	100	80
<b>Total fees payable to the Company's auditors</b>	<b>839</b>	<b>610</b>

Other services provided by the auditors to the Company are subject to independence checks both by the auditors and the Company and must comply with SG Group's auditor independence policies.

#### 9.3. Operating lease commitments

The Company does not hold the legal title to the leases on either 8 St James's Square, 14 St George Street or 1 Bank Street, but has an obligation to pay rentals on the leases to Société Générale London Branch as the space is used. 14 St George Street is now vacated by the Company and most of the space has been sub-let. A provision of £0.9m, maturing in 2020, has been recognised for the remaining vacant space as disclosed in Note 23.

#### 9.4. Pension cost

All employees are covered by SG Group pension schemes, subject to their satisfying minimum entry requirements. The schemes are of both the defined benefit and defined contribution type. The total pension cost for the Company was £2.5m (2018: £2.7m).

##### Defined Benefit Scheme

The Company participates in a defined benefit scheme under common control, known as the SG UK Defined Benefit Scheme ("the Scheme"). This Scheme is not open to new members. The Scheme was created with effect from 1 January 2004 following the merger of the Société Générale Group Retirement and Death Benefit Scheme for United Kingdom Staff (the London Branch Scheme) and the Société Générale Strauss Tumbull Securities Limited Pension Scheme (the SGST Scheme) with the SG Hambros Scheme. Following consultation with the members of the Scheme, the Scheme was closed to all future accruals from 31 March 2016. The Company is unable to identify on a consistent and reasonable basis its share of the underlying assets and liabilities of the Scheme; hence the Bank recognises the pension costs as they become due.

## Notes to the Financial Statements

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### 9. Administrative expenses (continued)

#### 9.4. Pension cost (continued)

##### Defined Benefit Scheme (continued)

The total defined benefit pension costs and contribution for the Company was £Nil in 2019 (2018: £Nil). The Company is invoiced by Société Générale London Branch for the share of service costs on an annual basis. As required, the Company pays contributions to Société Générale London Branch for the Company's employees in the scheme.

##### Defined Contribution Scheme

The Company also provides employees with access to a defined contribution scheme, the "SG Money Purchase Scheme". Contributions to this scheme were £3 during the year (2018: £2.7 m). No contributions were outstanding at the year end. The contributions to this scheme currently range from 4% to 15.0% of pensionable salary.

### 10. Share-based payments

Employees of the Company have benefited from participation in the following share schemes offered by Société Générale SA ("SG"):

#### Global Employee Share Ownership ("GESOP")

Employees of the Company participated in a GESOP scheme where the Company will match the employee's contributions in previous years. The scheme was reinitiated in 2019 with approximately 10% of the UK population participating.

#### Ambition and Long-Term Incentive share schemes

Employees are offered performance shares issued by SG subject to the achievement of certain targets, as set out by SG, namely presence and performance conditions. The performance shares are awarded each year and have a vesting period of three years. The number of unvested shares outstanding as at 31 December 2019 was 12,627 (2018: 18,450) amounting to £455,000 (2018: £535,498) based on the reference price of the scheme in which the share was awarded. The Company does not pay SG for any of these shares issued. The value of these shares issued to the Company are recognised as additional capital contribution in accordance with IFRS 2.

#### UK Share plan

The Share Incentive plan allows employees to purchase SG shares from gross pay. For every four partnership shares bought, SG will match one additional share. An employee may contribute £10-£125 each month from gross pay up to a maximum of 10% of gross pay. Matching shares are paid by the Company on a monthly basis.

#### Société Générale Fidelity Plan (SG Fidelity Plan)

The Company issues share linked bonuses to selected employees. The vesting periods of these bonuses are three years from the date of declaration of the bonus. The employees will only be entitled to these bonuses on the condition that they are still employed by the Company at the scheduled payment dates during the vesting period. These bonuses are cash settled and the Company hedges the effect of the movement of SG share price to reduce market risk.

The valuations of the Fidelity plan as accrued in the financial statements are based on the prevailing market price as at 31 December 2019. At balance sheet date, the fair value of the Company's portion of the final liability under the plan is £1m (2018: £2.3 m) and the element of this valuation relating to variation in the price of SG shares since declaration was £0.3m (2018: £0.4 m). The total profit and loss recognised in the year related to this scheme was an expense of £0.04m (2018: -£1.2m).

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## Notes to the Financial Statements

### 11. Income tax

The Company is liable to tax at rates according to the relevant legislation in the jurisdictions in which it operates. Income tax comprises current (taxes payable for the reporting period) and deferred tax. Taxes are typically recognised in the income statement except to the extent that the tax relates to items recognised in other comprehensive income in which case it is recognised in other comprehensive income.

#### 11.1. Tax credited in the income statement

(In GBP thousands)	2019	2018
<b>UK corporation tax</b>		
Current year (credit) / charge at 19% (2018: 19%)	(2,791)	(545)
Bank surcharge credit at 8%	-	(181)
Prior year	248	(272)
	<b>(2,543)</b>	<b>(998)</b>
<b>Deferred tax</b>		
Current year movement 19% / 27%	833	(2,072)
Revaluation due to change in tax rates	581	-
Prior year adjustment	(78)	5
	<b>1,336</b>	<b>(2,067)</b>
<b>Total tax (credit)/charge on (loss)/profit on ordinary activities</b>	<b>(1,207)</b>	<b>(3,065)</b>

#### 11.2. Reconciliation of effective tax rate

The tax charge / (credit) on the loss / profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19% (2018: 27%). The differences are reconciled below:

(In GBP thousands)	2019	2018
<b>Profit / (loss) before income tax</b>	<b>(35,202)</b>	<b>59,145</b>
Income tax using domestic corporation tax @ 19% (2018: 27%)	(6,688)	15,969
Permanent differences	4,979	534
Non-taxable income	(249)	(17,498)
Accelerated capital allowances and tax balances transferred with the KB banking trade	-	(1,171)
Deferred tax revaluation	581	-
Use of historical tax losses	-	(632)
Prior year adjustment	170	(267)
<b>Total income tax (group tax relief)/expense</b>	<b>(1,207)</b>	<b>(3,065)</b>

#### 11.3. Tax relating to items charged or credited to other comprehensive income

In addition to the amount charged to the statement of profit or loss, the following amounts relating to tax have been recognised in other comprehensive income.

(In GBP thousands)	2019	2018
<b>Arising on income and expenses recognised in OCI:</b>		
Revaluation of FVOCI financial assets	383	(739)
IFRS 9 FTA ECL	86	(290)
<b>Total income tax (credit)/charge recognised in OCI</b>	<b>469</b>	<b>(1,028)</b>

#### 11.4. Change in Corporation Tax rate

Legislation was introduced in Finance Act 2015 to reduce the main rate of corporation tax from 20% to 19% with effect from 1 April 2017, and to 18% with effect from 1 April 2020. A further measure in the 2016 Finance Act reduced the main rate of corporation tax to 17% with effect from 1 April 2020. These reductions are taken into account when calculating the deferred tax rate used in the accounts. The banking surcharge of 8% applies to all profits over £25m for the UK group that the Company is part of.

#### 11.5. Deferred tax

Deferred tax assets are recognised to the extent that they are more likely than not to be recovered. The Company recognised deferred tax assets and liabilities at the rates of 17% (2018: 25%).

## Notes to the Financial Statements

### 11. Income tax (continued)

#### 11.5 Deferred tax (continued)

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under FRS 101. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of timing differences will occur at this rate and that the maximum impact on the quantum of the net deferred tax asset recognised will be to increase this by £269k

Deferred tax is recognised and included in the balance sheet for the following assets and liabilities:

(In GBP thousands)	2019	2018
<b>Deferred tax assets</b>		
Accelerated capital allowances	3,093	2,302
Employee share scheme	109	160
Deferred bonus	83	171
IFRS 9 FTA ECL	155	259
Losses	0	1,889
<b>Total deferred tax assets</b>	<b>3,439</b>	<b>4,781</b>
(In GBP thousands)	2019	2018
<b>Deferred tax liabilities</b>		
FVOCI movement on debt securities	(1,151)	(641)
<b>Total deferred tax liabilities</b>	<b>(1,151)</b>	<b>(641)</b>
<b>Net deferred tax asset</b>	<b>2,288</b>	<b>4,140</b>

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so.

The following deferred tax assets have not been recognised:

(In GBP thousands)	2019	2018
Losses	17,719	16,418
Accelerated capital allowances	0	3,165
	<b>17,719</b>	<b>19,583</b>

No deferred tax asset has been recognised with respect to the use of historical losses due to the uncertainty of future taxable profits in the Company, in the short-term, against which they are allowed be used. The deferred tax asset relating to accelerated capital allowances is recognised as these allowances can be used to offset profits made in other UK entities within the SG group.

## Notes to the Financial Statements

### 12. Financial instruments

#### Accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

#### 12.1. Financial assets and liabilities

The Company's classification of its principal financial assets and liabilities, together with a comparison of the carrying amounts and fair values of the Company's principal financial assets and liabilities is summarised as follows:

##### 12.1.1. Financial assets

(In GBP thousands)	2019				2019
	Fair value through profit or loss	FV through OCI	Amortised cost	Carrying amount	Fair Value
Cash and balances at central banks	-	-	52,993	52,993	52,993
Derivative assets	7,130	-	-	7,130	7,130
Loans and advances to banks (Note 13)	-	-	41,744	41,744	41,744
Loans and advances to customers (Note 14)	-	-	1,119,362	1,119,362	1,119,362
Debt and investment securities (Note 15)	-	846,575	-	846,575	846,575
<b>Total</b>	<b>7,130</b>	<b>846,575</b>	<b>1,214,099</b>	<b>2,067,804</b>	<b>2,067,804</b>

(In GBP thousands)	2018				2018
	Fair value through profit or loss	FV through OCI	Amortised cost	Carrying amount	Fair Value
Cash and balances at central banks	-	-	169,360	169,360	169,360
Derivative assets	12,342	-	-	12,342	12,342
Loans and advances to banks (Note 13)	-	-	31,344	31,344	31,344
Loans and advances to customers (Note 14)	-	-	1,074,474	1,074,474	1,074,474
Debt and investment securities (Note 15)	-	1,253,521	-	1,253,521	1,253,521
<b>Total</b>	<b>12,342</b>	<b>1,253,521</b>	<b>1,275,178</b>	<b>2,541,041</b>	<b>2,541,041</b>

The fair values of the Company's financial assets are approximate to their carrying value, as the cash and due to banks balances are short term in nature by virtue of either being on call or due within 3 months. Loans to customers are longer term in nature; however, the interest on these loans is generally reset on a 3-monthly basis. As such the margins on the loans approximate to current spreads that would apply for balances with similar maturities. Furthermore, the high credit quality of the asset credit ratings means that the carrying value approximates to the current fair value.

## Notes to the Financial Statements

### 12. Financial instruments (continued)

#### 12.1.2. Financial liabilities

(In GBP thousands)	2019			2019
	At fair value through profit or loss	Amortised cost	Carrying amount	Fair value
Deposits by banks	-	(11,543)	(11,543)	(11,543)
Customers' accounts	-	(1,836,229)	(1,836,229)	(1,836,229)
Financial liabilities at fair value through profit or loss	(9,526)	-	(9,526)	(9,526)
Derivative liabilities	(6,307)	-	(6,307)	(6,307)
<b>Total</b>	<b>(15,833)</b>	<b>(1,847,772)</b>	<b>(1,863,605)</b>	<b>(1,863,605)</b>

(In GBP thousands)	2018			2018
	At fair value through profit or loss	Amortised cost	Carrying amount	Fair value
Deposits by banks	-	(41,768)	(41,768)	(41,768)
Customers' accounts	-	(2,191,216)	(2,191,216)	(2,191,216)
Financial liabilities at fair value through profit or loss	(35,478)	-	(35,478)	(35,478)
Derivative liabilities	(6,049)	-	(6,049)	(6,049)
<b>Total</b>	<b>(41,527)</b>	<b>(2,232,984)</b>	<b>(2,274,511)</b>	<b>(2,274,511)</b>

The fair value of the Company's financial liabilities is not materially different from their balance sheet value, as a result of deposits by banks generally being short term in nature (either on call or due within 3 months) and customer deposits mostly having interest resets every 3 months. As such the margins on the loans approximate to current spreads that would apply to balances with similar maturities.

#### 12.2. Fair values of financial assets and liabilities:

The following financial instruments are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments:

##### Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly options, interest rate swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. IRS are for fair value hedges until they are offset prior to full disposal. Forward foreign exchange contracts are held for trading.

##### FVOCI

FVOCI financial assets are valued using quoted market prices or pricing models. These assets are valued using models incorporating data observable in the market.

#### 12.3. Valuation methods of financial instruments at fair value

The following tables provide an analysis of financial instruments recorded at net fair value by the level of the fair value hierarchy. The hierarchy levels are defined in note 2.

During the reporting period ending 31 December 2019, there were no transfers between levels of fair value hierarchy (2018: Nil).

## Notes to the Financial Statements

### 12. Financial instruments (continued)

#### 12.3.1. Financial assets measured at fair value:

(In GBP thousands)	2019			
	Level 1	Level 2	Level 3	Total
<b>FVPL: Derivative financial instruments:</b>				
- Interest rate swaps	-	2,439	-	2,439
- Forward foreign exchange contracts	-	4,691	-	4,691
<b>FVPL: Debt and investment securities</b>				
- Unquoted equities	-	-	511	511
<b>FVOCI: debt and investment securities</b>				
- Government debt securities	224,978	-	-	224,978
- Fixed rate bonds	448,493	-	-	448,493
- Other debt securities	134,262	-	-	134,262
- Certificate of deposits	-	38,331	-	38,331
<b>Total financial assets measured at fair value</b>	<b>807,733</b>	<b>45,461</b>	<b>511</b>	<b>853,705</b>

(In GBP thousands)	2018			
	Level 1	Level 2	Level 3	Total
<b>FVPL: Derivative financial instruments:</b>				
- Interest rate swaps	-	7,754	-	7,754
- Forward foreign exchange contracts	-	4,588	-	4,588
<b>FVPL: Debt and investment securities</b>				
- Unquoted equities	-	-	456	456
<b>FVOCI: debt and investment securities</b>				
- Government debt securities	267,387	-	-	267,387
- Fixed rate bonds	548,624	-	-	548,624
- Other debt securities	410,169	-	-	410,169
- Certificate of deposits	-	26,884	-	26,884
<b>Total financial assets measured at fair value</b>	<b>1,226,180</b>	<b>39,226</b>	<b>456</b>	<b>1,265,863</b>

#### 12.3.2. Financial liabilities measured at fair value

In GBP thousands)	2018			
	Level 1	Level 2	Level 3	Total
<b>Derivative financial instruments:</b>				
- Interest rate swaps	-	(524)	-	(524)
- Forward foreign exchange contracts	-	(5,671)	-	(5,671)
- Equity Options	-	(112)	-	(112)
<b>Financial liabilities at fair value through profit or loss</b>				
- Options on customer accounts linked to interest rate swaps	-	(9,526)	-	(9,526)
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>(15,833)</b>	<b>-</b>	<b>(15,833)</b>

In GBP thousands)	2018			
	Level 1	Level 2	Level 3	Total
<b>Derivative financial instruments:</b>				
- Interest rate swaps	-	(1,925)	-	(1,925)
- Forward foreign exchange contracts	-	(3,830)	-	(3,830)
- Equity Options	-	(294)	-	(294)
<b>Financial liabilities at fair value through profit or loss</b>				
- Options on customer accounts linked to interest rate swaps	-	(35,478)	-	(35,478)
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>(41,527)</b>	<b>-</b>	<b>(41,527)</b>

## Notes to the Financial Statements

### 12. Financial instruments (continued)

#### 12.3.3. Movements of Level 3 unquoted equities

(In GBP thousands)	2019	2018
Balance brought forward 1 January	456	677
Purchases	90	23
Sales	(35)	(244)
Revaluations	-	-
Balance carried forward 31 December	511	456

#### Directors' key judgements and assumptions for level 3:

The Company has challenged the future forecasted cash flows of the entities that it is holding as FVPL. Valuations of these investments are based on a forecast model, which the Company believes is probable at the date of the financial statements. The sensitivity of valuations is based on the expected future profitability of the entities. The valuation of the investment securities is sensitive to future profitability being greater or less than management forecast.

#### 12.4. Hedges

As part of its asset and liability management, the Company entered into fair value hedges to reduce its exposure to changes in fair value of financial assets and liabilities due to movement in interest rates. The hedged items for these fair value hedge relationships of interest rate risk are long-term customer deposits and FVOCI debt securities.

As at 31 December 2019 the Company had no fixed rate financial liabilities (2018: £nil) and £422.6 m of fixed rate financial assets (2018: £375.7 m) hedged by interest rate swaps in fair value hedge relationships. The accumulated amount of fair value adjustments on the hedged item is £5.8m (2018: £6.7 m)

The Company did not designate any instrument as a cash flow hedge in either year.

#### 12.5. Maturity of derivative financial instruments

The maturity profile of derivative financial assets and liabilities is shown below:

##### 12.5.1. Derivative financial assets

(In GBP thousands)						2019
	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Fair value
Derivative held for trading:						
- Interest rate swaps	1,005	858	484	-	-	2,347
- Forward foreign exchange contracts	637	10	3,880	164	-	4,691
Derivatives used as fair value hedges:						
- Interest rate swaps	-	-	-	59	33	92
<b>Total derivative assets</b>	<b>1,642</b>	<b>868</b>	<b>4,364</b>	<b>223</b>	<b>33</b>	<b>7,130</b>

(In GBP thousands)						2018
	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Fair value
Derivative held for trading:						
- Interest rate swaps	326	154	167	698	-	1,345
- Forward foreign exchange contracts	2,714	27	1,675	173	-	4,589
Derivatives used as fair value hedges:						
- Interest rate swaps	2	641	113	2,943	2,709	6,408
<b>Total derivative assets</b>	<b>3,042</b>	<b>822</b>	<b>1,955</b>	<b>3,814</b>	<b>2,709</b>	<b>12,342</b>



## Notes to the Financial Statements

### 12. Financial instruments (continued)

#### 12.5.2. Derivative financial liabilities

(In GBP thousands)						2019
	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Fair value
<b>Derivative held for trading:</b>						
- Forward foreign exchange contracts	(1,672)	(10)	(3,826)	(163)	-	(5,671)
- Equity option	(112)	-	-	-	-	(112)
- Options on customer accounts linked to interest rate swaps	(4,701)	-	(4,825)	-	-	(9,526)
<b>Derivatives used as fair value hedges:</b>						
- Interest rate swaps	(109)	(1)	-	(294)	(120)	(524)
<b>Total derivative liabilities</b>	<b>(6,594)</b>	<b>(11)</b>	<b>(8,651)</b>	<b>(457)</b>	<b>(120)</b>	<b>(15,833)</b>

(In GBP thousands)						2018
	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Fair value
<b>Derivative held for trading:</b>						
- Forward foreign exchange contracts	(2,042)	(27)	(1,591)	(170)	-	(3,830)
- Equity option	(294)	-	-	-	-	(294)
- Options on customer accounts linked to interest rate swaps	(16,768)	-	(11,303)	(7,407)	-	(35,478)
<b>Derivatives used as fair value hedges:</b>						
- Interest rate swaps	(79)	(1,216)	(615)	(15)	-	(1,925)
<b>Total derivative liabilities</b>	<b>(19,183)</b>	<b>(1,243)</b>	<b>(13,509)</b>	<b>(7,592)</b>	<b>-</b>	<b>(41,527)</b>

The undiscounted cash flows of derivative financial assets and liabilities are not materially different from the maturity analysis above.

### 13. Loans and advances to banks

Placements with, and loans and advances to banks typically represent investments the Company has made in money market and short-term deposits of other financial institutions.

(In GBP thousands)	2019	2018
Credit institutions	41,744	31,344
<b>Total</b>	<b>41,744</b>	<b>31,344</b>

Included in loans and advances to credit institutions are £8.3 m (2018: £7.9 m) in unsubordinated loans, due from group undertakings.

#### 13.1. Contractual maturity of loans and advances to banks

(In GBP thousands)	2019	2018
Repayable on demand	41,744	31,344
<b>Total</b>	<b>41,744</b>	<b>31,344</b>

All of these assets have been assessed as Stage 1 for IFRS9 provision assessment. Due to the high-grade nature of these assets' classes in the bank's current portfolio, the provision calculated under IFRS 9 for these assets is immaterial to the financial statements of the Company.

## Notes to the Financial Statements

### 14. Loans and advances to customers

Loans and advances to customers represents amounts the Company has lent to customers, typically in the form of mortgages or other secured lending.

(In GBP thousands)	2019	2018
Retail mortgages	836,349	827,576
Other loans	287,701	250,797
<b>Total</b>	<b>1,124,050</b>	<b>1,078,373</b>
Impairment	(4,688)	(3,899)
<b>Total</b>	<b>1,119,362</b>	<b>1,074,474</b>

No amounts were due from group undertakings.

The Company considers that the fair value of loans and advances to customers closely approximates to the reported amortised cost, as the interest rate of the loans are floating and are re-fixed over a short-term period.

There were no write-offs during the year (2018: Nil)

#### 14.1. Contractual maturity of loans and advances to customers

(In GBP thousands)	2019	2018
Repayable on demand	345,296	165,522
Remaining maturity:		
- Between 1 day and 3 months	29,871	49,156
- Between 3 months and 1 year	143,762	158,497
- Greater than 1 year	605,121	705,198
<b>Total</b>	<b>1,124,050</b>	<b>1,078,373</b>

#### 14.2. Impairment of loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system and year-end stage classification. The amounts presented are net of impairment allowances.

(In GBP thousands)				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Lombard	221,321	1,475	-	222,796	228,172
Real estate	838,070	4,315	-	842,385	826,814
Asset-backed	1,809	-	-	1,809	2,210
Non-guaranteed	10,856	15	1	10,075	12,508
Defaulted	-	-	41,497	41,497	4,770
<b>Total</b>	<b>1,072,056</b>	<b>5,805</b>	<b>41,501</b>	<b>1,119,362</b>	<b>1,074,474</b>

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers is as follows:

(In GBP thousands)				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount as at 01 January	1,064,790	5,332	8,251	1,078,373	1,171,661
Transfer to stage 1	2,606	-	(2,606)	-	-
Transfer to stage 3	(5,099)	(12)	5,111	-	-
Net loans originated / (repaid)	6,276	562	38,839	45,677	(93,288)
<b>Gross carrying amount at 31 December</b>	<b>1,073,672</b>	<b>5,894</b>	<b>44,484</b>	<b>1,124,050</b>	<b>1,078,373</b>

## Notes to the Financial Statements

### 14. Loans and advances to customers (continued)

#### 14.2. Impairment of loans and advances to customers (continued)

Impairment allowance for loans and advances

(In GBP thousands)				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount as at 01 January	1,414	63	2,422	3,899	3,056
Impact of adopting IFRS9	-	-	-	-	1,027
Transfer to stage 1	2,606	-	(2,606)	-	-
Transfer to stage 3	(5,099)	(12)	5,111	-	-
Increase / (decrease) in provision	2,683	49	(1,943)	789	(184)
<b>Gross carrying amount at 31 December</b>	<b>1,604</b>	<b>100</b>	<b>2,984</b>	<b>4,688</b>	<b>3,899</b>

The increase in provision in stage 1 is driven by the increase in the assessment of probability of default as a result of more data and experience improving the model.

No amount has been recovered from previously written off client loans in 2019 (2018: £nil). Included within the year-end stage 3 provision is an amount of £737k (2018: specific provision - £238k) relating to interest.

Details on the management of credit risks are explained in accounting policy Notes 3.1.2 and further explained in the credit risk management Note 26.3.

### 15. Debt and investment securities

The investment securities primarily consist of a high quality, liquid treasury portfolio, which is managed within the KH Group Treasury mandate.

(In GBP thousands)	2019	2018
<b>Quoted investments</b>		
Fixed rate bonds	448,493	548,625
Other debt securities:		
- Government debt securities	224,978	267,387
- Floating Rate notes	134,262	410,169
- Certificate of deposits	38,331	26,884
<b>Unquoted investments</b>		
Equity holdings	511	456
<b>Total</b>	<b>846,575</b>	<b>1,253,521</b>

All of debt and investment securities have been assessed as Stage 1 for IFRS 9 provision assessment. Due to the high-grade nature of these assets' classes in the bank's current portfolio, the provision calculated under IFRS 9 for these assets is immaterial to the financial statements of the Company.

## Notes to the Financial Statements

### 16. Shares in group undertakings

(In GBP thousands)	2019			2018		
	Subsidiaries	Associates	Total	Subsidiaries	Associates	Total
<b>Cost</b>						
At 1 January	231,357	1,838	233,195	231,357	1,740	233,097
Exchange movements	-	(58)	(58)	-	98	98
<b>At 31 December</b>	<b>231,357</b>	<b>1,780</b>	<b>233,137</b>	<b>231,357</b>	<b>1,838</b>	<b>233,195</b>
<b>Provision for impairment</b>						
At 1 January	(5)	(307)	(312)	(5)	(290)	(295)
Exchange movements	-	10	10	-	(17)	(17)
<b>At 31 December</b>	<b>(5)</b>	<b>(297)</b>	<b>(302)</b>	<b>(5)</b>	<b>(307)</b>	<b>(312)</b>
<b>Net Book Value at 31 December</b>	<b>231,352</b>	<b>1,483</b>	<b>232,835</b>	<b>231,352</b>	<b>1,531</b>	<b>232,883</b>

#### 16.1. Ownership interest in subsidiaries

All of the shares in subsidiary undertakings are unlisted. The costs of investments in principal subsidiary undertakings are:

(In GBP thousands)	Location	Business type	2019	2018
<b>Credit institutions and financial advisors</b>				
SG Kleinwort Hambros Bank (Channel Islands) Ltd.	St Helier, Jersey	Bank	200,842	200,842
SG Kleinwort Hambros Bank (Gibraltar) Ltd.	Gibraltar	Bank	30,000	30,000
SG Kleinwort Hambros Trust Company (UK) Limited	London, UK	Trust company	250	250
SG Hambros Trust Company Ltd.	London, UK	Trust company	250	250
SGH Trust Co (Canada) Inc.	London, UK	Trust company	-	-
SG Hambros Nominee London	London, UK	Nominee	-	-
St George St Capital (KB) Ltd	London, UK	Holding	-	-
Robert Benson, Lonsdale & Co (Canada)	London, UK	Nominee	10	10
KB Farmland Trust (Managers) Ltd	London, UK	Dormant	-	-
Fenchurch Nominees Limited	London, UK	Nominee	-	-
Frank Nominees Limited	London, UK	Nominee	-	-
KBPB Nominees Ltd	London, UK	Nominee	-	-
KB Unit Trusts	London, UK	Dormant	-	-
KBIM Standby Nominees Ltd.	London, UK	Nominee	-	-
Langbourn Nominees Ltd	London, UK	Nominee	-	-
<b>At 31 December</b>			<b>231,352</b>	<b>231,352</b>

## Notes to the Financial Statements

### 16. Shares in group undertakings (continued)

The registered office of SG Kleinwort Hambros Bank (Channel Islands) Ltd is 18 Esplanade, St Helier, Jersey, Channel Islands. The registered office of SG Kleinwort Hambros Bank (Gibraltar) Ltd is Hambros House, 32 Line Wall Road, Gibraltar. All the other companies are incorporated in Great Britain and registered in England & Wales. The registered office address of all the UK companies is 5th Floor 8 St James's Square, London, England, SW1Y 4JU. The Company owns 100% of the share capital of all of the above subsidiaries apart from KB Farmland Trust (Managers) Limited.

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

The Company has no exposure to any unlimited companies or partnerships and has not guaranteed or underwritten any liabilities in these entities other than disclosed in these financial statements.

#### 16.2. Ownership interest in associates

The Company has a 24.5% holding of the ordinary shares of DAH Holdings Limited, a company incorporated in Bermuda whose principal activity is private banking, which was purchased for £1.4 m (HKD 18.1 m) on 21 February 1997. The directors have written down the value of the investment, so the holding is not greater than the value of the net assets. The company's functional currency is the US dollar and its principal place of business is Bermuda. The movement in the cost is attributed to foreign currency fluctuations.

These investments are classified as participating interests, in the directors' opinion, as the Company has no significant influence over their activities.

### 17. Intangible assets

(In GBP thousands)	2019			2018		
	Goodwill	Software	Total	Goodwill	Software	Total
<b>Cost</b>						
At 1 January	42,300	3,153	45,453	42,300	10,444	52,744
Additions	-	3,098	3,098	-	2,480	2,480
Disposals	-	(416)	(416)	-	(9,772)	(9,772)
Reversal of prior charge	-	(465)	(465)	-	-	-
<b>At 31 December</b>	<b>42,300</b>	<b>5,370</b>	<b>47,670</b>	<b>42,300</b>	<b>3,153</b>	<b>45,452</b>
<b>Accumulated Depreciation</b>						
At 1 January	(5,110)	(2,071)	(7,181)	(5,110)	(2,642)	(7,752)
Amortisation	-	(589)	(589)	-	(228)	(228)
Impairment	(37,190)	-	(37,190)	-	-	-
Reversal of prior charge	-	465	465	-	798	798
<b>At 31 December</b>	<b>(42,300)</b>	<b>(2,195)</b>	<b>(44,495)</b>	<b>(5,110)</b>	<b>(2,071)</b>	<b>(7,181)</b>
<b>Net Book Value at 31 December</b>	<b>-</b>	<b>3,175</b>	<b>3,175</b>	<b>37,190</b>	<b>1,081</b>	<b>38,271</b>

In 2018, software and further costs capitalised by the Company as Software relating to the implementation of a new core banking system totalling £9.7 m were written off.

The Company operates as a single cash-generating unit (CGU), thus the carrying amount of goodwill equates to the intangible assets with indefinite useful lives allocated to the CGU. Amortisation of goodwill occurred under UK GAAP accounting principles prior to the Company 2015 financial year, under FRS 101 (adopted 1 January 2015) this is no longer amortised.

#### Intangibles impairment

In accordance with IAS 36 (Impairment of Assets), the Company reviewed the carrying values of its intangible assets at 31 December 2019 and 31 December 2018. As a result of this review, the Company recognised an impairment charge of Nil (2018: Nil) relating to software that was previously in use and under development which has either had its expected useful life reduced or, for assets under development, will not be brought into use. Judgment has been used by management in determining the length of these remaining useful lives.

In its analysis for the impairment of goodwill the Company has recognised an impairment charge of £37.2m (2018: Nil) during the year based on the assumptions of assessment. In determining this conclusion, the Company has assumed a revenue growth rate of 5% per annum (2018: 7%) on average, cost savings of 0% per annum (2018: 4%) on average and a 10.0% (2018: 9.6%) discount rate in its 5-year model. The revenue assumptions used take into account the recent performance and events and the dramatic fall in market interest rates experienced to date. These events act to reduce income in the short term and hinder longer term growth.

## Notes to the Financial Statements

### 18. Tangible assets

The Company's tangible assets provide the infrastructure needed to enable the Company to operate and includes computer equipment, furniture, fixtures and fittings.

(In GBP thousands)	2019			2018			
	Right-of-use asset – Land and buildings	Computer hardware	Furniture, fixtures and fittings	Total	Computer hardware	Furniture, fixtures and fittings	Total
<b>Cost</b>							
At 1 January	-	1,520	2,098	<b>3,618</b>	1,520	2,087	<b>3,607</b>
Effect of adoption of IFRS 16 as at 1 January 2019	343	-	-	<b>343</b>	-	-	-
Additions	4	-	-	<b>4</b>	-	11	<b>11</b>
<b>At 31 December</b>	<b>347</b>	<b>1,520</b>	<b>2,098</b>	<b>3,965</b>	<b>1,520</b>	<b>2,098</b>	<b>3,618</b>
<b>Accumulated Depreciation</b>							
At 1 January	-	(1,417)	(1,869)	<b>(3,286)</b>	(1,240)	(1,786)	<b>(3,026)</b>
Depreciation	(109)	(74)	(71)	<b>(254)</b>	(177)	(83)	<b>(260)</b>
<b>At 31 December</b>	<b>(109)</b>	<b>(1,491)</b>	<b>(1,940)</b>	<b>(3,540)</b>	<b>(1,417)</b>	<b>(1,869)</b>	<b>(3,286)</b>
<b>Net Book Value at 31 December</b>	<b>238</b>	<b>29</b>	<b>158</b>	<b>425</b>	<b>103</b>	<b>229</b>	<b>332</b>

Set out below are the carrying amount of lease liabilities(included under 'Other' in Note 22) and the movements during the period.

(In GBP thousands)	2019
<b>As at 1 January – effect of adoption of IFRS 16</b>	<b>343</b>
Additions	-
Accretion of interest	(5)
Payments	(1)
<b>At 31 December 2019</b>	<b>337</b>

### 19. Trade and other receivables

Trade and other receivables consist primarily of advisory and execution fees receivable, and prepaid expenses. The indemnity for loss is due from KBBL's historic parent undertaking, Commerzbank AG, in respect of indemnities given to cover a proportion of the maximum expected costs incurred in settling claims against the Company from business arising in prior periods. The liabilities are either settled or recognised in the subsidiary entities with a respective intercompany payable amount recognised in the Financial Statements of the Company.

(In GBP thousands)	2019	2018
Indemnity for loss	2,687	3,004
Accrued income	9,960	6,445
Prepayments	1,084	1,374
Intercompany receivables	7,352	12,716
Indirect taxation receivable	1,048	1,556
Due from brokers	-	53
Other assets	1,161	1,429
<b>Total</b>	<b>23,292</b>	<b>26,577</b>

Intercompany receivables consist of amounts owed from subsidiary entities.

Trade and other receivables have been assessed for impairment under the simplified approach in IFRS 9. The above amounts are net of £0.096 (2018: £0.05m) provisions.

## Notes to the Financial Statements

### 20. Deposits by banks

(In GBP thousands)	2019	2018
Repayable on demand to Group undertakings	11,540	41,500
Other	3	268
<b>Total</b>	<b>11,543</b>	<b>41,768</b>

### 21. Customers' accounts

Deposits by customers are classified as follows:

(In GBP thousands)	2019	2018
Call deposits repayable on demand	1,415,603	1,628,110
Term deposits with remaining maturities:		
- Between 1 day and 3 months	287,148	256,633
- Between 3 months and 1 year	121,270	269,233
- Greater than 1 year	12,208	37,240
<b>Total</b>	<b>1,836,229</b>	<b>2,191,216</b>

### 22. Other liabilities

#### Trade and other payables

Trade and other payables represents costs that have been billed or are not yet billed or due for payment, but for which the goods or services have been received. Deferred income represents fees received in advance of services being performed.

(In GBP thousands)	2019	2018
Accrued expenses	27,824	38,589
Intercompany payables	1,048	6,830
Personnel expenses	10,100	8,215
Deferred income	2,316	2,344
Other	7,621	4,040
<b>Total</b>	<b>48,909</b>	<b>60,018</b>

### 23. Provisions

(In GBP thousands)	2019			2018		
	Onerous contracts	Other	Total	Onerous contracts	Other	Total
<b>Cost</b>						
At 1 January	2,131	234	2,365	2,131	36	2,167
Impact of adopting IFRS9 (Note 28.4)					112	112
Additions	-	567	567	-	86	86
Released	(1,210)	(26)	(1,236)	-	-	-
<b>At 31 December</b>	<b>921</b>	<b>775</b>	<b>1,696</b>	<b>2,131</b>	<b>234</b>	<b>2,365</b>

#### Onerous contracts

The Company has provided for historical obligations associated with lease contracts for the former KB premises at 14 St George Street, W1S 1FE, London. The legal title to these leases is no longer held by the Company however the Company is committed to pay the amounts due.

#### 23.1. Expected maturity of provisions

(In GBP thousands)	2019			2018		
	Onerous contracts	Other	Total	Onerous contracts	Other	Total
Less than 1 year	921	775	1,696	-	234	234
Between 1 and 5 years	-	-	-	2,131	-	2,131
<b>Total</b>	<b>921</b>	<b>775</b>	<b>1,696</b>	<b>2,131</b>	<b>234</b>	<b>2,365</b>

## Notes to the Financial Statements

### 24. Share capital

(In thousands)	2019		2018	
	Number of shares	Value of shares (GBP)	Number of shares	Value of shares (GBP)
<b>Authorised</b>				
Ordinary shares of £1 each	328,266	328,266	328,266	328,266
<b>Allotted, called up and fully paid</b>				
Ordinary shares of £1 each	328,266	328,266	328,266	328,266

In August 2018 an additional £25m share capital was issued to support the capital requirements of the Company in its future plans.

### 25. Capital management

The primary objective of the Company's capital management policy is to ensure that the Company complies with regulatory capital requirements. The Company holds investments with strong credit ratings and robust capital ratios in order to support its business and to maximise shareholder value.

The Company actively manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Company's capital is monitored using the supervisory requirements set by the PRA. The PRA issues Individual Capital Guidance ("ICG") based on the review of the Company's capital planning model as evidenced under the Individual Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is reviewed annually by the Company and by exception when necessary. At the end of the year the Company's total capital requirement was £147.65m (2018: £118.9m).

(In GBP thousands)	2019	2018
Own funds	176,630	170,987
Tier 1 capital	176,630	170,987
Common equity tier 1 capital	176,630	170,987
Total risk exposure amount	861,938	721,897
<b>Buffers</b>		
<b>Pillar 1 Requirement</b>	<b>68,955</b>	<b>57,752</b>
Pillar 2A - Static Pension Add-ons	4,400	4,400
Pillar 2A - Individual Capital Guidance (ICG)	28,272	23,678
<b>Total Pillar 2A</b>	<b>32,672</b>	<b>28,078</b>
Pillar 2B - PRA Buffer	12,584	15,015
Pillar 2B - Counter Cyclical Buffer (CCyB)	11,891	4,508
Pillar 2B - Capital Conservation Buffer (CCB)	21,548	13,536
<b>Total Pillar 2B</b>	<b>46,023</b>	<b>33,059</b>
<b>Total Capital Requirement</b>	<b>147,650</b>	<b>118,889</b>
<b>Capital Surplus</b>	<b>28,980</b>	<b>52,098</b>

Required pillar 3 disclosures will be published at group level by Société Générale on their website [www.societegenerale.com](http://www.societegenerale.com).

### 26. Financial risk management

#### Risk management and control

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

The Risk Committee considers the Risk Appetite Statement and recommends it to the Board, taking into account the current and prospective macroeconomic and financial environment. This document outlines the nature and quantum of risk the Company wishes to bear in order to achieve its strategic, profitability and growth objectives whilst remaining within regulatory constraints. It also notes the key policies established by the Company to manage these risks and the approval process governing those policies.



## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### Treasury Rules and Investment Mandate

The Treasury Rules and Investment Mandate outlines the constraints imposed upon the Treasury, in the course of its management of the liquidity, FX and interest rate risk exposures. The mandate addresses the following:

- definition of structural risks, and the associated limits
- the permitted instruments
- limit management process (i.e. application, renewals and breaches)
- the scope of the Investment Portfolios, including:
  - eligibility criteria
  - allocation limits
  - other constraints (e.g. macro duration constraints)
- benchmark definitions for each portfolio.

The Company incurs risk positions in the course of managing its day to day business. These include interest rate risk, foreign currency ("FX") risk and liquidity risk, which are actively managed by the Asset and Liability Management ("ALM") department, which includes the Treasury function. An analysis of each risk is included below.

#### 26.1. Interest rate risk

Interest rate risk arises from the mismatch in the interest rate duration of the Company's funding sources (depositor and shareholder funding) and its asset profile (client loans and Treasury investment activity), as well as a mix of fixed and variable rate assets and liabilities. This mismatch is the result of differences in the interest rate and maturity profile of the various interest rate sensitive assets and liabilities.

Interest rate mismatches associated with the Company's financial services activities are monitored daily. The exposure to movements in interest rates is monitored in basis point values to a given rise in interest rates. The given rise in interest rates is calculated as 100 basis points (1%). Positions are monitored both individually and on an aggregated basis. Positions are monitored against approved limits. These limits have been assigned and approved on an individual currency and total position basis.

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

The aggregate interest rate risk position is actively managed by the Treasury function, which has a real-time view of the position against the yield curve of each currency in which the Company is active. The interest rate risk positions are maintained within defined sensitivity limits, which are subject to annual review.

#### 26.1.1. Interest rate risk sensitivity

Interest rate sensitivity is determined based on the Company's assets and liabilities at 31 December 2019 and by reference to a movement in market interest rates reasonably possible in the Company's next financial reporting period.

If interest rates had been 50 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre-tax profit for the year ended 31 December 2019 would have been £4.9m lower (2018: £0.5 m) which ultimately would result in £4.0 m (2018: £0.4 m) post tax profit. This would have mainly resulted from lower interest income on variable rate assets and lower financing costs in respect of its loans.

The value represents the potential gain or loss that would be realised over the life of the assets and liabilities if the move in interest rates were affected and all interest rates and positions remained static for their remaining life. The inverse is equally true for the current year if interest rates had been 50 basis points higher.

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.1.2. Interest rate maturities

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

Interest rate mismatches associated with the Company's financial services activities are monitored daily. The exposure to movements in interest rates is monitored in basis point values to a given rise in interest rates. The given rise in interest rates is calculated as 100 basis points (1%). Positions are monitored both individually and on an aggregated basis. Positions are monitored against approved limits. These limits have been assigned and approved on an individual currency and total position basis.

The future principal and interest cash flows of each asset and liability are included based on their present value. The present value of future cash flows of interest bearing assets and liabilities are sensitive to changes in interest rates and thus this sensitivity represents the direction and degree of change in the value of a cash flow for a given change in the underlying interest rate. Interest rate swaps may be used to actively manage the interest rate risk positions. The repricing dates of the financials assets and financial liabilities is as follows:

2019

(In GBP thousands)	Repricing Dates						Total
	Carrying amount	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Non-Interest bearing	
Cash and balances with central banks	52,993	52,953	-	-	-	40	52,993
Placements with, and loans and advances to other banks	41,744	41,704	-	-	-	40	41,744
Fixed rate	-	-	-	-	-	-	-
Variable rate	41,744	41,704	-	-	-	40	41,744
Investment securities	846,641	169,622	128,947	368,619	179,453	-	846,641
Fixed rate	748,499	71,480	128,947	368,619	179,453	-	748,499
Variable rate	98,142	98,142	-	-	-	-	98,142
Loans and advances to customers	1,119,362	548,906	489,315	81,141	-	-	1,119,362
Fixed rate	-	-	-	-	-	-	-
Variable rate	1,034,187	551,352	482,835	-	-	-	1,034,187
<b>Total</b>	<b>2,060,740</b>	<b>813,185</b>	<b>618,262</b>	<b>449,760</b>	<b>179,453</b>	<b>80</b>	<b>2,060,740</b>
Loans and deposits due to other banks	11,543	11,543	-	-	-	-	11,543
Fixed rate	4,253	4,253	-	-	-	-	4,253
Variable rate	7,290	7,290	-	-	-	-	7,290
Loans and deposits due to customers	1,836,229	1,702,108	121,841	12,280	-	-	1,836,229
Fixed rate	421,100	286,979	121,841	12,280	-	-	421,100
Variable rate	1,415,129	1,415,129	-	-	-	-	1,415,129
<b>Total</b>	<b>1,847,772</b>	<b>1,713,651</b>	<b>121,841</b>	<b>12,280</b>	<b>-</b>	<b>-</b>	<b>1,847,772</b>
Interest rate derivatives (gross notional inflows)	601,689	510,966	4,824	60,899	25,000	-	601,689
Interest rate derivatives (gross notional outflows)	601,689	93,166	15,149	382,018	111,357	-	601,689
<b>Net notional inflow (outflow)</b>	<b>-</b>	<b>417,800</b>	<b>(10,325)</b>	<b>(321,119)</b>	<b>(86,357)</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.1.2 Interest rate maturities (continued)

2018

(In GBP thousands)	Repricing Dates						Total
	Carrying amount	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Non-interest bearing	
Cash and balances with central banks	169,347	165,991	3,343	-	-	13	169,347
Placements with, and loans and advances to other banks	31,357	31,357	-	-	-	-	31,357
Fixed rate	-	-	-	-	-	-	-
Variable rate	31,357	31,357	-	-	-	-	31,357
Investment securities	1,253,521	384,890	166,375	414,616	287,345	295	1,253,521
Fixed rate	961,037	92,406	166,375	414,616	287,345	295	961,037
Variable rate	292,484	292,484	-	-	-	-	292,484
Loans and advances to customers	1,074,474	1,017,264	4,460	52,750	-	-	1,074,474
Fixed rate	58,804	2,045	4,460	52,299	-	-	58,804
Variable rate	1,015,670	1,015,219	-	451	-	-	1,015,670
<b>Total</b>	<b>2,528,699</b>	<b>1,599,502</b>	<b>174,179</b>	<b>467,366</b>	<b>287,345</b>	<b>308</b>	<b>2,528,699</b>
Loans and deposits due to other banks	41,768	41,768	-	-	-	-	41,768
Fixed rate	-	-	-	-	-	-	-
Variable rate	41,768	41,768	-	-	-	-	41,768
Loans and deposits due to customers	2,191,216	1,917,843	253,245	20,128	-	-	2,191,216
Fixed rate	528,880	255,507	253,245	20,128	-	-	528,880
Variable rate	1,662,336	1,662,336	-	-	-	-	1,662,336
<b>Total</b>	<b>2,232,984</b>	<b>1,959,611</b>	<b>253,245</b>	<b>20,128</b>	<b>-</b>	<b>-</b>	<b>2,232,984</b>
Interest rate derivatives (gross notional inflows)	-	544,280	15,085	7,408	-	-	566,773
Interest rate derivatives (gross notional outflows)	-	34,254	7,951	334,880	189,688	-	566,773
<b>Net notional inflow (outflow)</b>		<b>510,026</b>	<b>7,134</b>	<b>(327,472)</b>	<b>(189,688)</b>	<b>-</b>	<b>-</b>

The table below summarises the residual contractual maturities and contractual cash flows of the Company's financial assets and liabilities. The amounts presented below are inclusive of interest and principal repayments and are shown on an undiscounted basis. Whilst the disclosure is based on contractual cash flows, there is the possibility that amounts are received earlier than contracted, for example, if a customer repays a loan earlier, or amounts may be received at a later date, for example, if a deposit is extended.

2019

(In GBP thousands)	Carrying amount	Contractual Cashflows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 Years
<b>Financial assets</b>						
Cash and balances with central banks	52,993	52,993	50,128	2,825	-	-
Derivative assets	7,130	7,130	1,642	5,232	223	33
Loans and advances to banks	41,744	41,744	41,744	-	-	-
Loans and advances to customers	1,119,362	1,202,110	356,798	168,220	39,868	-
Debt and investment securities	846,641	928,243	70,128	169,481	480,352	208,282
<b>Total financial assets</b>	<b>2,068,870</b>	<b>2,232,220</b>	<b>519,920</b>	<b>345,787</b>	<b>520,754</b>	<b>208,495</b>
<b>Financial liabilities</b>						
Deposits by banks	11,543	11,543	11,543	-	-	-
Customer accounts	1,836,229	1,838,848	1,702,806	123,134	12,908	-
Derivative liabilities	15,833	15,833	6,594	8,662	457	120
<b>Total financial liabilities</b>	<b>1,863,605</b>	<b>1,866,224</b>	<b>1,715,074</b>	<b>131,795</b>	<b>17,375</b>	<b>1,980</b>

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.1.2 Interest rate maturities (continued)

2018

(In GBP thousands)	Carrying amount	Contractual Cashflows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 Years
<b>Financial assets</b>						
Cash and balances with central banks	169,347	169,347	166,004	3,343	-	-
Derivative assets	12,342	12,343	3,042	2,777	3,815	2,709
Loans and advances to banks	31,357	31,357	31,357	-	-	-
Loans and advances to customers	1,074,474	1,081,566	280,195	150,500	635,282	15,589
Debt and investment securities	1,253,521	1,355,897	141,969	187,767	696,795	329,366
<b>Total financial assets</b>	<b>2,541,041</b>	<b>2,650,510</b>	<b>622,567</b>	<b>344,387</b>	<b>1,335,892</b>	<b>347,664</b>
<b>Financial liabilities</b>						
Deposits by banks	41,768	41,768	41,768	-	-	-
Customer accounts	2,191,216	2,193,848	1,910,348	261,831	21,669	-
Derivative liabilities	6,049	6,048	2,415	3,450	183	-
<b>Total financial liabilities</b>	<b>2,239,033</b>	<b>2,241,664</b>	<b>1,954,531</b>	<b>265,381</b>	<b>21,582</b>	<b>-</b>

#### 26.1.3. Fair value hedges

To protect itself against changes in the fair value of financial assets and financial liabilities due to movements in interest rates, the Company enters into micro fair value hedge relationships as described in Note 3.1.6. The Company primarily designates the benchmark rate as the hedged risk and, accordingly, enters into interest rate swaps whereby the fixed legs represent the economic risks of the hedged items.

The following table provides information about the hedging instruments included in derivative financial instruments:

(In GBP thousands)	2019			2018		
	Notional	Carrying amount Assets	Carrying amount Liabilities	Notional	Carrying amount Assets	Carrying amount Liabilities
<b>Micro fair value hedges</b>						
Interest rate swaps	422,624	92	415	528,479	6,408	1,925
<b>At 31 December</b>	<b>422,624</b>	<b>92</b>	<b>415</b>	<b>528,479</b>	<b>6,408</b>	<b>1,925</b>

The below table sets out the outcome of the company's hedging strategy to changes in the fair value of the hedged items and hedging instruments, used as a basis for recognizing ineffectiveness:

(In GBP thousands)	2019		Hedge Ineffectiveness
	Gains/(losses) attributable to hedged risk Hedging item	Gains/(losses) attributable to hedged risk Hedging instrument	
<b>Micro fair value hedge relationship</b>			
Interest rate swaps	11,987	(13,213)	(1,226)

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.1.3. Fair value hedges (continued)

2018

(In GBP thousands)	Gains/(losses) attributable to hedged risk Hedging item	Gains/(losses) attributable to hedged risk Hedging instrument	Hedge ineffectiveness
<b>Micro fair value hedge relationship</b>			
Interest rate swaps	(2,146)	2,568	422

The maturity profile of the Company's hedging instruments used in micro fair value hedge relationship is, as follows:

2019

(In GBP thousands)	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Total
Fixed rate FVOCI debt instruments					
Interest rate swaps	-	15,149	334,753	72,722	422,624

2018

(In GBP thousands)	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Total
Fixed rate FVOCI debt instruments					
Interest rate swaps	34,254	7,951	334,880	189,688	566,773

#### 26.2. Foreign currency risk

The Company is exposed to market risk from changes in foreign exchange rates that could impact the results of operations and the financial position. The Company's foreign exchange and commodity risk arises from:

- Providing foreign exchange and commodity services to customers
- Its net currency revenue flows from overseas subsidiaries and associated undertakings
- Its other structural positions (including hedging).

When granting loans, booking deposits or taking positions in investments denominated in a foreign currency, the Company incurs foreign exchange risk if those positions are not closed by either investing or refinancing those positions in the respective currency, or by contracting cross currency swaps or foreign exchange forward contracts. The open foreign exchange positions (defined as the present value of the future cash flows discounted with the foreign interest rates) are monitored daily against pre-set limits and form the basis of foreign exchange risk controlling through the use of foreign exchange derivatives. Treasury dealers are authorized to optimise the hedging of such flows intraday and are governed by intraday and end of day exposure limits. The limits are granted by the SG Group Risk Department and reviewed annually, following review at ALCO.

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.2.1. Foreign exchange sensitivity

Foreign exchange sensitivity is determined based on the Company's foreign currency assets and liabilities at 31 December 2019 and by reference to a movement in foreign currency rates reasonably possible in the Company's next financial reporting period.

A strengthening of GBP against EUR or USD at 31 December 2019 of 1% would have decreased (increased) equity and profit (loss) for the period by the amounts shown below. The analysis is performed on the same basis for the year ended 31 December 2018. A weakening of the EUR or USD against the GBP would have had the equal but opposite effect on the amounts shown below.

(In GBP thousands)	2019		2018	
	Equity	Profit/(loss) for the period	Equity	Profit/(loss) for the period
EUR	(3)	(3)	(79)	(79)
USD	1	1	(10)	(10)

#### 26.3. Credit risk of financial assets

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to settle financial obligations to the Company as they fall due. As part of its banking and corporate lending business the Company offers clients a range of loan facilities.

There is a clearly defined policy and process documented within the Company's Credit Policy for credit application and approval, credit administration, daily monitoring and reporting. The daily monitoring of risk exposures for Private Clients is conducted through Prism, a risk monitoring tool which provides the Credit team with the ability to monitor exposures against collateral daily. The tool recalculates lending values of market sensitive collateral daily taking account of liquidity, diversification, concentration, quality and cross currency elements.

The loan to value guidelines for lending against assets are calculated and adopted as part of the Company's credit policy. They have been calculated using stress testing techniques based on tolerance thresholds set by SG Group with a confidence level of 99.9%. Should the quality of the counterparty or the Company's collateral deteriorate to such an extent as to cause concern, the Company's Head of Credit Risk must conduct an interim review and apply appropriate rectification measures.

Collateral pledged against loans and advances to customers at the year-end totalled £2,850.3m (2018: £2,627.7m) with £1,727.3m (2018: £1,553.7m) collateral in excess of loans granted and £88.8m (2018: £4.4m) of loans in excess of collateral.

There are two main periodic reviews of the quality of the entire loan book (as set out in the Company's Provisioning and Credit policies):

- Quarterly Irregular Commitments and Provisioning reviews.
- Monthly Group Executive Risk Committee which includes the specific Credit KRIs.

#### 26.3.1. Credit risk by financial asset class

The following table outlines the maximum credit risk exposure of the Company's financial assets, net of depreciation and before any bilateral netting agreement and collateral, including revaluation differences on items hedged or listed at fair value on the balance sheet:

(In GBP thousands)	2019					
	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total carrying amount	Impairment allowance	Net Exposure
<b>Balance sheet</b>						
Cash and balances at central banks	-	-	52,993	52,993	-	52,993
Derivative assets	-	-	7,130	7,130	-	7,130
Loans and advances to banks	-	-	41,744	41,744	-	41,744
Loans and advances to customers	41,508	393	1,082,149	1,124,050	(4,688)	1,119,362
Debt and investment securities	-	-	846,641	846,641	(66)	846,575
Trade and other receivables	-	-	23,530	23,530	-	23,530
	<b>41,508</b>	<b>393</b>	<b>2,054,187</b>	<b>2,096,088</b>	<b>(4,754)</b>	<b>2,091,334</b>
<b>Off-balance sheet</b>						
Loan commitments granted	-	-	-	47,644	-	47,644
Guarantee commitments granted	-	-	-	34,978	-	34,978
	-	-	-	<b>82,622</b>	-	<b>82,622</b>

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.3.1. Credit risk by financial asset class (continued)

2018

(In GBP thousands)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total carrying amount	Impairment allowance	Net Exposure
<b>Balance sheet</b>						
Cash and balances at central banks	-	-	169,347	169,347	-	169,347
Derivative assets	-	-	12,342	12,342	-	12,342
Loans and advances to banks	-	-	31,357	31,357	-	31,357
Loans and advances to customers	7,797	481	1,070,095	1,078,373	(3,899)	1,074,474
Debt and investment securities	-	-	1,253,590	1,253,590	(69)	1,253,521
Trade and other receivables	45	8	26,569	26,622	(45)	26,577
	<b>7,842</b>	<b>489</b>	<b>2,563,300</b>	<b>2,571,337</b>	<b>(4,013)</b>	<b>2,567,618</b>
<b>Off-balance sheet</b>						
Loan commitments granted	-	-	-	62,773	-	62,773
Guarantee commitments granted	-	-	-	52,719	-	52,719
	-	-	-	<b>115,492</b>	-	<b>115,492</b>

Debt securities are classified as fair value through other comprehensive income. The fair value will reflect, among other things, the credit risk of the issuer. All the debt securities are rated by external rating agencies.

Derivatives are measured on a fair value basis and are classified as fair value through profit and loss. The majority of the Company's derivatives are transacted with SG Group, which has a Credit A rating. Derivatives transacted with clients are frequently secured against cash deposits. In January 2019 the Company has moved all of its IRS portfolio to be transacted on a cleared basis, meaning that the derivatives are paid in full each day and that credit risk is reduced to almost nil.

The Company recognises that counterparty risk can arise due to the failure of counterparties connected to securities and derivatives transactions. This risk can arise as default risk of a Company's counterparty including failure to pay, inability to replace securities post default event or the failure of the other parties to the settlement process. The Company manages this risk by straight through processing and delivery for payment where possible and upgraded controls around settlement only business to reflect counterparty risk in this service offered by the Company to a very limited number of clients.

The Company's Counterparty risk is captured in Kondor+ and the Risk Department monitors all exposures against limits in Kondor+. There is a full audit trail within Kondor+ for all captured trades. All limits are maintained within Kondor+ by the Risk Department and Treasury Middle Office.

The SG Group Risk Department regularly communicates to the Company's Risk Department a list of counterparties and countries prohibited and "under surveillance". In addition to this, the Company's Risk Department maintains close contact with the SG Group's Risk Department in order to maintain a close knowledge of the credit strength of counterparties and to remain abreast of any areas of concern from the dedicated credit analysts. Regular periodic meetings are arranged with the credit analysts in order to consolidate the opinion on our counterparties and their risk profile.

#### Expected credit losses (ECL)

Under IFRS 9 for the purposes of assessing ECLs, financial assets are assessed as to whether they are classed as Stage 1, Stage 2 or Stage 3.

#### Exposure classified in stage 1:

At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are purchased or originated credit-impaired instruments.

Cash and balances at central banks, loans and advances to banks and debt and investment securities are assessed by an SG Group model which determines the relevant S1 provision for these assets. Due to the high-grade nature of these assets classes in the bank's current portfolio, the provision calculated for these assets is immaterial to the financial statements of the Company. Derivatives assets, by their nature of being classified as fair value through profit and loss are outside the scope of IFRS9 provisions.

#### Exposure classified in stage 2:

The Company maintains a watch list to record stage 2 loans and counterparties.

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.3.1. Credit risk by financial asset class (continued)

The Company employs a Watch List approach to the investment book, under which our security positions are classified as follows:

- Black - Possible default scenario. ALCO is required to consider an impairment or sell order (with clear guidance on expected loss limits);
- Red - Highly sensitive counterparty with particular concerns, ALCO is required to consider an impairment and possible sale if market conditions allow;
- Amber - Counterparty that Risk and Treasury agree requires enhanced monitoring with ALCO attention; and
- Green - No concern.

A pre-ALCO watch list is also maintained, where heightened Treasury and Risk monitoring if a soft or hard limit breach of the credit default swap ("CDS") threshold is identified by the daily risk monitoring tool.

Loans and advances to customers primarily comprise (i) corporate loans and (ii) mortgage lending to retail customers. Typically, there is no external credit rating attributable to these customers; however, such loans are continuously monitored for credit worthiness.

Loans and counterparties are classified to the watch list if the counterparty presents an increased probability of loss to the Company, resulting from the following events:

- An exposure with a collateral shortfall (or margin) not authorized, for which the ratio drawn exposure (or firm commitment) / market value of the pledged assets is above the liquidation threshold (set-off ratio) for which a margin call or liquidation have been triggered,
- And/or, a significant decrease of the value of our collateral (actual or forecasted) when the latter are not liquid,
- And/or financial difficulties, significant alteration (actual or forecasted) of the financial condition of the counterparty or its guarantor, and therefore of its capacity to meet a margin call and, if applicable, to repay the credit (notably when it is not collateralized),
- And/or if a credit event has been reported, such as:
  - An unpaid for more than 30 days and less than 90 days,
  - Breach of contractual terms and conditions (such as breach of financial covenants) if the credit is not sufficiently collateralized.
- And/or new operational, regulatory, or legal issues that could endanger the timely enforceability of our collateral,
- And/or new factors linked to the counterparty, the transaction, or the market environment that could lead to a reputational or credit risk for the bank.

Once any one of these criteria is met, the instrument is transferred from Stage 1 to Stage 2, and the related impairments or provisions are adjusted accordingly.

#### Exposure classified in stage 3:

A client is considered credit impaired and it is in Default as soon as at least one of the following events is identified,

- Indications of "unlikelihood to pay". Identified credit risk which makes it probable that the bank will be unable to recover all, or part of the amount owed by the counterparty under the initial terms and conditions of the loan agreement due to a deterioration of the borrower's financial condition.
- Arrears payment of more than 90 calendar days (including for real estate loans) on a credit commitment.
- Counterparty subject to legal or organized recovery proceedings.
- Restructured loan: As soon as negotiations begin with the Company and the client on a restructuring, the exposure shall be classified as Default until the restructuring is accepted and documented.
- Sale of a credit obligation with a discount of more than 5%.
- Fraud and failure to provide information.
- Counterparty subject to legal or organized recovery proceedings (bankruptcy, judicial reorganization or liquidation, safeguard procedure, ad hoc mandate, conciliation procedure to appear before an international court for a legal entity)
- Restructured loan: As soon as negotiations begin with SGPB and the client on a restructuring, the exposure shall be classified as Default until the restructuring is accepted and documented. Once restructured, it shall be maintained "in Default"
- Sale by the bank of a credit obligation with a discount greater than 5% on the nominal value should result in the classification in default of the counterparty to the credit obligation, provided that the discount is assessed to reflect the deterioration of the counterparty's credit risk profile.
- Fraud and failure to provide information.

The concept of Default is therefore based on the failure to comply with a repayment obligation, but also on a qualitative assessment of the borrower's capacity to meet all its financial obligations.



## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.3.1. Credit risk by financial asset class (continued)

The Company applies the impairment contagion principle to all of the defaulting counterparty's exposures. When a debtor belongs to a company, the impairment contagion principle may also be applied to all of the Company's exposures.

In the case of a return in Stage 2, the exposures are kept in Stage 2 during a probation period before assessing whether they could be transferred in Stage 1. This probation period in Stage 2 is from 12 months.

#### Determination of ECL assumptions

For loans and advances to customers and commitments granted, the Company operates rating models provided by the SG Group. These information sources are first used to determine the PDs within the Company's Basel III framework. The internal credit grades are assigned based on these Basel III grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure.

The following table details the classifications used by the company and the relevant PD and LGD's for those classifications, as calculated by the SG Group. These percentages are reviewed on an ongoing basis by the Company to ensure that they are appropriate for the Company.

		2019	2018
S1 PD	Lombard	0.27%	0.16%
	Real estate	1.22%	1.14%
	Asset-backed	0.54%	0.23%
	Non-guaranteed	0.23%	0.22%
S1 LGD	Lombard	7.60%	7.60%
	Real estate	15.30%	15.30%
	Asset-backed	13.20%	13.20%
	Non-guaranteed	32.50%	32.50%
S2 PD		20.00%	20.00%
S3 PD		100.00%	100.00%

LGD's for S2 and S3 are calculated on an individual loan basis according to the specific circumstances affecting the client and the Company's assessment of the recoverability of the loan. This will include things such as collateralisation of the loan, value of the collateral, quality of collateral, circumstances of the client and other assets of the client.

#### 26.3.2. Concentration risk

Concentration risk in both the investment book and the Private Client lending book is managed and mitigated by the SG KH Group Large Exposure policy. Credit risk pertaining to the large exposures for the top 10 clients is assessed at the monthly ALCO meetings.

### 26.4. Liquidity risk of financial assets and liabilities

Liquidity risk is the risk that the Company cannot pay its obligations as they fall due.

The Company must always maintain adequate liquidity, both in amounts and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. At the same time, the Company must be self-sufficient for liquidity purposes, and remain within both the Board defined liquidity risk appetite and all regulatory thresholds. This is maintained by the defined liquidity monitoring processes, the ongoing review of the suitability of the liquid asset buffer and the liquidity contingency plan ("LCP"), which identifies the activities, resources and procedures required in a stress event, and the responsibilities of key personnel. The Company has created a key set of liquidity early warning indicators with individual owners. The indicators are communicated via an internal intranet site and updated on a weekly basis with an alert of any breaches immediately sent as detailed in the LCP and to the ALCO members.

Liquidity risk monitored via various key Early Warning Indicators ("EWIs") as follows:

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.4 Liquidity risk of financial assets and liabilities (continued)

##### a) Liquidity Coverage Ratio ("LCR")

The Company calculates LCR on a daily basis and continues to enhance and develop monitoring of the LCR.

##### b) Liquidity Break Point ("LBP")

The Company calculates the LBP which measures the Company's ability to pay debt obligations and its margin of safety. This is the deposit level at which all net cash capital is wiped out.

##### c) Deposit Length ratio

The Company monitor the deposit length of the short term deposits as a ratio of the long term deposits.

Soft limits and hard limits are set for the facilitation of these monitoring. The indicators are circulated via email on a daily basis to stakeholders. ALCO members are alerted of any breaches immediately

The liquidity situation of the Company is discussed monthly during ALCO meetings and reported quarterly to the Board. In times of stress, and as defined within the LCP specific daily liquidity, emergency ALCOs are convened.

#### Stress Testing

The Company monitors on a daily basis, the expected stressed cash flows over a three-month horizon. The stressed cash flows are based on the assumptions of two stress testing models. The first model considers the impact of defined stress events, while the second considers those defined by PRA. In both cases, the liquidity position must remain at such a level to ensure a positive cash flow for the first three months of the stressed period. Each model includes three stress scenarios; an idiosyncratic stress scenario, a market-wide stress scenario and a combined stress scenario (market wide and idiosyncratic stress combined).

Liquidity monitoring for the Company also includes the analysis of the reverse stress tests framework.

#### Contractual maturities

The table below summarises the Company's current (<12 months) and non-current (>12 months) financial assets and liabilities on the basis of contractual maturity.

2019

(In GBP thousands)	Carrying amount	Current (<12 months)	Non-current (>12 months)
<b>Financial assets</b>			
Cash and balances with central banks	52,993	52,953	40
Derivative assets	7,130	6,874	256
Loans and advances to banks	41,744	41,744	-
Loans and advances to customers	1,119,362	502,668	616,694
Debt and investment securities	846,641	227,442	619,199
<b>Total financial assets</b>	<b>2,067,870</b>	<b>831,681</b>	<b>1,236,189</b>
<b>Financial liabilities</b>			
Deposits by banks	11,543	11,543	-
Customer accounts	1,836,229	1,823,949	12,280
Derivative liabilities	15,833	15,256	577
<b>Total financial liabilities</b>	<b>1,863,605</b>	<b>1,850,748</b>	<b>12,857</b>

## Notes to the Financial Statements

### 26. Financial risk management (continued)

#### 26.4 Liquidity risk of financial assets and liabilities (continued)

2018

(In GBP thousands)	Carrying amount	Current (<12 months)	Non-current (>12 months)
<b>Financial assets</b>			
Cash and balances with central banks	169,360	169,360	-
Derivative assets	12,342	12,342	-
Loans and advances to banks	31,344	31,344	-
Loans and advances to customers	1,074,474	429,158	645,316
Debt and investment securities	1,253,521	315,766	937,755
<b>Total financial assets</b>	<b>2,541,041</b>	<b>957,970</b>	<b>1,583,071</b>
<b>Financial liabilities</b>			
Deposits by banks	41,768	41,768	-
Customer accounts	2,191,216	2,169,670	21,546
Derivative liabilities	6,049	6,049	-
<b>Total financial liabilities</b>	<b>2,239,033</b>	<b>2,217,487</b>	<b>21,546</b>

#### 26.4.1. Encumbered and unencumbered assets

As part of its treasury operations the Company will sometimes pledge financial assets as collateral or has the ability to pledge its assets should it need to raise funds.

The table below details which of the Company's financial assets are encumbered or are available to be pledged as collateral.

(In GBP thousand)	2019			Total
	Encumbered	Unencumbered	Other	Carrying Amount
	Pledged as collateral	Available as collateral		
Cash and balances at central banks	-	-	52,993	52,993
Derivative assets	-	-	7,130	7,130
Loans and advances to other banks	-	-	41,744	41,744
Loans and advances to customers	-	-	1,119,362	1,119,362
Debt and investment securities	-	846,575	-	846,575
<b>Total</b>	-	<b>846,575</b>	<b>1,221,229</b>	<b>2,067,804</b>
2018				
(In GBP thousands)	Encumbered	Unencumbered	Other	Total
	Pledged as collateral	Available as collateral		
	Cash and balances at central banks	-	-	169,360
Derivative assets	-	-	12,342	12,342
Loans and advances to other banks	-	-	31,344	31,344
Loans and advances to customers	-	-	1,074,474	1,074,474
Debt and investment securities	-	1,253,521	-	1,253,521
<b>Total</b>	-	<b>1,253,521</b>	<b>1,287,520</b>	<b>2,541,041</b>

## Notes to the Financial Statements

### 27. Subsequent events

The COVID situation is evolving rapidly across Europe and the Company has taken a number of steps to minimise risks.

We have put in place the necessary measures to ensure business continuity, whilst protecting the health of our staff, suppliers and clients. Our teams are fully prepared and equipped to work remotely, accessing the Company's systems by means that maintain the confidentiality, integrity and availability of our data. Client meetings continue on telephone and video conference where appropriate.

We are also grappling with the market effects of the spread of COVID. The Kleinwort Hambros Investment Committee is meeting regularly throughout this period of volatility to deliver the best possible outcomes for our clients. We remain highly vigilant as always and are watching momentum and other signals to guide our actions in the near-term.

Revenue for 2020 is expected to reduce due to the impact of falling market interest rates on the financial instruments held by the Company. Credit losses are not expected to significantly increase on client loans as a consequence of the pandemic due to the typically low LTV ratios for Lombard and real estate lending, and the ability of the Company's clients to service loans from other sources of wealth. The Company is estimating that income could be £10.8m less for 2020, compared to 2019 as a consequence.

The liquidity and capital positions of the Company remain strong with a liquidity coverage ratio of 249% as at 15 May 2020 and a capital ratio of 20.65% as at 28 February 2020.

### 28. Commitments and contingencies

To meet the financial needs of customers, the Company enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Company.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry a similar credit risk to loans. The values of such commitments are listed below:

#### 28.1. Contingent liabilities:

(In GBP thousands)	2019		2018	
	Contractual amount	Risk-weighted amount	Contractual amount	Risk-weighted amount
Guarantees and assets pledged as collateral security:				
- guarantees and irrevocable letters of credit	34,978	23,244	52,719	12,530

Included in the above are guarantees given on behalf of subsidiary undertakings of £Nil (2018: £Nil).

## Notes to the Financial Statements

### 28. Commitments and contingencies (continued)

#### 28.2. Commitments:

(In GBP thousands)	2019		2018	
	Contractual amount	Risk-weighted amount	Contractual amount	Risk-weighted amount
Undrawn formal standby facilities, credit lines				
Other commitments to lend:				
Within one year	47,644	11,341	62,773	15,843
Between one and five years			-	-
Over five years			-	-
<b>Total</b>	<b>47,644</b>	<b>11,341</b>	<b>62,773</b>	<b>15,843</b>

The credit equivalent and risk weighted amounts have been calculated in accordance with the European Banking Authority guidelines implemented as part of the CRD IV.

#### 28.3. Capital commitments:

The company does not have any capital commitments (2018: Nil).

#### 28.4. Impairment on commitments

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

(In GBP thousands)	2019			2018	
	Stage 1	Stage 2	Stage 3	Total	Total
Lombard	53,949	11	-	53,960	50,592
Real Estate	21,853	119	-	21,972	52,212
Asset backed	-	-	-	-	2,210
Non-guaranteed	6,614	2	-	6,616	10,349
Defaulted	-	-	74	74	-
<b>Total</b>	<b>82,416</b>	<b>132</b>	<b>74</b>	<b>82,622</b>	<b>115,363</b>

(In GBP thousands)	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Lombard	50,592	-	-	50,592	43,369
Real Estate	52,212	-	-	52,212	76,260
Asset backed	2,210	-	-	2,210	-
Non-guaranteed	10,347	2	-	10,349	7,557
<b>Total</b>	<b>115,361</b>	<b>2</b>	<b>-</b>	<b>115,363</b>	<b>127,186</b>

## Notes to the Financial Statements

### 28. Commitments and contingencies (continued)

#### 28.4 Impairment on commitments (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to commitments is, as follows:

(In GBP thousands)				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Exposures at 1 January	62,629	128	16	62,773	127,186
Transfer to stage 2	(30)	30	-	-	-
Net commitments originated / (drawn or expired)	(15,161)	4	29	(15,128)	(11,694)
<b>Exposure at 31 December</b>	<b>47,438</b>	<b>162</b>	<b>45</b>	<b>47,645</b>	<b>115,492</b>

(In GBP thousands)				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Exposures at 1 January	127,186	-	-	127,186	169,853
Transfer to stage 2	(2)	2	-	-	-
Net commitments originated / (drawn or expired)	(11,694)	-	-	(11,694)	(42,667)
<b>Exposure at 31 December</b>	<b>115,490</b>	<b>2</b>	<b>-</b>	<b>115,492</b>	<b>127,186</b>

#### Impairment allowance on commitments

(In GBP thousands)				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Expected credit losses as at 01 January	49	-	-	49	-
Impact of adopting IFRS9	-	-	-	-	112
Increase in provision	29	-	-	29	17
<b>Expected credit losses at 31 December</b>	<b>78</b>	<b>-</b>	<b>-</b>	<b>78</b>	<b>129</b>

#### 28.5 Other commitments and contingencies

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

## Notes to the Financial Statements

### 29. Related parties

As the Company is a 100% subsidiary undertaking and consolidated financial statements for its ultimate parent, Société Générale SA, are publicly available, group transactions have not been disclosed pursuant to the exemptions permitted in IAS 24 *Related Party Disclosures*. No other loans, arrangements or agreements require disclosure under the Companies Act 2006 or under the requirements of IAS 24 *Related Party Disclosures* regarding transactions with related parties, except the following transactions with the Company's Directors.

#### 29.1. Directors' remuneration

The directors' remuneration includes employee benefits such as the provision of motor cars, accommodation, subsidised loans and private health care insurance, which are all short term related.

(In GBP thousands)	2019	2018
Salary and benefits	1,211	1,216
Performance related benefits	532	702
Pension contributions to money purchase schemes	61	58
<b>Total</b>	<b>1,804</b>	<b>1,976</b>

During the year, four directors (2018: four) accrued benefits under the defined contribution pension scheme. Four of the current non-executive directors are employed by other entities in the SG Group. Emoluments for these directors are included in the statutory financial statements of SG and are excluded from the figures above. The Company is not directly charged a specified amount for the services of these directors.

#### 29.1 Director's remuneration (continued)

##### Highest paid director

(In GBP thousands)	2019	2018
Salary and benefits	242	281
Performance related benefits	238	244
Pension contributions to money purchase schemes	15	-
<b>Total</b>	<b>495</b>	<b>525</b>

The accrued pension contribution of the highest paid director as at 31 December 2019 was £nil (2018: £nil).

#### 29.2. Transactions with Directors

The aggregate amounts outstanding under transactions, arrangements and agreements entered into by the Company with directors and officers were:

	2019		2018	
	Number of persons	Amount (in GBP thousands)	Number of persons	Amount (in GBP thousands)
Directors' loans	-	-	-	-

### 30. Ultimate parent company

SG Kleinwort Hambros Limited is the direct holding of the company. The ultimate parent undertaking and controlling party is Société Générale SA which is incorporated in France.

The largest and smallest group in which the results of the Company are consolidated is Société Générale SA. The consolidated financial statements of the group are available from the Company Secretary, Société Générale, 29 Boulevard Haussmann, 75009 Paris, France.