SG Hambros Bank Limited

Report of the Directors and Financial Statements

31 December 2013

Registered number· 964058

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COMPANIES HOUSE

Registered No 964058

Board of Directors

Chairman

W J Newbury**

Chief Executive

E E Barnett

Directors

C C G Clarke***
S Collins
O D Meredith
J-F Mazaud*
D Beretti*
G Branson

*Non-executive Director
**Non-executive Director and member of the Audit and Risk Committee
***Non-executive Director and Chairman of the Audit and Risk Committee

Company Secretary

D Evans

Registered Office

Norfolk House
31 St James's Square
London SW1Y 4JR

Auditor

Deloitte LLP
Chartered Accountants
London

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PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

SG Hambros Bank Limited (the "Bank") and its subsidiaries form the private banking arm of the Societe Generale Group ("SG Group") in the UK, the Channel Islands and Gibraltar The Bank offers its clientele an integrated wealth management service, including the provision of banking products and trust structures as well as investment management advice

In 2013, client deposits have increased by 6% to £1 03 billion (2012 £0 97 billion), as a result of an increase of new business from new and existing clients This also impacted the assets under management of the Bank which increased by 6%, before market movements, to a balance of £3 1 billion (2012 £ 2 9 billion) Average staff headcount increased to 198 (2012 193), increasing at the year end to 208 (2012 191) The average number of client relationship managers and assistants has increased to 73 (2012 67)

Client lending has grown steadily and, in accordance with the agreed business plan, property backed lending is the major growth element of the loan portfolio with the Bank maintaining a relatively low risk profile, the loan-to-value ratio marginally decreasing to 60% for the end of 2013 (2012 64%)

The Bank is implementing its commercial strategy to strengthen and expand its business in 2014, in particular through a dynamic recruitment plan Demonstrating the Bank's strong continued commitment to the wealth management markets in the UK, the new strategy will involve the recruitment of new private bankers including an international team focusing on Russian and Commonwealth Independent States (CIS) clients, a wider range of services and products for the benefit of existing and prospective clients and greater synergies with the SG Group, notably by increasing client access to its investment banking expertise The recruitment drive started in 2013 with new client relationship managers recently hired This recruitment includes managers across the UK regional offices, reinforcing the Bank's commitment to providing support and services to clients across the UK

The Bank has also developed a range of initiatives to further improve client experience and staff responsiveness to client demands, which includes a five-year IT plan for front and back offices, upgrades of core business systems, and online risk control tools

PRINCIPAL RISKS AND UNCERTAINTIES

The Bank's activities expose it to a variety of financial and other risks which are described at length in Note 31 The principal residual risks of the Bank remain as credit, counterparty credit, liquidity, regulatory, and market risk

- **CREDIT RISK**

During 2013, credit ratings of most financial counterparties remained fairly static, and no issues regarding redemptions and interest payments have been experienced and consequently there has been no requirement to impair any investments The Bank continues to manage holdings within authorised limits and regular impairment reviews are undertaken in the Group Asset and Liability Committee ("ALCO")

Whilst there has been a greater level of provisioning against customer loans than in 2012, in proportion to the size of the loan book the level of provisioning is of no particular concern

The Bank continues to grow its property secured client lending portfolio utilising relatively conservative loan-to-value ra tios, which are periodically reviewed, providing good levels of collateral margin cover

The Bank has £3 975m (2012 £3 892m) exposure to the Spanish residential property market which, in light of the problems facing that market, is under constant review Provisions equating to £2 231m (2012, £1 74m) have been raised against these loans

- **COUNTERPARTY CREDIT RISK**

The Bank recognises that residual risk can arise due to failure of counterparties connected to client originated and the Bank's own securities and derivatives transactions This risk can arise as default risk of a Bank's counterparty including failure to pay, inability to replace securities post default event or the failure of the other parties of the settlement process The Bank generally mitigates this risk by straight through processing and delivery for payment where possible and have upgraded controls around settlement only business to reflect enhanced counterparty risk in this service offered by the Bank

- **LIQUIDITY RISK**

The liquidity risk appetite for the Bank has been defined by the Board as follows
The Bank will maintain liquidity resources to target survival for a minimum period of three months under the idiosyncratic, market-wide and combined liquidity stresses defined in compliance with the Financial Conduct Authority and the Prudential Regulation Authority Regulations (BIPRU 12 4 and 12 5)

The monitoring of the Bank's liquidity position has seen significant developments by the introduction of the new liquidity regime and the first adoption of the Individual Liquidity Adequacy Assessment (the "ILAA") in October 2010 This has allowed the business to fully understand the sources of liquidity risk and our ability to mitigate them Note 31 covers liquidity risk in more detail

- **REGULATORY RISK**

The Bank is subject to financial services laws, regulation and regulatory oversight and failure to comply with any of these constitute significant risks The financial services industry is currently subject to significantly increased regulatory supervision as a result of the financial crisis In April 2013, the Prudential Regulation Authority ("PRA") became responsible for the authorisation and prudential supervision of the Bank while the Financial Conduct Authority ("FCA") assumed responsibility for conduct of business supervision The increased intensity of regulatory oversight in the banking system, could potentially have an adverse effect on how the Bank conducts its business and ultimately on its results Compliance with such regulations could increase the Bank's regulatory capital requirements and the cost of compliance

The Bank 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 Bank The table below details the capital resources, capital requirements and solvency ratio as at 31 December 2013, with 2012 for comparison

	2013 £'000	2012 £'000
Capital Resources		
Core Tier One Capital	250,939	243,885
Total Capital after deductions	124,769	116,297
Pillar 1 Variable Capital Requirements		
Credit Risk	18,742	14,142
Market Risk	64	38
Operational Risk	4,894	4,209
Capital Requirements	23,700	18,389
Solvency Ratio	526 47%	632 5%

- **REGULATORY RISK (CONTINUED)**

There remains a high level of scrutiny regarding financial institutions' treatment of customers and overall business conduct from regulatory bodies and the media The FCA in particular continues its focus on the conduct risks arising from the business models of banking institutions

- **MARKET RISK**

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates The Bank uses foreign exchange forward contracts and interests rate swap contracts to hedge these exposures

Approved by the Board and signed on its behalf by

O D Meredith
Director
Date 26/03/14

SG Hambros Bank Ltd
Norfolk House
31 St James's Square
London SW1Y 4JR

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report, together with the audited financial statements of SG Hambros Bank Limited (the "Bank"), for the year ended 31 December 2013

RESULTS FOR THE YEAR

The profit on ordinary activities after tax for the financial year ended 31 December 2013 is £45,016,000 (2012 £3,108,000)

DIVIDENDS

Interim dividends of £15,500,000 and £25,000,000 were paid on 15 November 2013 and 30 December 2013, respectively (2012 £9,000,000) The directors do not recommend payment of a final dividend for the year 2013 (2012 £nil)

GOING CONCERN INCLUDING LIQUIDITY MANAGEMENT

Note 31 to the financial statements includes the Bank's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

The Bank 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 Capital Adequacy Assessment Process document (the "ICAAP") and for survival under prescribed stress scenarios including combined stress scenarios Liquidity monitoring under stress is monitored frequently by the Group ALCO and reported regularly to the Directors of the Board

The directors believe that the Bank is well placed to manage its business risks successfully After consideration, the directors have a reasonable expectation that the Bank 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

POLITICAL CONTRIBUTIONS

No political donations were made during the year (2012 none)

DIRECTORS

The directors, who served throughout the year except as noted, were as follows

Chairman	W J Newbury
Chief Executive	E E Barnett
Other Directors	C C G Clarke J Coulson (resigned 07 11 13) G Branson S Collins O D Meredith J-F Mazaud D Beretti

DIRECTORS' INDEMNITIES

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

DIRECTORS' INTERESTS

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

DISABLED EMPLOYEES

The Bank supports the employment of disabled persons, where possible, in recruitment, by retention of those who become disabled during their employment, and generally through training, career development and promotion

EMPLOYEE CONSULTATION

The Bank pays particular regard to the involvement of employees generally in the Bank's activities and achievements Employees are kept aware of particular developments by means of a regular circulation of copies of press notices, memoranda and a separate employee report by means of an intranet site

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that

- as far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware, and

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

Approved by the Board and signed on its behalf by

O D Meredith
Director
Date 26/03/14

SG Hambros Bank Ltd
Norfolk House
31 St James's Square
London SW1Y 4JR

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations Company law requires the directors to prepare 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 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 judgements and accounting estimates which 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 the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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

We have audited the financial statements of SG Hambros Bank Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 33 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SG HAMBROS BANK LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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

Oliver Grundy FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
Date 27th March, 2014

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Interest receivable	2	25,615	22,694
Interest payable	3	(5,597)	(6,314)
NET INTEREST INCOME		20,018	16,380
Fees and commissions income		23,710	22,208
Fees and commissions expenses		(1,997)	(1,575)
Net fee and commission income	4	21,713	20,633
Net trading income	5	1,075	1,922
Other operating income	6	40,306	9,108
OPERATING INCOME		83,113	48,043
Administrative expenses	7	(34,278)	(31,414)
Amortisation	19	(1,091)	(1,088)
Depreciation	20	(378)	(300)
Impairment of Financial assets	25	(261)	(739)
Impairment of shares in group undertakings	17	-	(9,159)
Impairment of shares in participating interests	18	(25)	(123)
Loss on sale of group undertakings		(1)	(449)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	8	47,079	4,771
Tax on profit on ordinary activities	11	(2,063)	(1,663)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		45,016	3,108

The results for the years ended 31 December 2013 and 31 December 2012 are derived from continuing operations

The statement of accounting policies and notes on pages 16 to 55 form part of these financial statements

BALANCE SHEET
As at 31 December 2013

	Notes	2013 £'000	2012 £'000
ASSETS			
Cash		30	23
Loans and advances to banks	12	49,764	50,477
Loans and advances to customers	15	657,026	615,237
Derivative financial instruments	14	1,361	1,894
Financial investments	16 & 25	481,117	465,049
Participating interest	18	1,407	1,432
Shares in group undertakings	17	108,898	109,269
Goodwill	19	11,247	12,338
Tangible fixed assets	20	695	968
Deferred tax assets	21	552	718
Other assets	22	1,645	3,628
Prepayments and accrued income	22	4,739	4,886
Total assets		1,318,481	1,265,919
LIABILITIES			
Deposits by banks	23	9,599	8,329
Customer accounts	24	1,031,036	971,047
Derivative financial instruments	14	2,733	1,772
Provisions for tax		-	319
Other liabilities	26	6,316	5,152
Accruals and deferred income	26	14,871	16,917
Total Liabilities		1,064,555	1,003,536
SHAREHOLDERS' FUNDS			
Called up share capital	27	143,800	143,800
Share premium account	28	45,500	45,500
Profit and loss account	28	21,125	25,609
Available-for-sale reserve	28	1,001	4,974
Undistributable reserves	28	42,500	42,500
Shareholders' funds		253,926	262,383
Total liabilities and shareholders' funds		1,318,481	1,265,919

BALANCE SHEET (CONTINUED)
As at 31 December 2013

Approved by the Board of Directors on 26 March 2014 and authorised for issue and signed on its behalf by

O D Meredith
Director

The statement of accounting policies and notes on pages 16 to 55 form part of these financial statements

Registered No 964058

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Profit for the financial year	28	45,016	3,108
(Losses)/Gains on revaluation of available-for-sale investments taken to equity	28	(4,982)	3,175
Deferred Tax on available-for-sale investments taken to equity	28	1,204	(778)
Transfer to profit or loss on sale of available-for-sale investments	28	(195)	-
Total recognised gains and losses relating to the year		41,043	5,505

1 STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are summarised below, they have all been applied consistently throughout the year and the preceding year

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis of accounting, except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below They have been drawn up in accordance with applicable accounting standards in the United Kingdom

CHANGE IN ACCOUNTING POLICIES

Three new Financial Reporting Standards 100,101 and 102 have been developed by the Accounting Standard Board, in order to provide more comprehensive Financial reporting standards These standards will be effective from 1 January 2015 with an early adoption permitted
The Bank will start applying FRS 101, which introduces an International Financial Reporting Standard reduced disclosed framework from 1 January 2015 The impact of the application of these new standards should be limited for the Bank The main differences between the local and the IFRS reporting are related to the goodwill, hedge accounting and pensions

GOING CONCERN

The Bank'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 7-8 The Bank's business plans project profitability through the foreseeable future It also holds considerable capital resources in excess of regulatory requirements Liquidity positions within the Bank 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 Taking these factors into consideration, the directors believe that the Bank is well placed to manage its business risks successfully

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 Bank has adequate resources to meet its minimum capital and liquidity regulatory requirements and appropriate contingency plans to ensure that the Bank continues to operate with a prudent capital and liquidity buffer over its internal requirements for the foreseeable future Therefore, the Bank continues to adopt the going concern basis in preparing the annual report and financial statements

GROUP FINANCIAL STATEMENTS

SG Hambros Bank Limited (the "Bank") is exempt by virtue of Section 400 of the Companies Act 2006, from the requirement to prepare group financial statements and deliver them to the Registrar of Companies These financial statements present information about the Bank as an individual undertaking and not about its group The Bank is included in the consolidated financial statements of Societe Generale SA ("SG"), which is incorporated in France

CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (Revised) the Bank is exempt from the requirement to prepare a cash flow statement This is on the grounds that for the year ended 31 December 2013 more than 90% of the voting rights were controlled by Sociéte Génerale SA and a consolidated cash flow statement, including the cash flows of the Bank for this year, is included in Societe Genérale SA's financial statements for the year ended 31 December 2013, which are publicly available

FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified into available for sale, loans and receivables, financial assets and liabilities designated to fair value through profit and loss, held-to-maturity and held for trading in accordance with FRS 26 The Bank has not designated any financial investments or debt securities as fair value through profit and loss, on adoption of FRS 26

FINANCIAL ASSETS AND LIABILITIES

Purchase and sale of non-derivative financial assets and liabilities at fair value through profit or loss, financial assets held-to-maturity and available-for-sale financial assets are recognised in the balance sheet on the settlement date while derivatives are recognised on the trade date Changes in fair value between the trade and settlement dates are booked in the income statement or to shareholders' equity depending on the relevant accounting category Loans and advances are recognised when cash is advanced to the borrowers

When initially recognised, financial assets and liabilities are measured at fair value plus transaction costs Fair value is determined in the manner described in note 30

(i) Loans and advances

Loans and advances to banks and customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and neither held for trading purposes nor intended for sale from the time they are originated or contributed Loans and advances are measured at amortised cost using the effective interest rate method, less allowance for impairment Amortised cost is calculated by taking into account any premium or discount on acquisition and fees and costs that are an integral part of the effective interest rate method

(ii) Held for trading assets and liabilities

These are financial assets and liabilities held for trading purposes They are recognised initially at fair value and transaction costs are taken directly to the profit and loss account Changes in fair value are recorded in the profit and loss account as net gains or losses on financial instruments at fair value through the profit and loss account within net trading income Derivatives are also classified in this category unless they have been designated as hedges

(iii) Held-to-maturity financial assets ("HTM")

These are non-derivative financial assets with fixed or determined payments and a fixed maturity, that are quoted in an active market and which the Bank has the positive intention and ability to hold to maturity They are valued after acquisition at their amortised costs using the effective interest method and may be subject to impairment as appropriate The amortised cost includes premiums and discounts as well as transaction costs and they are recognised in the balance sheet under investments

(iv) Available-for-sale financial assets ("AFS")

These are debt securities held for an indefinite period which the Bank may sell at any time After initial measurement, available-for-sale financial investments are subsequently measured at fair value Unrealised gains or losses are recognised directly in equity in the 'Available-for-sale reserve' When the investment is disposed of or if it becomes part of fair value hedging relationship, the cumulative gain or loss previously recognised in the reserve is included in the profit and loss for the period

PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Specific provisions are made against loans and advances when, as a result of a detailed appraisal of the loans and advances portfolio, it is considered that recovery is doubtful Specific provisions are deducted from loans and advances Provisions made during the year (less amounts released and recoveries of amounts written off in previous years) are charged against profits When the collection of interest is in significant doubt it is credited to a suspense account Where there is no longer any realistic prospect of recovery the outstanding debt is written off

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future flows of the investment have been impacted

Objective evidence of impairment could include

- significant financial difficulty of the issuer or counterparty, or
- default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

DERECOGNITION OF FINANCIAL ASSETS

The Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Bank 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 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 Bank 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 or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months Other derivatives are presented as current assets or current liabilities

HEDGE ACCOUNTING

The Bank 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 Bank applies hedge accounting for transactions which meet the specified criteria

At inception of the hedge relationship, the Bank formally documents the relationship between the 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 Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement

HEDGE ACCOUNTING (CONTINUED)

Fair value hedges

For designated and qualifying fair value hedges, the change in fair value of a hedging derivative is recognised in the income statement in 'Net trading income' Meanwhile 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 also recognised in the income statement in 'Net trading income'

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 rate method If the hedge is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement

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

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

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 Interest arising from the internal funding of dealing activities is included within interest receivable Revenue is recognised as interest accrues using the effective interest method

NET TRADING INCOME

This comprises profits and losses from foreign exchange activities and from dealing in financial instruments, including interest and dividends receivable, less associated funding costs

DIVIDENDS

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

FEES AND COMMISSIONS INCOME

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

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date Net income in foreign currencies is translated into sterling and recorded at the rates of exchange ruling at the end of each day

Foreign currency equity investments hedged by foreign currency borrowings or foreign exchange contracts are translated into sterling at the rates of exchange ruling at the balance sheet date and the exchange differences arising taken to the profit and loss The exchange difference arising on related foreign currency borrowings is also taken to the profit and loss account

PENSION COSTS

The Bank operates a defined contribution pension scheme and contributes to a Societe Generale UK defined benefit pension scheme and the Sociéte Generale Group scheme Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

LEASES
Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used

PROVISIONS FOR LIABILITIES
A provision is recognised when the Bank 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

CURRENT TAX
Current 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

DEFERRED TAX
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, with the exception of deferred tax assets which are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

INVESTMENTS IN GROUP UNDERTAKINGS
The carrying value of the Bank's investments in subsidiary undertakings is stated at historical cost adjusted for any movement in foreign exchange rate less any provision for impairment

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

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

RELATED PARTY TRANSACTIONS
Under Financial Reporting Standard 8, the Bank is exempt from the requirement to disclose related party transactions within the Société Génerale Group on the grounds that for the year ended 31 December 2013 100% of the voting rights were controlled by Société Générale SA whose financial statements are publicly available

INTANGIBLE ASSETS - GOODWILL
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life The useful economic life for the goodwill resulting from the acquisitions of ABN Amro's private banking business and Baring Asset Management's private banking business is 15 years, reflecting the nature of the long-term relationships and low attrition rates A review for impairment indicators is carried out periodically, and provision is made for any impairment Impairment indicators would include the loss of client assets under management or a reduction of future income generating capacity

SEGMENTAL ANALYSIS
The Statement of Recommended Practice on Segmental Reporting by Bank recommends, inter alia, operating profit and net assets to be disclosed by class of business and geographical segment No such analyses have been presented, since the Bank operates in a single segment, private banking, based primarily in the United Kingdom

2 INTEREST RECEIVABLE

	2013 £'000	2012 £'000
Due from banks	146	578
Loans and advances to customers	17,409	16,219
Financial investments - available-for-sale	3,701	3,691
Financial investments - held-to-maturity	1,692	2,124
Interest rate instruments	2,501	82
Other	166	-
	25,615	22,694

3 INTEREST PAYABLE

	2013 £'000	2012 £'000
Due to banks	67	1,164
Due to customers	3,411	4,814
Interest rate instruments	2,115	330
Other	4	6
	5,597	6,314

4 NET FEE AND COMMISSION INCOME

Included in the net fee and commission income is £686,411 (2012 £727,579) of fee income relating to trust and other fiduciary activities

5 NET TRADING INCOME

	2013 £'000	2012 £'000
Other interest rate instruments	(338)	1,037
Foreign exchange	1,425	885
Hedge ineffectiveness from fair value hedging		
- Losses on hedged items attributable to the hedged risk	(234)	(30)
- Gains on hedging instruments	222	30
	1,075	1,922

The results of trading money market instruments, interest rate swaps, options and other derivatives are recorded under 'Other interest rate instruments'

'Foreign exchange' income includes gains and losses from spot and forward contracts and other currency derivatives

6 OTHER OPERATING INCOME

	2013 £'000	2012 £'000
Dividend income from		
- other equity investments	1	108
- subsidiaries	40,500	9,000
Losses from sales of available-for-sale financial investments	(195)	-
	40,306	9,108

In 2013, SG Hambros Bank (Channel Islands) Ltd paid total dividends of £40,500,000 (2012 £9,000,000)

7 ADMINISTRATIVE EXPENSES

	2013 £'000	2012 £'000
Staff costs		
- Wages and salaries	19,409	16,462
- Social security costs	2,310	2,198
- Pension costs (Note 10)	2,129	2,143
- Other staff costs	1,856	2,273
Other administrative expenses	8,574	8,338
	34,278	31,414

The average number of employees during the year was 198 (2012 193) In addition one (2012 one) contracted employee was seconded to work in a subsidiary company All employees were employed in private banking based principally in the United Kingdom

7. ADMINISTRATIVE EXPENSES (CONTINUED)

The Bank's staff also benefited from participation in the following share schemes offered by Societe Genérale SA in 2013 and 2012 GESOP/IGSP – offering discounted Societé Genérale shares to staff, the Ambition Initiative share scheme and the UK Share save plan In addition to these schemes certain of the Bank's staff also benefit from involvement in Long term incentive, the stock options schemes and fidelity plan (details below)

Fidelity plan
The Bank issues to selected employees share-based linked bonuses The vesting periods of these bonuses are three years from the date of declaration of bonus The employees will only be entitled to these bonuses on the condition that they are still employed by the Bank at the scheduled payment dates during the vesting period These bonuses are cash settled and the Bank hedges the effect of the movement of Société Generale 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 12 13, the element of this valuation relating to variation in the price of Societe Generale shares since declaration was £3k (2012 £5k) The total profit and loss recognised in the year related to this scheme was an expense of £18 5k (2012 £147k)

8 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2013 £'000	2012 £'000
Depreciation of tangible fixed assets	378	300
Amortisation of goodwill	1,091	1,088
Buildings operating leases	2,082	1,943
	=====	=====

The analysis of the auditor's remuneration is as follows

	2013 £'000	2012 £'000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts, and that of its UK based subsidiaries	232	225
Total audit fees	232	225
	=====	=====
Other assurance services	14	14
Other services	-	25
Total non-audit fees	14	39
	=====	=====
Total fees	246	264
	=====	=====

9 DIRECTORS' REMUNERATION

	2013 £'000	2012 £'000
Salary and benefits	791	831
Performance related benefits	372	391
Company contributions to money purchase schemes	43	51
	1,206	1,273

Benefits comprise provision of motor cars, accommodation, subsidised loans and private health care insurance

The emoluments of the highest paid director were as follows

	2013 £'000	2012 £'000
Salary and benefits and performance related bonuses	475	394
Company contributions to money purchases schemes	-	-

The accrued pension of the highest paid director as at 31 December 2013 was £nil (2012 £nil)

	2013 No	2012 No
The number of directors accruing benefits under the following schemes during the year was		
SG UK Defined Benefit Scheme	0	0
SG Hambros Defined Contribution Scheme	3	3

Two of the current non-executive directors are employed by Sociéte Generale SA Emoluments for these directors are included in the statutory financial statements of Societe Generale SA and are excluded from the figures above

10 PENSION COSTS

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 Bank was £2,129,187 (2012 £2,142,660)

Defined Benefit Scheme

The Bank participates in a multi-employer scheme, 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 Societé Genérale Group Retirement and Death Benefit Scheme for United Kingdom Staff (the London Branch Scheme) and the Societé Generale Strauss Turnbull Securities Limited Pension Scheme (the SGST Scheme) with the SG Hambros Scheme To effect this merger, the assets and liabilities of the SGST and London Branch schemes were transferred into the SG Hambros Scheme In addition, members of the SG Hambros Scheme received benefit improvements and the financial effects of these benefit improvements are reflected in the disclosure below

10 PENSION COSTS (CONTINUED)

The Scheme is a "multi-employer scheme", in accordance with paragraphs 8-12 of the FRS 17 The directors, based on the advice of the Scheme Actuary consider that, in accordance with paragraph 9(b) of the Standard, the Bank is unable to identify on a consistent and reasonable basis its share of the underlying assets and liabilities of the Scheme Therefore, for the purposes of FRS 17, the Bank accounts for its pension cost arising under the Scheme as if it were a defined contribution scheme

The total defined benefit pension cost and contribution for the Bank was £866,060 in 2013 (2012 £1,014,222)

FRS 17 Disclosures
For the purpose of FRS 17 only, the results of the valuation of the assets and liabilities of the scheme were updated as at 31 December 2013 to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 31 December 2013 The disclosures as below are based on that valuation

Fair value Review	**2013** **£'000**	**2012** **£'000**
Fair Value of Scheme assets	537,560	509,000
Actuarial value of Scheme liabilities	(528,660)	(537,000)
Surplus/(Deficit) in the Scheme before deferred tax	8,900	(28,000)
Deferred tax at 20% (2012 23%)	(1,780)	6,440
Net Scheme liability after deferred tax	7,120	(21,560)

Defined Contribution Scheme

The Bank also provides employees with access to a defined contribution scheme "SG Money Purchase Scheme" Contributions to this scheme were £1,151,587 during the year (2012 £1,103,956) No contributions were outstanding at the year end The contributions to this fund currently range from 2 5% to 15% of pensionable salary In addition £8,705 was paid into employees' personal money purchase schemes (2012 £6,667) and £102,835 was paid into the SG Group Scheme in relation to expatriate employees (2012 £17,815)

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2013 **£'000**	**2012** **£'000**
UK corporation tax		
Current year charge at 23 25% (2012 24 5%)	1,635	1,166
Prior year	262	-
	1,897	1,166
Deferred tax		
Current year release	84	416
Reduction in corporation tax rate to 20% (2012 23%)	82	71
Withholding tax charge	-	10
Total taxation charge	2,063	1,663

11 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The tax assessed on the profit on ordinary activities for the year at 4 4% (2012 34 5%) is lower than the standard rate of corporation tax in the UK of 23 25% (2012 24 5%) The differences are reconciled below

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	47,079	4,771
Notional charge at 23 25% (2012 24 5%)	10,946	1,169
Permanent differences	184	250
Short term timing differences	(85)	(406)
Impairment provision	6	2,274
Dividend income	(9,416)	(2,231)
Loss on disposal of shares	-	110
Prior year	262	-
	1,897	1,166

12. LOANS AND ADVANCES TO BANKS

	2013 £'000	2012 £'000
Repayable on demand	7,540	28,560
Remaining maturity		
- 3 months or less	42,224	16,574
- 1 year or less but over 3 months	-	5,343
- Over 1 year	-	-
	49,764	50,477
Amounts include:		
Unsubordinated due from group undertakings	7,799	7,287

13 FINANCIAL INSTRUMENTS CLASSIFICATION

The following tables analyse the Group's financial assets and financial liabilities in accordance with the categories of financial instruments in FRS 26 Assets and liabilities outside the scope of FRS 26 are shown separately

31 December 2013	Held-to Maturity £'000	Held for Trading £'000	Hedging Derivatives £'000	AFS £'000	Loans and receivables £'000	Non Financial £'000	Total £'000
Assets							
Cash	-	-	-	-	30	-	30
Loans and advances to banks	-	-	-	-	49,764	-	49,764
Loans and advances to customers	-	-	-	-	657,026	-	657,026
Derivative financial instruments	-	1,361	-	-	-	-	1,361
Financial investment	28,618	-	-	452,499	-	-	481,117
Participating interest	-	-	-	-	-	1,407	1,407
Shares in group undertakings	-	-	-	-	-	108,898	108,898
Intangible fixed assets	-	-	-	-	-	11,247	11,247
Tangible fixed assets	-	-	-	-	-	695	695
Deferred tax assets	-	-	-	-	-	552	552
Other assets	-	-	-	-	-	1,645	1,645
Prepayments and accrued income	-	-	-	-	-	4,739	4,739
	28,618	1,361	-	452,499	706,820	129,183	1,318,481

13 FINANCIAL INSTRUMENTS CLASSIFICATION (CONTINUED)

31 December 2013	Held-to Maturity £'000	Held for Trading £'000	Hedging Derivatives £'000	AFS £'000	Loans and receivables £'000	Non Financial £'000	Total £'000
Liabilities							
Deposits by banks	-	-	-	-	9,599	-	9,599
Customers accounts	-	-	-	-	1,031,036	-	1,031,036
Derivative financial instruments	-	2,500	233	-	-	-	2,733
Provisions for tax	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	6,316	-	6,316
Accruals and deferred income	-	-	-	-	-	14,871	14,871
Equity	-	-	-	-	-	253,926	253,926
	-	2,500	233	-	1,046,951	268,797	1,318,481

31 December 2012	Held-to Maturity £'000	Held for Trading £'000	Hedging Derivatives £'000	AFS £'000	Loans and receivables £'000	Non Financial £'000	Total £'000
Assets							
Cash	-	-	-	-	23	-	23
Loans and advances to banks	-	-	-	-	50,477	-	50,477
Loans and advances to customers	-	-	-	-	615,237	-	615,237
Derivative financial instruments	-	1,894	-	-	-	-	1,894
Financial investment	41,417	-	-	423,632	-	-	465,049
Participating interest	-	-	-	-	-	1,432	1,432

13 FINANCIAL INSTRUMENTS CLASSIFICATION (CONTINUED)

31 December 2012	Held-to Maturity £'000	Held for Trading £'000	Hedging Derivatives £'000	AFS £'000	Loans and receivables £'000	Non Financial £'000	Total £'000
Shares in group undertakings	-	-	-	-	-	109,269	109,269
Intangible fixed assets	-	-	-	-	-	12,338	12,338
Tangible fixed assets	-	-	-	-	-	968	968
Deferred tax assets	-	-	-	-	-	718	718
Other assets	-	-	-	-	3,628	-	3,628
Prepayments and accrued income	-	-	-	-	-	4,886	4,886
	41,417	1,894	-	423,632	669,365	129,611	1,265,919

31 December 2012	Held-to Maturity £'000	Held for Trading £'000	Hedging Derivatives £'000	AFS £'000	Loans and receivables £'000	Non Financial £'000	Total £'000
Liabilities							
Deposits by banks	-	-	-	-	8,329	-	8,329
Customers accounts	-	2,591	-	-	968,456	-	971,047
Derivative financial instruments	-	1,742	30	-	-	-	1,772
Provisions for tax	-	-	-	-	-	319	319
Other liabilities	-	-	-	-	5,152	-	5,152
Accruals and deferred income	-	-	-	-	-	16,917	16,917
Equity	-	-	-	-	-	262,383	262,383
	-	4,333	30	-	981,937	279,619	1,265,919

14 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither market risk nor the credit risk

	Assets 2013 £'000	Liabilities 2013 £'000	Notional Amount 2013 £'000	Assets 2012 £'000	Liabilities 2012 £'000	Notional Amount 2012 £'000
Derivatives held for trading						
Interest rate swaps	822	(2,297)	98,052	1,059	(1,027)	264,359
Forward foreign exchange contracts	264	(205)	22,608	813	(613)	107,631
Purchase of Cap	158	-	5,000	-	-	-
Equity options	117	-	201	22	(102)	436
	1,361	(2,502)	125,861	1,894	(1,742)	372,426
Derivatives used as fair value hedge						
Interest rate swaps	-	(231)	31,724	-	(30)	31,724
	1,361	(2,733)	157,585	1,894	(1,772)	404,150

Derivatives involve, at their inception, only a mutual exchange of promises with little or no transfer of consideration However, these instruments frequently involve a high degree of leverage and are very volatile A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit and loss of the Bank

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk (see Note 31)

Derivative financial instruments held for trading purposes

Most of the Bank's derivative trading activities relate to deals with customers, the market risk on which are normally offset by transactions with other counterparties, usually another SG Group company

14 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments held for hedging purposes

As part of its asset and liability management, the Bank entered into fair value hedges to reduce its exposure to changes in fair value of financial 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 The Bank uses the interest rate swaps to hedge against the interest rate risks of fixed rate customer deposits where the interest is fixed for more than three months

As at 31 December 2013 the Bank have £31 7m of fixed rate financial liabilities (2012 £31 7m) hedged by interest rate swaps in fair value hedge relationship

The accounting treatment, explained in Notes to the Financial statements 'Hedge accounting', depends on the nature of the item hedged and compliance with FRS 26 hedge accounting criteria The hedge ineffectiveness, recognised in net trading income, is shown in Note 5

Maturity of derivative financial instruments is as follows

2013	Fair Value	Less than 3 months	3 to 6 months	6 to12 months	1 to 5 Years	Over 5 years
Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Derivatives held for trading						
Interest rate swaps	822	719	-	14	89	-
Forward foreign exchange contracts	264	228	-	36	-	-
Purchase of Cap	158	-	-	-	158	-
Equity options	117	117				
	1,361	1,064	-	50	247	-
Derivatives used as fair value hedge						
Interest rate swaps	-	-	-	-	-	-
Total Assets	1,361	1,064	-	50	247	-

2013	Fair Value	Less than 3 months	3 to 6 months	6 to12 months	1 to 5 years	Over 5 years
Liabilities	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Derivatives held for trading						
Interest rate swaps	(2,297)	(415)	(26)	-	(465)	(1,391)
Forward foreign exchange contracts	(205)	(168)	-	(37)	-	-
Equity options	-	-	-	-	-	-
	(2,502)	(583)	(26)	(37)	(465)	(1,391)
Derivatives used as fair value hedge						
Interest rate swaps	(231)	-	(5)	(61)	(165)	-
Total Liabilities	(2,733)	(583)	(31)	(98)	(630)	(1,391)

14 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

2012 Assets	Fair Value £'000	Less than 3 months £'000	3 to 6 months £'000	6 to12 months £'000	1 to 5 Years £'000	Over 5 years £'000
Derivatives held for trading						
Interest rate swaps	1,059	689	334	31	5	-
Forward foreign exchange contracts	813	744	44	25	-	-
Equity options	22	7	-	-	15	-
	1,894	1,440	378	56	20	-
Derivatives used as fair value hedge						
Interest rate swaps	-	-	-	-	-	-
Total Assets	1,894	1,440	378	56	20	-

2012 Liabilities	Fair Value £'000	Less than 3 months £'000	3 to 6 months £'000	6 to12 months £'000	1 to 5 years £'000	Over 5 years £'000
Derivatives held for trading						
Interest rate swaps	(1,027)	(331)	(18)	-	(668)	(10)
Forward foreign exchange contracts	(613)	(549)	(43)	(21)	-	-
Equity options	(102)	(34)	-	-	(68)	-
	(1,742)	(914)	(61)	(21)	(736)	(10)
Derivatives used as fair value hedge						
Interest rate swaps	(30)	-	-	-	(30)	-
Total Liabilities	(1,772)	(914)	(61)	(21)	(766)	(10)

15. LOANS AND ADVANCES TO CUSTOMERS

	2013 £'000	2012 £'000
Remaining contractual maturity		
- 3 months or less	367,021	459,373
- 1 year or less but over 3 months	62,479	15,743
- Over 1 year	229,913	141,857
	659,413	616,973
Impairment of financial assets (Note 25)	(2,387)	(1,736)
	657,026	615,237
Of which repayable on demand	262,340	315,601

No amounts were due from group undertakings

16 FINANCIAL INVESTMENTS

Investments comprise the following

(a) Held-to-maturity investments at amortised cost

	2013 £'000	2012 £'000
Quoted investments		
Government debt securities	28,618	41,417

The fair value of the HTM investments as at 31 December 2013 is £29,898,141 (2012 £44,267,991) the reduction from 2012 is due to the maturity of the HTM investments

(b) Available-for-sale investments at fair value

	2013 £'000	2012 £'000
Quoted investments		
Fixed rate bonds	16,313	10,848
Other debt securities		
- Government debt securities	119,796	103,281
- Floating Rate Notes	253,915	198,650
- Certificate of deposit	32,930	109,472
Equities	30,043	2,089
Impairment of financial assets (Note 25)	(498)	(708)
	452,499	423,632
Total financial investments	**481,117**	**465,049**

17 SHARES IN GROUP UNDERTAKINGS

	2013 £'000	2012 £'000
Cost		
At 1 January	121,639	172,566
Additions		
Disposal SG Hambros Bank & Trust (Bahamas) Ltd	-	(50,783)
Exchange movements	(371)	(144)
At 31 December	121,268	121,639
Provision for Impairment		
SG Hambros Holdings (Canada) Inc	(12,370)	(12,370)
Carrying value at 31 December	108,898	109,269

In 2012, an additional impairment provision of £9 2m bringing the total to £12 4m was made against the Bank's investment in SG Hambros Holdings (Canada) Inc, following its disposal of Canadian Wealth Management Ltd In 2013, an additional £1k exchange rate loss was incurred relating to this disposal No further impairments in group undertakings have been made in 2013

	2013 £'000	2012 £'000
Subsidiary Undertakings		
Credit institutions	108,648	109,019
Other	250	250
	108,898	109,269

All of the shares in subsidiary undertakings are unlisted The principal subsidiary undertakings are as follows

Country of incorporation	Company	Activity	Interest %
Gibraltar	SG Hambros Bank (Gibraltar) Ltd	Private Banking	100
Jersey	SG Hambros Bank (Channel Islands) Ltd	Private Banking	100
Jersey	SG Hambros Trust Company (Channel Islands) Ltd	Executor & trustee services	100
UK	SG Hambros Trust Company Ltd	Executor & trustee services	100
UK	SG Hambros (London) Nominees Ltd	Nominee company	100
Canada	SG Hambros Trust Co (Canada) Inc	Executor & trustee services	100
Canada	SG Hambros Holdings (Canada) Inc	Holding company	100
New Zealand	SG Hambros Trust Company (NZ) Ltd	Trustee services	100

17 SHARES IN GROUP UNDERTAKINGS (CONTINUED)

All holdings are in ordinary shares and are owned directly by the Bank with the exception of SG Hambros Trust Company (Channel Islands) Ltd, which is a wholly owned subsidiary of SG Hambros Bank (Channel Islands) Ltd

The SG Hambros Trust Company Ltd and SG Hambros (London) Nominees Ltd were incorporated in Great Britain and are registered in England and Wales

The country of incorporation is also the principal area of operation for each of the above undertakings

18 PARTICIPATING INTEREST

	2013 £'000	2012 £'000
Cost		
DAH Holdings Limited	1,436	1,436
SG Trust (Asia) Ltd	224	224
At 31 December	1,660	1,660
Provision for Impairment		
DAH Holdings Limited	(253)	(228)
At 31 December	1,407	1,432

Equity shares represent unlisted investments in participating interests

A 24 5% holding of the ordinary shares of DAH Holdings Limited, a company incorporated in Bermuda whose principal activity is private banking, was purchased for £1,436,263 (HKD 18,065,316) on 21 February 1997 The company's functional currency is US dollar

The directors have written down the value of the investment so the holding is not greater than the value of the net assets

A shareholding in SG Trust (Asia) Ltd (incorporated in Singapore), purchased for £223,793 (SGD 570,000) on 25 January 2001, representing 19% of the ordinary share capital of the company This company's principal activity is executor and trustee services

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

19 GOODWILL

	Goodwill £'000
Cost	
At 31 December 2012	16,358
Additions arising in year	-
At 31 December 2013	16,358
Amortisation	
At 31 December 2012	(4,020)
Charge for the year	(1,091)
At 31 December 2013	(5,111)
Net Book Value	
At 31 December 2012	12,338
At 31 December 2013	11,247

20 TANGIBLE FIXED ASSETS

	Leasehold Property £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Total £'000
Cost				
At 31 December 2012	1,144	1,280	2,602	5,026
Additions	-	46	59	105
Disposals	-	(41)	-	(41)
At 31 December 2013	1,144	1,285	2,661	5,090
Accumulated Depreciation				
At 31 December 2012	(1,144)	(1,000)	(1,914)	(4,058)
Charge for the year	-	(158)	(220)	(378)
Release on disposal	-	41	-	41
At 31 December 2013	(1,144)	(1,117)	(2,134)	(4,395)
Net book value at				
31 December 2012	-	280	688	968
31 December 2013	-	168	527	695

The Bank does not hold any property with leases over 50 years

21 DEFERRED TAX ASSET

	2013 £'000	2012 £'000
At 1 January	718	1,205
Release / (Charge) for the year	(84)	(416)
Reduction in Corporation tax rate to 20% (2012 23%)	(82)	(71)
At 31 December	552	718

The provision for UK deferred tax asset relates to capital allowances and other timing differences and has been calculated at 20% (2012 23%) being the rate of corporation tax at which the assets or liabilities are expected to reverse As the Bank remains profitable and continues as a going concern, deferred tax is expected to be fully recovered in future periods

22 OTHER ASSETS

	2013 £'000	2012 £'000
Other debtors	1,645	3,628
Prepayments and accrued income	4,739	4,886

Other debtors include £519,273 due from group companies (2012 £353,221)

23 DEPOSITS BY BANKS

	2013 £'000	2012 £'000
Repayable on demand	5,889	6,107
With agreed maturity dates or periods of notice, by remaining maturity		
- 3 months or less but not repayable on demand	3,710	2,222
- 1 year or less but over 3 months	-	-
	9,599	8,329

Amounts include		
Due to group undertakings	8,972	8,233

24 CUSTOMER ACCOUNTS

	2013 £'000	2012 £'000
Repayable on demand	434,777	357,922
With agreed maturity dates or periods of notice		
- 3 months or less but not repayable on demand	376,167	411,982
- 1 year or less but over 3 months	185,283	159,483
- 3 years or less but over 1 year	6,178	41,660
- 5 years or less but over 3 years	2,000	-
- Over 5 years	26,631	-
	1,031,036	971,047
Amounts include		
Due to group undertakings	283	240

25 IMPAIRMENT OF FINANCIAL ASSETS

	2013 £'000	2012 £'000
Loans and advances to customers		
At 1 January	1,736	1,469
Charged against profits	622	739
Written off	-	(477)
Exchange rate movement	29	5
At 31 December	2,387	1,736

An amount of £179,000 is due to be recovered from a client loan previously written off, giving a net charge against profits in 2013 of £261,000 (2012 £739,000)
Included within the year-end specific provision is an amount of £13,575 (2012 £15,000) relating to interest

	2013 £'000	2012 £'000
AFS equity investment		
At 1 January	708	708
Charged against profits	(182)	-
Written off	-	-
Exchange rate movement	(28)	-
At 31 December	498	708

The above provision relates to an AFS equity investment in the SG European Distressed Opportunities Fund £498,000 (2012 £708,000) Part of the SG European Distressed Opportunities Fund has been repaid in 2013 leading to a reversal of £182,000 of the impairment

26 OTHER LIABILITIES

	2013 £'000	2012 £'000
Other creditors	6,316	5,152
Accruals and deferred income	14,871	16,917
	=======	=======

Other creditors include £2,173,878 owed to group companies (2012 £1,569,367)

27 SHARE CAPITAL

	2013 Number of shares '000	2013 Value of shares £'000	2012 Number of shares '000	2012 Value of shares £'000
Authorised				
Ordinary shares of £1 each	150,000	150,000	150,000	150,000
	======	======	======	======
Allotted, called up and fully paid				
Ordinary shares of £1 each	143,800	143,800	143,800	143,800
	======	======	======	======

28 EQUITY SHAREHOLDERS' FUNDS

	Called up Share Capital £'000	Share Premium £'000	Profit & Loss Account £'000	Undistributable reserves £'000	AFS reserves £'000	Total £'000
At 1 January 2012	143,800	45,500	22,501	42,500	2,577	256,878
Profit for the year	-	-	3,108	-	-	3,108
Increase in fair value on revaluation of available-for-sale investments	-	-	-	-	3,175	3,175
Tax on fair value movement of available-for-sale investment	-	-	-	-	(778)	(778)
At 31 December 2012	143,800	45,500	25,609	42,500	4,974	262,383
Profit for the year			45,016	-		45,016
Released on disposal of available-for-sale investments to profit and loss	-	-	-	-	(195)	(195)
Decrease in fair value on revaluation of available-for-sale investments	-	-	-	-	(4,982)	(4,982)
Dividends	-	-	(49,500)	-	-	(49,500)
Tax on fair value movement of available-for-sale investment	-	-	-	-	1,204	1,204
At 31 December 2013	143,800	45,500	21,125	42,500	1,001	253,926

Undistributable reserves relate to the unrealised gain on the transfer of a subsidiary in 2005

29 MEMORANDUM ITEMS

At the year end the contract amounts and risk weighted amounts of contingent liabilities and commitments were

CONTINGENT LIABILITIES

	Contract amount £'000	2013 Risk weighted amount £'000	Contract amount £'000	2012 Risk weighted amount £'000
Guarantees and assets pledged as collateral security				
- guarantees and irrevocable letters of credit	125,405	24,148	119,790	54,103

Included in the above are guarantees given on behalf of subsidiary undertakings of £947,000 (2012 £947,000)

COMMITMENTS

	Contract amount £'000	2013 Risk weighted amount £'000	Contract amount £'000	2012 Risk weighted amount £'000
Other commitments undrawn facilities				
- less than 1 year	98,329	9,330	80,870	10,733

The credit equivalent and risk weighted amounts have been calculated in accordance with the Bank of England's guidelines implementing the Basel 2 (2012 Basel 1) agreement on capital adequacy

Annual commitments under non-cancellable buildings operating leases are as follows

	2013 £'000	2012 £'000
Expiry date		
- within one year	1,133	1,614
- between two and five years	1,131	3,258
	2,264	4,872

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

FRS 29 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Company's market assumptions These two inputs have created the following fair value hierarchy

Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities,
Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at net fair value by level of the fair value hierarchy

2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	823	-	823
Forward foreign exchange contracts	-	264	-	264
Purchase of Cap	-	157	-	157
Equities Option	-	117	-	117
	-	1 361	-	1 361
AFS Financial investments				
Government debt securities	119,796	-	-	119,796
Fixed rate bonds	16,313	-	-	16,313
Other debt securities	286,845	-	-	286,845
Equities	-	29,545	-	29,545
	422,954	30,906	-	453,860
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	2,528	-	2,528
Forward foreign exchange contracts	-	205	-	205
Equities Option	-	-	-	-
	-	2,733	-	2,733

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	1,059	-	1,059
Forward foreign exchange contracts	-	813	-	813
Equities Option	-	22	-	22
	-	1,894	-	1,894
AFS Financial investments				
Government debt securities	103,281	-	-	103,281
Fixed rate bonds	10,848	-	-	10,848
Other debt securities	308,122	-	-	308,122
Equities	-	1,381	-	1,381
	422,251	3,275	-	425,526
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	1,057	-	1,057
Forward foreign exchange contracts	-	613	-	613
Equities Option	-	102	-	102
	-	1,772	-	1,772

There were no transfers between each level of the fair value hierarchy for financial assets and liabilities which were recorded at fair value during the financial year

Level 3 valuations
The Bank has no Level 3 valuations

Financial instruments recorded at fair value
The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments

Derivatives
Derivative products are valued using a valuation technique with market observable inputs are mainly 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

Financial investments- available-for-sale
Available-for-sale financial assets are valued using quoted market prices or pricing models These assets are valued using models incorporating data observable in the market

31 RISK MANAGEMENT

The Bank's financial instruments comprise cash, deposits, money market assets and liquid Fixed Income securities issued by Financial Institutions, Sovereign and Supranational entities In the ordinary course of business, customer deposits are invested in the Money and Fixed Income markets The Bank's share capital is invested in government debt securities with maturities of up to 10 years The Bank does trade financial instruments, including derivative financial instruments, for hedging purposes only The Bank is exposed to market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and operational risk

To mitigate these risks, the Bank enters into derivatives transactions (principally interest rate swaps and forward foreign currency contracts) The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities

The Group Risk function reports monthly to the Asset and Liability Committee (ALCO) Risk policies and limits are established, reviewed and approved by the ALCO to mitigate risk exposures The Board has delegated the approval of the risk based policies to the ALCO Adherence with these policies is monitored by the Board

Market Risk

(a) Interest rate risk
The Bank manages customers' flows in adherence with the internal and regulatory restrictions on exposures to counterparties and liquidity requirements These flows come either from customers' call accounts, fixed deposits and a small number of fiduciary deposits Fiduciary deposits are held directly by the customer, with the Bank acting as agent

Call accounts and fixed deposits are in various currencies After taking into account the Bank's loan portfolio, any surplus liquidity is invested in short-term bonds (FRNs or Fixed Bonds combined with interest rate swaps), or on the money markets (CDs or interbank lending) Money market placements are kept relatively short-term for liquidity reasons The Bank runs a mis-matched book, thereby creating interest rate risk and the opportunity to profit from interest rate movements and a typically positive yield curve The assets purchased are selected to ensure that they meet the Bank's credit quality requirements and return an appropriate yield whilst adding to the Bank's liquidity provision to help it meet its liquidity requirements

Levels of risk are maintained within defined limits (approved by the ALCO and the SG Risk Department and reviewed at least annually) and are monitored daily The limits are split by currency and maturity bucket Fixed rate deposits and loans offered to clients for over one year are hedged using Interest Rate Swaps The approved GBP limits over one year are in place solely to capture the Book Building process integral to the new Long Term deposit products introduced for Liquidity management purposes The risk created by the Book Building process is generally of one month in duration

The Bank deals in instruments offering both fixed and floating rates, and uses interest rate swaps to generate the desired interest profile and to manage the Bank's exposure to interest rate fluctuation The Bank's policy is to enhance the return on financial instruments by controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature The Risk Management Department produces and circulates regular reports on interest rate risk exposures Levels of risk are maintained within defined limits and are monitored daily The ALCO considers all exposures on a monthly basis

The Bank's policy to invest free capital is to purchase government debt securities of varying maturities up to ten years At 31 December 2013 £102 1m (2012 £114 3m) of the Bank's free capital was invested in UK government debt securities with a weighted average duration of 4 20 years (2012 4 43 years)

31 RISK MANAGEMENT (CONTINUED)
Market risk (continued)

Interest rate swaps may be used to hedge the interest rate exposure

Maturity of interest rate swaps is as follows

2013	**Fair Value**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**
Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps held for trading	822	719	-	14	89	-
Interest rate swaps Fair value hedge	-	-	-	-	-	-
	822	719	-	14	89	-
Liabilities	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps held for trading	(2,297)	(415)	(26)	-	(465)	(1,391)
Interest rate swaps Fair value hedge	(231)	-	(5)	(61)	(165)	-
	(2,528)	(415)	(31)	(61)	(630)	(1,391)

2012	**Fair Value**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**
Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps held for trading	1,059	689	334	31	5	-
Interest rate swaps Fair value hedge	-	-	-	-	-	-
	1,059	689	334	31	5	-
Liabilities	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps held for trading	(1,027)	(331)	(18)	-	(668)	(10)
Interest rate swaps Fair value hedge	(30)	-	-	-	(30)	-
	(1,057)	(331)	(18)	-	(698)	(10)

31 RISK MANAGEMENT (CONTINUED)

Market risk (continued)

The sensitivity analysis below has been determined based on the Bank's asset and liabilities present in the balance sheet as at 31 December 2013 and by reference to a movement in market interest rates reasonably possible in the Bank's next financial reporting period

If interest rates for the current year had been 50 basis points lower and this movement applied to the assets and liabilities as at balance sheet date, the pre-tax profit for the year ended 31 December 2013 would have been £0 7m lower (2012 £0 8m) which ultimately would result in lower retained earnings of £0 5m (2012 £0 6m) This would have mainly resulted from lower interest income on variable rate assets and lower financing costs in respect of its loans

The inverse is equally true for the current year if interest rates had been 50 basis points higher

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates The Bank's foreign exchange exposure arises from providing services to customers and from its investment in overseas subsidiary and associated undertakings In the case of subsidiary undertakings, the Bank's policy is to hedge against these structural foreign exchange risks with currency borrowings, forward currency transactions or currency swaps

The Risk Management Department produces and circulates regular reports on foreign currency exposures Levels of risk are maintained within defined limits and are monitored daily The ALCO considers all exposures on a monthly basis The table below shows the Bank's exposure to major currencies on its non-trading monetary assets and liabilities The analysis calculates the effect of a reasonably possible movement of the currency rate against Sterling, with all other variables held constant, on the income statement and equity A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase

	2013			2012		
Currency	Change in Currency rate	Effect on profit before tax	Effect on equity	Change in Currency rate	Effect on profit before tax	Effect on equity
	%	£'000	£'000	%	£'000	£'000
USD	+1	5	-	+1	1,330	7
EUR	+1	3	0 2	+1	905	2

The reasonably possible movement of the currency rate of other currency exposures is not considered material

Credit risk

(c) Credit risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan (principal, interest or both) or other line of credit The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from derivatives as well as settlement balances with market counterparties

The Bank manages its counterparty credit risk, based on defined limits, to optimise the use of credit availability and to avoid excessive risk concentration Credit risk is monitored by the Credit and Risk Management Departments and reported to the ALCO on a monthly basis and the Audit and Risk Committee on a quarterly basis Reports to these committees include information on large credit exposures, credit quality, asset allocation and country exposures, along with any provisioning levels

31. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The risk approval process is based on the following principles

- all transactions involving counterparty risk must be pre-authorised,

- all counterparty limits must be set in consultation with the SG Group risk departments, which review all authorisation requests relating to a specific client or client group, to ensure a consistent approach to risk management, and
- all retail credits are categorised by reference to the underlying collateral in accordance with Basle II principles

Maximum exposure to credit risk before collateral held or other credit enhancements

The table below outlines the maximum credit risk exposure of the Bank'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

	2013	2012
	£'000	£'000
Loans and advances to banks	49,764	50,477
Loan and advances to customers	657,026	615,237
Derivative financial instruments	1,361	1,894
Financial investment	481,117	465,049
Other assets	1,645	3,628
Exposure to balance sheet commitments	**1,190,913**	**1,136,285**
Loan commitments granted	98,329	80,870
Guarantee commitments granted	125,405	119,790
Exposure to off-balance sheet commitments	**223,734**	**200,660**
Total net exposure	**1,414,647**	**1,336,945**

Collateral and Security

The Bank routinely obtains collateral and security to mitigate Private Client credit risk The Credit Department ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters

As a matter of principle, any credit exposure granted by the Bank to Private Clients will be backed by collateral and meeting specific criteria that the potential loss for the Bank is minimal Unsecured facilities (other than small temporary facilities) can be granted, but on an exceptional basis
On a daily basis, the Credit Department monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements In addition the department monitors the adequacy of allowances for impairment losses on a regular basis

All loans and advances are categorised as 'Neither past due nor individually impaired', 'Past due but not individually impaired', or 'Individually impaired'

31 RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

	Neither past due nor individually impaired £'000	Past due but not individually impaired £'000	Individually impaired £'000	Total £'000	Impairment allowance £'000	Total carrying value £'000
2013						
Loans and advances to banks	49,764	-	-	49,764	-	49,764
Loans and advances to customers	653,297	1,974	4,142	659,413	(2,387)	657,026
2012						
Loans and advances to banks	50,477	-	-	50,477	-	50,477
Loans and advances to customers	610,366	2,715	3,892	616,973	(1,736)	615,237

Credit quality of loans and advances neither past due nor individually impaired

The Bank's Private Client loan book is generally perceived to be of high quality with 27 9% (2012 30 2%) secured against liquid collateral in the form of either cash, bank guarantees or well diversified investment portfolios, with a further 72 6% (2012 64 4%) being secured against real estate The balance of the loan book is secured against non-diversified assets (2013 1 6%, 2012 2 0%), unsecured facilities (2013 1 2%, 2012 1 8%) and facilities in default account (2013 1 0%, 2012 1 1%) Unsecured facilities are generally attributable to short-term overdrafts where substantial securities or cash are held by the Bank

Given the nature of the Bank's clients as high net worth individuals, and the relatively low loan to value percentages, management do not consider loan forbearance to be a risk for the Bank, and loan forbearance has not been granted to any clients

The Bank regularly reviews the loan-to-value percentages detailed in the Bank's Credit Policy applied to assets taken as collateral

Loan-to-value percentages against Real Estate are generally based upon the property value which is determined by reference to professional valuations and, for residential properties only, the subsequent application of relevant geographical residential property indices where policy permits The Bank has no material exposure to commercial real estate The Loan-to-values table shows all loans where there is any element of real estate exposure Some loans may be supported by other forms of collateral, hence the total does not equal the real estate exposure as per the Bank's Basle II pooling classification, where real estate exposure is shown as 72 6% (2012 64%) of the loan book

The Bank has £3 975m (2012 £3 892m) exposure in Euro to the Spanish residential property market which, in light of the problems facing that market, is under constant review Provisions equating to £2 231m (2012 £1 74m) have been raised against these loans

31 RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

2013

Loan-to-Value	**Exposure £'000**	**Number of loans**
Up to 50%	310,089	312
50% - 60%	177,633	109
60% - 70%	95,769	93
70% - 80%	4,817	4
80% - 90%	0	0
Over 90%	4,003	2

2012

Loan-to-Value	**Exposure £'000**	**Number of loans**
Up to 50%	282,963	291
50% - 60%	151,910	92
60% - 70%	76,283	72
70% - 80%	6,288	6
80% - 90%	0	0
Over 90%	3,893	2

Loans and advances that are past due but not individually impaired

As at 31 December 2013, unimpaired past due loans accounted for 0 3% (2012 0 4%) of the portfolio of performing loans

The amounts presented in the table below include past due loans for technical reasons, with past due loans mainly belonging to the category "less than 29 days old"

Loans past due for technical reasons are loans that are classified as past due with a delay between the accounting in the customer account and payment value date

Total unimpaired past due loans declared are all inclusive of outstanding balance, interest and past due amounts These outstanding loans are monitored as soon as first payment is missed
Once an instalment has been past due for 90 days, or 180 days for mortgage backed loans, the counterparty is deemed to be in default

Regular meetings are held with management to discuss loans where there is a possibility of impairment This will include loans where there have been severe detrimental changes to the borrower's financial circumstances leading to concerns as to the ability to service and repay debt obligations, failure to meet margin calls, degradation in collateral value or liquidity, under collateralised facilities etc Decisions will be taken based upon recommendations made by the Credit Department to make specific capital provisions and the action for work-out

Gross outstanding loans	**2013 £'000**	**2013 % of Gross outstanding loan**	**2012 £'000**	**2012 % of Gross outstanding loan**
Past due amounts less than 90 days	10,004	1 52%	-	-
Past due amounts greater than 90 days but less than 1 year	-	-	-	-
Past due amounts greater than 1 year	6,116	0 93%	6,607	1 07%
	16,120	2 45%	6,607	1 07%

31. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Loans and advances that are past due and individually impaired

An analysis of financial assets individually assessed as impaired is as follows

	2013			2012		
	Original carrying amount	Impairment allowance	Revised carrying amount	Original carrying amount	Impairment allowance	Revised carrying amount
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers	6,116	2,387	3,729	3,892	1,736	2,156

Debt securities

The available-for-sale assets are measured on a fair value basis The fair value will reflect, among other things, the credit risk of the issuer All the debt securities are rated by external rating agencies

Investment Portfolio Structure and Diversification

Investment Classification of Treasury instruments is as follows

	2013	2012
Treasury Investments	**%Portfolio**	**%Portfolio**
Sovereign Debt	28%	15%
Government Guaranteed Debt	12%	6%
Agency / Supranational Debt	9%	7%
Senior Bank Debt	31%	23%
Certificates of Deposit	6%	40%
Interbank Lending	8%	9%
Equity Investment	6%	-
TOTAL	100%	100%

Country of Risk of exposures is as follows

	2013	2012
Country	**%Portfolio**	**%Portfolio**
Australia	15%	6%
Austria	0%	2%
Canada	4%	1%
China	0%	1%
Denmark	2%	1%
France	4%	12%
Germany	1%	10%
Japan	7%	3%
Luxembourg	6%	1%
Netherlands	12%	11%
New Zealand	4%	0%
Norway	0%	5%
Sweden	2%	5%
Switzerland	0%	5%
United Kingdom	28%	34%
USA	15%	3%
TOTAL	100%	100%

31 RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Whilst the Bank has exposure to the Eurozone, there is no exposure to Greece, Italy, Ireland, Portugal or Spain (GIIPS) The Bank has no significant concerns regarding the recoverability of its Eurozone exposure, which is supported by the following credit ratings of the debt securities portfolio

Credit Rating of the Treasury portfolio is as follows

	2013	**2012**
Rating (S&P)	**%Portfolio**	**%Portfolio**
AAA	55%	28%
AA+	5%	4%
AA	6%	3%
AA-	7%	6%
A+	14%	34%
A	5%	21%
A-	2%	3%
BBB+	0%	0%
BBB	0%	1%
BBB-	0%	0%
Equity Investment	6%	0%
TOTAL	100%	100%

Sovereign, Supranational and Agency Investments debt is as follows

	2013	2012
Government Issued Debt	**%Portfolio**	**%Portfolio**
France	9%	0%
USA	12%	0%
United Kingdom	79%	100%
Government Guaranteed Debt	**%Portfolio**	**%Portfolio**
Australia	100%	83%
Denmark	0%	17%
Agency/Supranational Debt	**%Portfolio**	**%Portfolio**
USA	100%	42%
Luxembourg	0%	5%
Netherlands	0%	41%
Germany	0%	12%

Concentration Risk

Concentration risk in both the investment book and the Private Client lending book is managed and mitigated by the Group Large Exposure policy

31 RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Derivatives
Derivatives are measured on a fair value basis The majority of the Bank's derivatives are transacted with our parent group, which has an A rating

Derivative transacted with clients are frequently secured against cash deposits

Counterparty Credit Risk
The Bank recognises that residual risk can arise due to failure of counterparties connected to client originated and the Bank's own securities and derivatives transactions This risk can arise as default risk of a Bank's counterparty including failure to pay, inability to replace securities post default event or the failure of the other parties of the settlement process The Bank generally mitigates this risk by straight through processing and delivery for payment where possible and have upgraded controls around settlement only business to reflect enhanced counterparty risk in this service offered by the Bank

Regulatory Risk

The Bank is subject to financial services laws, regulation and regulatory oversight and failure to comply with any of these constitute significant risks The financial services industry is currently subject to significantly increased regulatory supervision as a result of the financial crisis In April 2013, the Prudential Regulation Authority ("PRA") became responsible for the authorisation and prudential supervision of the Bank while the Financial Conduct Authority ("FCA") assumed responsibility for conduct of business supervision The increased intensity of regulatory oversight in the banking system, could potentially have an adverse effect on how the Bank conducts its business and ultimately on its results Compliance with such regulations could increase the Bank's regulatory capital requirements and the cost of compliance

There remains a high level of scrutiny regarding financial institutions' treatment of customers and overall business conduct from regulatory bodies and the media The FCA in particular continues its focus on the conduct risks arising from the business models of banking institutions

Liquidity risk

The PRA state that they will require firms to maintain adequate liquidity resources and manage their liquidity risks independently The firm must at all times maintain liquidity resources which are adequate, in terms of both the amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due At the same time, a firm must be self sufficient for liquidity purposes This is being met by the new liquidity monitoring processes and the ongoing review of the suitability of the Liquid Asset Buffer and Contingency Funding Plan ("CFP")

The new standards also state that 'a firm must have in place sound, effective and complete processes, strategies and systems that enable it to identify measure, monitor and control liquidity risk' For the Bank, this requirement is being met through the developments being made in terms of the monitoring systems and processes, governance and oversight, and stress testing functionality

The liquidity risk appetite for the Bank has been defined by the Board as follows
The Bank will maintain liquidity resources to target survival for a minimum period of three months under the idiosyncratic, market-wide and combined liquidity stresses defined in compliance with FCA and PRA Regulations (BIPRU 12 4 and 12 5)

The monitoring of the Bank's liquidity position has seen significant developments by the introduction of the new liquidity regime and the first adoption of the Individual Liquidity Adequacy Assessment (the "ILAA") in October 2010 This has allowed the business to fully understand the sources of liquidity risk and our ability to mitigate them

31. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Our stress scenarios and stress testing functionality were developed during this exercise, which highlighted the Bank's ability to face idiosyncratic and market wide stress scenarios, along with a combination of the two

The Bank monitors the expected stressed cash flows for the following year, which are based on the assumptions defined in the Bank's stress testing models, of which there are two The first model considers the impact of SG Hambros defined stress events (in accordance with BIPRU 12 4), while the second considers those defined by the FCA and PRA (as per BIPRU 12 5) In both cases, the liquidity position of the Bank must remain at such a level as to ensure a positive cash flow for the first three months of the stressed forecast

Liquidity monitoring for the Bank also includes the analysis of the reverse stress testing of the Bank's balance sheet The liquidity situation of the Bank is reported weekly to ALCO members, discussed monthly during ALCO meetings and reported quarterly to the Board In times of stress and as defined within the Bank's CFP specific daily liquidity ALCOs can be convened
The ILAA concluded with an estimation of the Bank's required Liquid Asset Buffer, which we have adequately covered This, taking into consideration our Contingency Funding Plan as well, provides comfort that the Bank's liabilities are covered by suitably liquid assets

The table below analysed the Bank's non-derivative financial liabilities by their remaining contractual maturities

2013	Carrying amount £'000	Less than 3 months £'000	3 to 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Liabilities						
Deposits by banks	9,599	9,599	-	-	-	-
Customer accounts	1,031,036	910,913	45,842	39,472	8,178	26,631
Other liabilities	6,316	6,316	-	-	-	-
Total	1,046,951	926,828	45,842	39,472	8,178	26,631
2012						
Liabilities						
Deposits by banks	8,329	8,329	-	-	-	-
Customer accounts	971,047	843,523	56,317	33,472	37,735	-
Other liabilities	5,152	5,152	-	-	-	-
Total	984,528	857,004	56,317	33,472	37,735	-

31 RISK MANAGEMENT (CONTINUED)

Operational risk

Procedures and controls to manage operational risk are codified in manuals, with Key Risk Indicators being assigned to departments for completion on a monthly basis Breaches are reported to management and all losses are recorded by the Group Risk Department Losses or control failures above a certain level, or of a repetitive or serious nature, are reported to the Audit Committee and Board of Directors who have executive responsibility for risk An annual Risk Control Self Assessment is conducted across selected departments by the Operational Risk Management department The results are reviewed by management and the Board, before being submitted to the SG Group for consideration and effect upon the SG Advanced Method Approach Capital model for calculation of Operational Risk Capital requirements

Capital management

The primary objective of the Bank's capital management policy is to ensure that the Bank complies with Regulatory capital requirements and the Bank maintains strong credit ratings and robust capital ratios in order to support its business and to maximise shareholders' value

The Bank actively manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities There are no changes in the objectives, policies and processes from previous years

The Bank's capital is monitored at SG Hambros Group level using the supervisory requirements set by the PRA The PRA issues Individual Capital Guidance ("ICG") based on the review on the Bank's capital planning model as evidenced under the ICAAP Under the ICG currently in place the Bank's regulatory capital exceeds its capital resource requirements The ICAAP is reviewed annually by the Bank and by exception when necessary

The Bank's regulatory capital resources at 31 December in accordance with PRA definitions were as follows

	2013 £'000	2012 £'000
Capital Resources		
Core Tier One Capital	250,939	243,885
Total Capital after deductions	124,769	116,297
Pillar 1 Variable Capital Requirements		
Credit Risk	18,742	14,142
Market Risk	64	38
Operational Risk	4,894	4,209
	=====	=====
Capital Requirements	23,700	18,389
Solvency Ratio	526 47%	632 5%

Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view It is composed of core capital which consists primarily of common stock and disclosed reserves (or retained earnings)

The consolidated Pillar 3 disclosures of the Societe Generale Group can be found on the website of Societe Generale SA, at the following link

http //www societegenerale com/en/tools/regulated-information?_force=1

32. TRANSACTIONS WITH DIRECTORS AND RELATED PARTIES

The aggregate amounts outstandıng under transactıons, arrangements and agreements entered ınto by the Bank wıth dırectors and officers were

	Number of Persons	2013 Amount £'000	Number of Persons	2012 Amount £'000
Dırectors' loans	2	996	3	1,188

No other loans, arrangements or agreements requıre dısclosure under the Companıes Act 2006 or under the requırements of Fınancıal Reportıng Standard No 8 regardıng transactıons wıth related partıes

As the Bank ıs a 100% subsıdıary undertakıng and consolıdated financıal statements for ıts ultımate parent, Socıété Generale SA, are publıcly avaılable, group transactıons have not been dısclosed pursuant to the exemptıons permıtted ın the Fınancıal Reportıng Standard number 8

33. ULTIMATE PARENT COMPANY

SG Hambros Lımıted ıs the dırect holdıng company of the Bank The ultımate parent undertakıng and controllıng party ıs Socıete Generale SA whıch ıs ıncorporated ın France

The largest and smallest group ın whıch the results of the Bank are consolıdated ıs Socıeté Generale SA The consolıdated financıal statements of the group are avaılable from the Company Secretary, Socıete Générale, 29 Boulevard Haussmann, 75009 Parıs, France