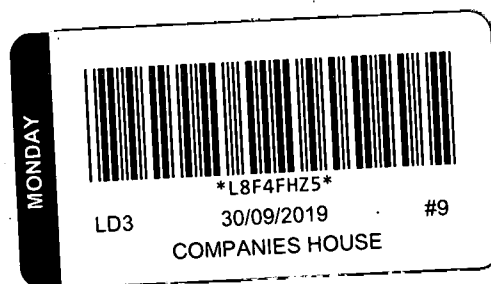


SG Kleinwort Hambros Bank Limited

**Annual Report and Financial Statements
for the year ended 31 December 2018**

Company Number: 964058



Directors and other information

Directors and other information

Directors	Chair:	S W Barnett
	Chief Executive:	J W Maitland (appointed 1 July 2018)
	Other Directors:	M P Newman K N Graf von Schweinitz J-F Mazaud E E Barnett S B Ricke X P Lofficial E V Perez G A Branson O D Meredith M Choukeir (appointed 1 July 2018) A Ewing (appointed 1 July 2018)

Secretary
K Singh
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London
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Registered Office
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Independent Auditor
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Strategic Report on the Financial Statements

Business strategy and objectives

On 6 November 2017, the Company acquired the whole of the banking business of Kleinwort Benson Bank Limited ("KBBL") from its immediate parent company for £63 million, pursuant to approval of this transfer by the High Court of England and Wales under a Financial Services and Markets Act 2000 Part VII arrangement. This completed the legal integration programme of activity to bring together the UK banks under a single "Kleinwort Hambros" brand, from which the board sees opportunities to build on the expertise and products of both firms, from banking, wealth planning and fiduciary services, to investment management and structured products. These financial statements only include the revenue and expenses of the former KBBL business since the acquisition date, hence the significant increases in income and costs for 2018.

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

Measurement and performance / KPI

(In GBP millions)	2018	2017
Operating income (net, excluding dividend received)	84.9	61.7
Dividend income	64.8	-
Operating expenses	(90.6)	(71.6)
Profit / (loss) before income tax	59.1	(9.9)

Asset under management (AuM) (in GBP millions)	7,087	7,164
Tier 1 ratio	23.69%	25.71%

This year has seen a change in strategy with regards to systems development and implementation. Previously the Company was focussed on a replacement of the legacy wealth management banking platforms. Due to several factors this development has ceased, and the strategy has consequently changed, focussing on migrating the clients on legacy KB platforms on to the former Hambros platform. This platform has a Societe Generale Group supported upgrade path and will continue to be enhanced in the future.

The profit on ordinary activities before tax for the financial year ended 31 December 2018 is £59.1 million (2017 loss: £9.9 million). The Company's profit for the year was substantially a result of the dividends received from its subsidiaries after a review of capital requirements and utilisation. Excluding the dividends, income and costs have largely increased because of the integration of the KBBL business. Interest income from loans and deposits has benefited from this whilst interest income from investment securities has risen due to more efficient use of treasury funds and rising rates. Net fee and commission income has also increased by £17.0m from 2017 due to the former KBBL business. Costs overall have increased by £19.0m in 2018 and this is a consequence of several factors; KBBL costs in 2017 totalled £25.8m; the increase is attributable to these costs combined with operational savings made and a reduction in project costs.

During the year client deposits decreased by 0.5% to £2.191 billion (2017: £2.203 billion) and loans and advances to customers has declined 8% to £1.074 billion (2017: £1.169 billion). Assets under management of the Company decreased 1% to £7.087 billion (2017: £7.164 billion). Since the acquisition of KBBL the business's focus has been on integration of systems and processes and the retention of existing clients. This continues into 2019 with the significant proportion of this integration due to conclude in 2019, after which the Company will be in a strong position to pursue its growth plans.

Average staff headcount increased to 342 (2017: 328), with staff transfers from KBBL concluding 1 April 2017 with 162 full time employees of KBBL transferred to the Company.

The Tier 1 capital ratio as at 31 December 2018 is 23.69% (31 December 2017: 25.71%). The reduction in the capital ratio is due to an increase in risk weighted assets (RWA) of approximately £180m. The increase in RWA is driven primarily by credit risk, which is due to revision of the credit risk internal model of Societe Generale in Q1 2018.

During the year, the Company issued £25m new ordinary share capital to its immediate parent, SG Kleinwort Hambros Limited to improve the Company's capital ratio following the change in the Societe Generale Group model and enable it to meet the capital requirements of future growth plans.

No dividends (2017: £nil) have been paid during the year. The directors do not recommend payment of a final dividend for the year.

Strategic Report on the Financial Statements

Principal risks and uncertainties

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

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

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

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

Operational risk

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

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

- Risk & Control Self Assessment ("RCSA") – A periodic RCSA assessment is undertaken to assess and quantify the inherent risk exposure, the quality of controls in place and the resultant residual risk exposures across the Company's core areas of business and for each Basel II event category.
- Permanent Supervision – An ongoing assessment is made of the effective operation of key controls employed across the Group using a tool called Opera. Areas of the business are required to report against pre-agreed risk indicator metrics and self-assess the effective operation of controls within their areas.
- Internal Control Certification Framework – the Group implements a formal internal certification process, in accordance with the SG Group operational risk framework, that involves the general managers and finance directors in the Group reporting the controls completed by upstream contributors and the results related to significant discrepancies, as well as action plans to be initiated. The results of this process are reported quarterly by the local financial supervision and control team to the SG Group team and presented to the Group Audit Committee.
- Loss Recording and Analysis – All operational errors and commercial ex-gratia payments in excess of EUR 10,000 for losses and EUR 50,000 for gains, are required to be captured and reported on a monthly basis to the Company's Group Executive Risk Committee and Front Office Risk and Control Committee using a tool called Caroline. Additionally, all losses, gains and commercial ex-gratia payments falling beneath these reporting thresholds are captured using the Company's incident reporting tool ("Phoenix") and distributed to the Company's business heads and senior management. The operational risk teams will produce root-cause analysis on any significant incidents, which are also sent to senior management. They also review all incidents for trends and recommend enhanced procedures or other measures should they be necessary.

Regulatory risk

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

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

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

Conduct risk

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

Strategic Report on the Financial Statements

Principal risks and uncertainties (continued)

Conduct risk (continued)

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

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

Cyber risk

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

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

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

Integration risk

Integration risk has been identified as a principal risk due to the on-going risk related to the move to a single Banking platform. The risk manifests as increased opportunities for capital losses and reputational damage as a result of pressures on systems and resources due to the continued delay in integration of the two legacy systems.

Future plans, trends and developments

The Company has key strategic plans to fully incorporate the business of the Company with that of KBBL. Legal integration of the businesses in 2017 has enabled the Company to achieve key strategic milestones in that integration. The focus of the Company is now upon the migration of clients from the legacy KB banking systems on to the former Hambros banking system. Once both legacy businesses share a common platform, further synergies will be realised in the Company. The Company is also committed to implement legislative and regulatory changes in a timely manner and has implemented new systems and controls to ensure it complies with significant regulatory developments during 2019. Preparations are underway to enable the Company to comply with future regulatory developments.

Brexit

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

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

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

IBOR reforms

In the context of the reform of LIBOR and EURIBOR, Kleinwort Hambros has started to prepare for the replacement of these benchmarks with 'Risk-Free Rates' ahead of the deadline in 2021. The Company acknowledges that the reforms will require a change to our Loan product offering, as well as amendments to existing LIBOR-linked loans and proprietary Interest Rate Risk hedges. Furthermore, we note that the interest accrual calculation of the replacements may differ from existing systematic methodologies. Finally, we note that the full details of the replacements are not yet fully agreed by the relevant bodies, so an ongoing monitoring is required to ensure that we adapt to the final solution.

Strategic Report on the Financial Statements

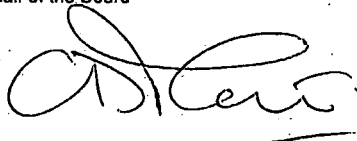
Principal risks and uncertainties (continued)

IBOR reforms (continued)

The Company is therefore engaged in a project with the broader Societe Generale Group, who are closely monitoring the evolution of the final solutions and will be launching a local project in Q2 2019 to implement the required changes locally. This will engage all relevant stakeholders in Kleinwort Hambros to ensure that the implications for elements such as our existing IBOR-linked lending, Interest Rate Risk hedging and interest accrual are considered.

Approved by the Board of Directors

Signed on behalf of the Board



O D Meredith

Director

SG Kleinwort Hambros Bank Limited

Company No 964058

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

5 April 2019

Directors' Report on the Financial Statements

The directors have pleasure in presenting their report, together with the audited financial statements for the year ended 31 December 2018. The Strategic Report on the Financial Statements, including future trends and developments and risks relating to financial instruments, forms an integral part of the Directors Report on the Financial Statements.

Principal activity

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

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

The KH Group of entities have more than £15 billion (2017: £16 billion) of assets under management and operate under the Kleinwort Hambros brand name. The Company is not required to prepare consolidated financial statements and hence, the report that follows relates only to the UK bank operations.

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

Directors and directors' interests

The following directors have held office during the year:

Name	Relationship with the Company
S W Barnett Board Chair	Stuart Barnett became the Chair of the Company on 6 November 2017. Stuart is also Chair of the KH Group Remuneration and Nomination Committee. Stuart has been a director since 19 August 2014 and was previously the Chair of the Audit Committee and member of the Risk Committee and Remuneration and Nomination Committee.
Independent Non-Executive Director	
Chair of KH Group Remuneration and Nomination Committee	Stuart was previously a partner at Deloitte to 2012, a non-executive director of Habib Bank Zurich plc and a trustee of the Charities Aid Foundation.
J W Maitland	John Maitland became the KH Group Chief Executive Officer on 1 July 2018. Prior to being appointed CEO, John was the KH Group Commercial Director with responsibility for defining the commercial proposition and strategic direction for Kleinwort Hambros. John has over 25 years of experience working in the financial sector. John is the Chair of the KH Group Executive Committee.
Executive Director and KH Group Chief Executive Officer	
E E Barnett	Eric Barnett joined Hambros in 1986 and has undertaken a number of roles becoming Chief Executive Officer of the Company in 2007. Eric Barnett was appointed director of the Company in February 2001. He resigned as Chief Executive Office on 30 June 2018 and became a non-executive director with effect from 1 July 2018.
Non - Executive Director	Eric is Chair of the Channel Islands Bank.
M P Newman	Mike Newman was appointed director of the Company and Chair KH Group Audit Committee on 6 November 2017. Mike is also a member of the KH Group Risk Committee.
Independent Non-Executive Director	Mike was previously a partner with PriceWaterhouseCoopers with over 25 years' experience in the banking sector, specialising in bank audits and, more recently, client asset regulatory reporting.
Chair of KH Group Audit Committee	
A Ewing	Anne Ewing was appointed director of the Company on 1 July 2018. Anne has over 35 years financial services experience working in London and offshore in the Channel Islands.
Independent Non-Executive Director	Anne is a director of the SG Kleinwort Hambros Bank CI Ltd

Directors' Report on the Financial Statements

Directors and director's interests (continued)

<p>K N Graf von Schweinitz Independent Non-Executive Director</p> <p>Chair of KH Group Risk Committee</p>	<p>Konstantin Graf von Schweinitz joined the board of the Company and became a member of its Audit and Risk Committee on 29 July 2016. Konstantin became the Chair of Risk Committee in June 2017. Konstantin is a member of KH Group Risk Committee and KH Group Remuneration and Nomination Committee.</p> <p>Prior to this appointment, Konstantin was a director of Kleinwort Benson Bank Limited, and Chair of the KB Audit Committee and KB Strategic Risk Committee. Konstantin has 35 years investment and commercial bank experience having worked previously at Chase Manhattan Bank and Dresdner Kleinwort.</p>
<p>J-F Mazaud Group Non-Executive Director</p>	<p>Jean-François Mazaud joined the board of the Company as Group non-executive director on 11 July 2012. Jean-François Mazaud was Head of Societe Generale Private Banking from March 2012. In February 2019 he was appointed Head of Transformation in SG and is expected to resign as a director of the Company in 2019.</p>
<p>S B Ricke Group Non-Executive Director</p>	<p>Sadia Ricke joined the board of the Company as Group non-executive director on 19 July 2017. Sadia has been a member of the KH Group Audit Committee and Group Alternate for the KH Group Remuneration and Nomination Committee since 1 January 2018. Sadia is Chief Country Officer for SG Branch United Kingdom and a member of the Group Management Committee.</p>
<p>X P Lofficial Group Non-Executive Director</p>	<p>Xavier joined the board of the Company as Group non-executive director on 17 August 2017. Xavier has been a member of the KH Group Risk Committee since 1 January 2018. Xavier is Deputy Group Chief Financial Officer of SG.</p> <p>Xavier has been with Societe Generale since 1996 in various senior management roles specialising in IT, cyber security and IT project management in France, the USA and Asia.</p>
<p>E V Perez Executive Director</p>	<p>Emma Perez joined the board of the Company as a Group executive director on 15 December 2017. Emma is CEO of SG Kleinwort Hambros Bank (Gibraltar) Ltd.</p> <p>Emma is an accountant and has a comprehensive knowledge of the private banking industry. Emma joined the SG Group in 2001 and is a member of the KH Group Executive Committee.</p>
<p>G A Branson Executive Director and Deputy Chief Executive Officer</p>	<p>Gabrielle Branson has been a director of the Company since October 2012 and was appointed Deputy Chief Executive Officer from 1 July 2018.</p> <p>As Group General Council, Gabrielle Branson is responsible for the relationships with the regulators and leads senior management teams for risk, HR, legal, compliance, financial crime, client tax affairs, and company secretariat.</p> <p>Gabrielle has extensive experience in private banking and asset management having previously worked in a variety of senior management and commercial positions, including as Head of UK Domestic Private Banking. Gabrielle is a member of the KH Group Executive Committee.</p>
<p>O D Meredith Executive Director</p>	<p>Oliver Meredith has been a director of the Company since October 2012. Oliver was appointed Chief Financial Officer in 2009 and is also responsible for Treasury and ALM functions.</p> <p>Oliver is a Chartered Accountant and Fellow of the ICAEW. Oliver is also a director of SG Kleinwort Hambros Limited, SG Hambros (London) Nominees Ltd and is a member of the KH Group Executive Committee.</p>

Directors' Report on the Financial Statements

Directors and director's interests (continued)

M Choukeir

Executive Director and Deputy
Chief Executive Officer

Mouhammed was appointed Deputy Chief Executive Officer from 1 July 2018. He is the Chief Investment Officer for the Company heading up the investment management team. Mouhammed has extensive experience in private banking and asset management and is a member of the KH Group Executive Committee.

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

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

Directors' Report on the Financial Statements

Corporate governance

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

As at 31 December 2018, the Board of Directors comprised five executive directors and eight non-executive directors. Four of the non-executive directors are fully independent and all are considered to be independent in character and judgement. The non-executive directors participate fully with their executive colleagues in Board Meetings and have access to all information they need to perform their duties.

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

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

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

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

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

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

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

The members of the KH Group Audit Committee are Mike Newman (Chair), Konstantin Graf Von Schweinitz and Sadia Ricke (appointed from 1 January 2018).

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

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

The internal audit function reviews operations on a continuing basis. A risk-based internal audit programme details the frequency and intensity of reviews and is presented to and approved by the KH Group Audit Committee. Over the course of 2018 the KH Group Audit Committee received regular reports on the activities of the internal audit function and on progress with the agreed recommendations.

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

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

Terms of Reference detail the roles and responsibilities of the Audit Committee; these are normally reviewed annually, as is the effectiveness of the Audit Committee. The last full review was completed with new terms of reference which were effective from 12 October 2018.

The Audit Committee has at least three substantive meetings each year; the Audit Committee met four times in 2018 in addition to regular informal meetings. The KH Group Audit Committee has regular discussions with the external auditor and the Head of Internal Audit and has a formal meeting without management present at least annually. The Chair of the Board has an ongoing invitation to attend the KH Group Audit Committee.

Directors' Report on the Financial Statements

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

The members of the KH Group Risk Committee are Konstantin Graf Von Schweinitz (Chair), Mike Newman and Xavier Lofficiel (appointed from 1 January 2018).

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

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

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

Terms of Reference detail the roles and responsibilities of the Risk Committee; these are normally reviewed annually, as is the effectiveness of the Committee. The last full review was completed with new terms of reference which were effective from 12 October 2018.

The KH Group Risk Committee has at least three substantive meetings each year; there were four Risk Committee meetings in 2018 with an additional meeting to consider the ICAAP and ILAAP in detail. The Chief Risk Officer always attends the meetings. The Chair of the KH Risk Committee has regular informal discussions with the CRO and the Chairman of the Board has an ongoing invitation to attend the KH Group Risk Committee.

SG Kleinwort Hambros Remuneration and Nomination Committee ("Remuneration and Nomination Committee")

The members of the KH Group Remuneration and Nomination Committee are Stuart Barnett (Chair), Jean-Francois Mazaud and Konstantin Graf Von Schweinitz. Sadia Ricke is the Group Alternate on the Committee (appointed 1 January 2018).

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

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

The Remuneration and Nomination Committee has at least three substantive meetings each year; in 2018 the Committee met five times. The Chief Executive Officer, HR Director and Group General Counsel of the Company normally attend meetings. Terms of Reference detail the roles and responsibilities of the Remuneration and Nomination Committee; these are normally reviewed annually. The last full-review was completed with new terms of reference which were effective from 12 October 2018.

Directors' Report on the Financial Statements

Employees

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

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

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

Disclosure of information to auditors

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

Auditors

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

Results and dividends

For the year ended 31 December 2018, the Company reported a total comprehensive income of £60.3 million (2017 loss: £5.9 million).

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

The directors do not recommend the payment of a final dividend for the year 2018 (2017: £Nil).

Going concern

Note 25 and Note 26 to the financial statements include the Company'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 Company has maintained at all times over the year sufficient liquid asset buffer investments to operate within the business risk appetite as defined in its Internal Liquidity Adequacy Assessment Process document and for survival under prescribed stress scenarios including combined stress scenarios. Liquidity monitoring under stress is monitored frequently by the Executive KH Group Asset Liability Committee which meets on a monthly basis and reported regularly to the Directors of the Board.

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

Statement of Directors' responsibilities

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

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including Financial Reporting Standard 101 'Reduced Disclosure Framework and applicable law'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report on the Financial Statements

Statement of Directors' responsibilities (continued)

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

Approved by the Board of Directors

Signed on behalf of the Board

O D Meredith
Director



SG Kleinwort Hambros Bank Limited

Company No 964058

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

5 April 2019

Auditors Report on the Financial Statements

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

Opinion

We have audited the financial statements of SG Kleinwort Hambros Bank Limited for the year ended 31 December 2018 which comprise the Statement of Profit and Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 31 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2018 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.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Auditors Report on the Financial Statements

Key audit matters

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> Revenue recognition Loan impairment provisioning Goodwill valuation impairment
Materiality	<ul style="list-style-type: none"> Overall materiality of £5.1m which represents 1% of total equity.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue Recognition: Interest Income £51.3m, PY £37.7m; Fee and Commission Income £51.3m, PY £35.1m</p> <p><i>Refer to the accounting policies (page 35 & 36); notes 5 and 6 of the financial statements (pages 40 and 41).</i></p> <p>Risk of inappropriate recognition of revenue whether from an existence or measurement perspective particularly focused on non-systematic generated revenue streams (ad-hoc fees, commission income) that are subject to manual intervention or adjustment whether due to management override or error.</p> <p>We focus our testing on the primary revenue streams (interest income and; fee and commission income) that are subject to manual intervention or adjustment, as this is where management override may manifest itself.</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> performed an assessment of the risk of material misstatement for each material revenue stream considering the level of automation and use of judgement; performed walkthroughs for all significant revenue streams, of the key processes and controls underpinning the recognition of revenue; tested the key controls around customer on-boarding, loan origination and input of static data within the systems; performed controls testing over new fee agreements and any amendments made to existing fee agreements; tested the controls over the access to and changes to the IT systems underpinning the revenue process; worked with our IT team to test the IT Application Controls for automated revenue processes such as automated interest income and fee calculations; selected a sample of manual fee & commission revenue items to validate the fee rates through to customer agreements and recalculated the fee income; recalculated the retrocession fee and agreed the receivable balance to subsidiary entities; tested the revenue accrual raised at year end by substantiating the amount through to post year end billings to assess the appropriateness of the accrual 	<p>All transactions tested have been recognised in accordance with the underlying agreements or other supporting documentation. Based on the procedures performed, we have no matters to report in respect of revenue recognition.</p>

Auditors Report on the Financial Statements

	<p>raised;</p> <ul style="list-style-type: none"> assessed the appropriateness of journal entries recorded in the sub-ledgers and general ledger and any other adjustments made in the preparation of the financial statements by auditing a sample of journal entries back to supporting documentation; and ensured compliance with the new IFRS 15 accounting standard by assessing the revenue samples selected met the criteria specified under IFRS 15. 	
<p>Loan Impairment provisioning (Loans and Advances to Customers £1,078m, PY £1,172m; Impairment Provision £3.9m, PY £3.0m)</p> <p><i>Refer to the accounting policies (pages 24 - 30); and note 14 of the financial statements (page 52 & 53)</i></p> <p>Risk that the IFRS 9 loan impairment provision against the retail loan portfolio is miscalculated due to inappropriate staging of the loans and/or inappropriate assumptions.</p> <p>The implementation of IFRS 9 has increased the level of judgment involved in management's assumptions regarding the probability of default (PD) and loss given default (LGD) inputs into the calculation of expected credit losses (ECL) and the risk that inappropriate assumptions are used.</p> <p>We have focused our testing on higher risk stage 2 and 3 loan exposures, where the risk of material misstatement is higher.</p> <p>The risk has increased slightly due to the implementation of IFRS 9 during the year.</p>	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough and testing the design and implementation of relevant controls, including loan monitoring, provision calculations and IFRS 9 provision models; tested the IT general controls and IT application controls around the loan arrears monitoring process and provision calculation; performed data analytics over the portfolio of loans in order to select a risk-based sample for detailed credit file review testing; performed the following procedures on the IFRS 9 model: <ul style="list-style-type: none"> benchmarked the key inputs: Probability of Default ('PD') and Loss Given Default ('LGD') with comparable private banks; challenged the assumptions to third party support and historical data; recalculated the expected credit loss ('ECL') across the population of Stage 1 loans; tested the completeness of the loan exposures included in the IFRS 9 model by agreeing the balances to the source systems; tested the Stage 3 migration, including the deterioration in the impacted exposure and arrears levels; tested the collateral valuations to 3rd party sources for a sample of loans in all ECL stages; tested the recovery strategy, DCF calculations, and collateral valuation analysis for loans for a sample of Stage 2 and 3 ECL provisions; and assessed the compliance of Management's accounting policies and disclosures with IFRS 9 - Financial Instruments. 	<p>We have assessed the loan loss provisions recorded and the disclosures included under IFRS 9 - Financial Instruments. Based on the procedures performed, we have no matters to report in respect of the loan impairment provision.</p>

Auditors Report on the Financial Statements

<p>Goodwill valuation impairment (£37.2m, PY £37.2m)</p> <p><i>Refer to accounting policies (page 37 & 38; and note 17 of the financial statements (page 55))</i></p> <p>Risk that the annual impairment review of the goodwill valuation is inaccurate due to subjective assumptions (e.g. forecasts, discount rates, growth rates) used in the valuation models.</p> <p>The goodwill recorded relates to the Kleinwort Benson Bank Limited acquisition in 2017 and other historic acquisitions, recognising the amount paid in excess of the net assets acquired.</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> • performed a walkthrough of the goodwill valuation impairment process; • assessed the appropriateness of the Cash Generating Unit ('CGU') used in the model; • performed a search for impairment indicators including: <ul style="list-style-type: none"> • a decline in the performance of the CGU; • changes to market and CGU conditions that would impact the discount rate used; • assessed the appropriateness of the model used for the valuation and whether it is in line with accounting standards; • challenged the significant assumptions by assessing the reasonableness of the discount rates and long-term growth rates for the calculations of the value in use; • challenged the forecasts used by management of income and cost growth rates using back-testing of past performance; • performed sensitivity analysis by adjusting the key assumptions; • re-performed the goodwill calculation; and • assessed the compliance of Management's accounting policies and disclosures with IAS 36 – Impairment of Assets. 	<p>We have assessed the value of Goodwill recorded for any indicators of impairment under IAS 36 – Impairment of Assets. Based on the procedures performed, we have no matters to report in respect of the valuation of goodwill.</p>
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In the prior year, we identified 'acquisition accounting including goodwill recognition' and 'impairment of capitalised software' as key audit matters. These are no longer deemed to be key audit matters as there have been no acquisitions in the year and management have written off the previously capitalised costs as the banking platform project is not proceeding further.

An overview of the scope of our audit

Tailoring the scope

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

Auditors Report on the Financial Statements

Our application of materiality

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

Materiality

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

We determined materiality for the Bank to be £5.1 million (2017: £4.3 million), which is 1% (2017: 1%) of total equity. We believe total equity basis provides us with the most appropriate measure that reflects the performance of the Bank.

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

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2017: 50%) of our planning materiality, namely £3.8m (2017: £2.1m). Performance materiality has increased during the year, following the completion of the acquisition of Kleinwort Benson Bank Limited in the prior year which has reduced the risk of material misstatements occurring in the current period.

Reporting threshold

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

We have reported to the Audit Committee all uncorrected audit differences in excess of £254k (2017: £214k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

Auditors Report on the Financial Statements

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on pages 13 and 14 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are FRS101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice) and, as regards to the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006. Also significant are the Financial Conduct Authority ('FCA') & Prudential Regulation Authority ('PRA') regulations. We understood how SG Kleinwort Hambros Bank Limited is complying with those frameworks through the implementation of a corporate governance framework that ensures compliance with laws and regulations.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by overstating revenue through the manual override of controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of internal legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters above.
- The Bank operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the expertise of the engagement team to ensure that the team has the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise see to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk included in our testing of Key Audit matters above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Auditors Report on the Financial Statements

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

Other matters we are required to address

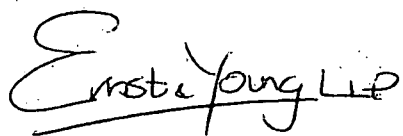
- We were appointed by the Bank on 28 September 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 December 2015 to 31 December 2018

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

Use of our report

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

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over a horizontal line.

Sarah Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
5 April 2019

Statement of Profit and Loss

For the year ended 31 December 2018

(In GBP thousands)	Note	2018	2017
Interest income calculated using EIR		35,545	27,605
Interest income at FVOCI		15,748	10,090
Interest expense		(11,855)	(9,845)
Net interest income	5	39,638	27,850
Fee and commission income		51,348	35,116
Fee and commission expense		(1,062)	(1,796)
Net fee and commission income	6	50,286	33,320
Gains and losses on financial instruments at fair value	7	(3,763)	787
Other expense		(1,250)	(312)
Dividend income	8	64,809	4
Gains on sales of investments		-	164
Total operating income		149,720	61,813
Administrative expenses	9	(90,695)	(71,319)
Amortisation	17	(228)	(826)
Depreciation	18	(260)	(283)
Provisions		608	680
Total operating expenses		(90,575)	(71,748)
Profit / (loss) before income tax		59,145	(9,935)
Income tax relief/(expense)	11	3,065	3,216
Profit / (loss) for the year		62,210	(6,719)

The results for the years ended 31 December 2018 and 31 December 2017 are derived from continuing operations and are entirely attributable to owners of the Company.

The notes to the financial statements on pages 27 to 73 are an integral part of these statements.

Statement of Comprehensive Income

For the year ended 31 December 2018

(In GBP thousands)	Note	2018	2017
Profit / (loss) for the year		62,210	(6,719)
Items that may be reclassified to the Statement of profit or loss:			
Other recognised gains and losses:			
(Losses) / gains on revaluation of FVOCI / available-for-sale investments taken to equity		(6,537)	564
Tax on FVOCI / available-for-sale investments taken to equity		739	(169)
Transfer to statement of profit or loss on disposal of FVOCI / available-for-sale financial investments	7	3,846	340
Other comprehensive (loss) / income for the year net of tax		(1,952)	735
Total comprehensive income / (loss) for the year		60,258	(5,984)

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

The notes to the financial statements on pages 27 to 73 are an integral part of these statements.

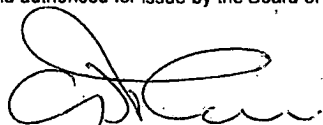
Statement of Financial Position

As at 31 December 2018

(In GBP thousands)	Note	2018	2017
Assets			
Cash and balances at central banks		169,360	247,705
Derivative assets	12	12,342	16,325
Loans and advances to banks	13	31,344	43,388
Loans and advances to customers	14	1,074,474	1,168,605
Debt and investment securities	15	1,253,521	1,010,102
Shares in group undertakings	16	232,883	232,802
Intangible assets	17	38,271	44,992
Tangible assets	18	332	581
Current income tax assets		-	2,952
Deferred income tax assets	11	4,140	1,144
Trade and other receivables	19	26,577	44,388
Total assets		2,843,244	2,812,984
Liabilities and equity			
Deposits by banks	20	41,768	67,883
Customers' accounts	21	2,191,216	2,203,384
Financial liabilities at fair value through profit or loss	12	35,478	39,056
Derivative liabilities	12	6,049	11,220
Current income tax liabilities	11	896	-
Other liabilities	22	60,018	68,368
Provisions for liabilities	23	2,365	2,167
Total liabilities		2,337,790	2,392,078
Share capital	24	328,266	303,266
Share premium		45,500	45,500
Share-based capital contribution		2,264	2,145
Undistributable reserves		42,500	42,500
FVOCI reserves		2,215	4,495
Retained earnings		84,709	23,000
Equity attributable to owners of the Company		505,454	420,906
Total equity and liabilities		2,843,244	2,812,984
Memorandum Items:			
Contingent liabilities	28	52,719	65,399
Commitments	28	62,773	61,787
Capital commitments	28	-	5,801

The notes to the financial statements on pages 27 to 73 are an integral part of these statements

Approved and authorised for issue by the Board of Directors on 3 April 2019 and signed on its behalf by:



O D Meredith
Director

Statement of Changes in Equity

For the year ended 31 December 2018

(In GBP thousands)	Share capital	Share premium	Share based capital contribution	Undistributable reserves	OCI reserves	Retained earnings	Total equity
Balance at 1 January 2018	303,266	45,500	2,145	42,500	4,495	23,000	420,806
Impact of adopting IFRS 9 (Note 4)							
Impairments adjustment	-	-	-	-	-	(1,139)	(1,139)
Tax effect	-	-	-	-	-	310	310
Transfer from OCI reserves to Retained earnings	-	-	-	-	(328)	328	-
Restated opening balance under IFRS 9	303,266	45,500	2,145	42,500	4,167	22,499	420,077
Total comprehensive loss							
Profit for the year	-	-	-	-	-	62,210	62,210
Increase on disposal of FVOCI investments to profit and loss	-	-	-	-	3,846	-	3,846
Decrease in fair value on revaluation of FVOCI investments	-	-	-	-	(6,537)	-	(6,537)
Tax on fair value movement of FVOCI investment	-	-	-	-	739	-	739
Total comprehensive income/(expense)					(1,952)	62,210	60,258
Transactions with owners							
Capital increase	25,000	-	-	-	-	-	25,000
Equity settled payments	-	-	119	-	-	-	119
Dividends	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity	25,000	-	119	-	-	-	25,119
Balance at 31 December 2018	328,266	45,500	2,264	42,500	2,215	84,709	505,454

The notes to the financial statements on pages 27 to 73 are an integral part of these statements.

Statement of Changes in Equity

For the year ended 31 December 2017

(In GBP thousands)	Share capital	Share premium	Share based capital contribution	Undistributable reserves	OCI reserves	Retained earnings	Total equity
Balance at 1 January 2017	160,067	45,500	1,944	42,500	3,760	29,719	283,490
Total comprehensive loss							
Loss for the year	-	-	-	-	-	(6,719)	(6,719)
Increase on disposal of available-for-sale investments to profit and loss	-	-	-	-	340	-	340
Increase in fair value on revaluation of available-for-sale investments	-	-	-	-	564	-	564
Tax on fair value movement of available-for-sale investment	-	-	-	-	(169)	-	(169)
Total comprehensive income/(expense)	-	-	-	-	735	(6,719)	(5,984)
Transactions with owners							
Capital increase	143,199	-	-	-	-	-	143,199
Equity settled payments	-	-	201	-	-	-	201
Dividends	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity	143,199	-	201	-	-	-	143,400
Balance at 31 December 2017	303,266	45,500	2,145	42,500	4,495	23,000	420,906

The notes to the financial statements on pages 27 to 73 are an integral part of these statements.

Notes to the Financial Statements

1. Reporting entity

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

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

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

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

2. Basis of preparation

2.1. Statement of compliance

The Company's financial statements, which show a true and fair view, have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards, and comply with the Companies Act 2006, including the provisions of Schedule 2 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The financial statements have been authorised for issue by the Board of Directors on 28 March 2019.

2.2. Basis of measurement

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

2.3. Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report on pages 8-14. Key to the Company's return to profitability is the migration of the two legacy businesses onto one core banking platform. The Company's business plans project a return to core profitability once that implementation has been substantially completed. It also holds considerable capital resources in excess of regulatory requirements and its capital forecasts anticipate this to continue to be the case throughout this integration period and up to and including a return to profitability. Liquidity positions within the Company are actively managed on a daily basis to ensure sufficient liquidity is maintained at all times to support businesses while at the same time remaining well within regulatory and internal limits. Taking these factors into consideration, the directors believe that the Company 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 Company has adequate resources to meet its minimum capital and liquidity regulatory requirements and appropriate contingency plans to ensure that the Company continues to operate with a prudent capital and liquidity buffer over its internal requirements for the foreseeable future. Therefore, the Company continues to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the Financial Statements

2. Basis of preparation (continued)

2.4. Accounting policies

The accounting policies and methods of computation are consistent with those applied in the Company's 2017 Annual Report and Accounts with the exception of new accounting policies in respect of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue' and amendments to share-based payment which were adopted on 1 January 2018.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. The most significant impacts on the Company are from the changes to impairment. Details of the new accounting policies applied and the impact of transition to IFRS 9 can be found in note 3.1 and 3.1.3.

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' as a comprehensive standard for revenue recognition. Financial instruments and other contractual rights or obligations within the scope of IFRS 9 are excluded from the scope of this standard. The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 does not have a financial impact on the Company, as a substantial proportion of the Company's income is generated from financial instruments.

IFRS2 amendments to Share-based Payment, provide additional guidance on the classification and measurement of share-based payment transactions. The amendments clarified the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments to IFRS 2 came into effect on 1st January 2018 and are applied prospectively. The Company has no material impact on adoption of this standard.

Disclosure exemptions

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

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

2.5. Adoption of new and revised Standards

The Company has not applied the following Standards and Interpretations that have been issued but are not yet effective.

Leases

In January 2016, the IASB issued IFRS 16, Leases (IFRS 16), which will replace IAS17, introducing a single lessee accounting model for all leases by eliminating the distinction between operating and financing leases. IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for most leases. Lessees will also recognise depreciation expense on the right-of-use asset and interest expense on the lease liability in the statement of income. Short-term leases, which are defined as those that have a lease term of 12 months or less; and leases of low-value assets are exempt. Lessor accounting remains substantially unchanged. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 for the Company and is to be applied retrospectively. Early adoption is permitted only if aligned with or after the adoption of IFRS 16. The Company is expecting an impact of approximately £340k on adoption of this standard and considers this impact immaterial.

Notes to the Financial Statements

3. Significant accounting policies

Post 01st January 2018

3.1.1. Financial assets and liabilities

Transition to IFRS 9 'Financial Instruments'

On 1 January 2018 the Company adopted IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. The most significant impacts on the company are from the changes to impairment.

In relation to classification and measurement, the primary impact of IFRS 9 is the reclassification of debt investments in the available-for-sale (AFS) category to the new fair value through other comprehensive income (FVOCI) category. Management also have an option to classify non-trading equity investments as fair value through profit or loss (FVPL) or irrevocably designate them as FVOCI, on an investment by investment basis.

The material retail financial asset portfolios (primarily secured and unsecured loans) retain their classification as amortised cost, so there is no change in the classification and measurement of these financial assets. The classification requirements for financial liabilities are unchanged on adoption of IFRS 9.

Information on the stage allocation of the Company's loans and advances to customers as at 1 January 2018, and as at 31 December 2018, can be found in note 14.

Classification is based on the objectives of the Company's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 retains most of the existing classification and measurement requirements for financial liabilities from IAS 39.

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

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

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

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

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

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

Amortised cost

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.1 Financial assets and liabilities (continued)

Fair value through other comprehensive income (FVOCI)

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

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

Fair value through profit or loss (FVPL)

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

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

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

Equity instruments

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

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

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

Fair value measurement

The measurement of fair value has not changed as a result of adopting IFRS 9. Fair value measurement is determined by IFRS 13 'Fair Value Measurement' and the accounting policy for determining fair value can be found in note 2.2.

Pre 01st January 2018

Pre January 2018, under IAS 39, the financial assets and liabilities were 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 IAS 39. The Company did not designate any financial investments or debt securities as fair value through profit and loss.

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 were recognised in the balance sheet on the settlement date, while derivatives were recognised on the trade date. Where settlement date accounting was applied to a financial statement item, changes in fair value between the trade and settlement dates were booked in the statement of profit or loss or to shareholders' equity depending on the relevant accounting category. Loans and advances were recognised when cash was 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 12.

(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 method, less allowance for impairment. Amortised cost is calculated by taking into account any premium or discount on acquisition and on fees and costs that are an integral part of the effective interest method.

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.1 Financial assets and liabilities (continued)

(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 gains and losses on financial instruments at fair value. 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 Company 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.

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

These are debt securities held for an indefinite period which the Company 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 statement of profit or loss for the period.

3.1.2. Impairment of financial assets

Post 01st January 2018

As described in Note 2.4, the adoption of IFRS 9 has changed the Company's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.2 Impairment of financial assets (continued)

The calculation of ECLs

The Company calculates ECLs based on exposure.

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

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

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

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

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

The mechanics of the ECL method are summarised below:

Stage 1:

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

Stage 2:

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

Stage 3:

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

Loan commitments and letters of credit

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

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

Financial guarantee contracts

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

Debt instruments measured at fair value through OCI

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.2 Impairment of financial assets (continued)

Write-offs

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

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

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

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

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

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

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

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

Pre 01st January 2018

Financial assets, other than those held at fair value 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 cash 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.

3.1.3. Derecognition of financial assets

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

3.1.4. Offsetting financial instruments

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.5. Derivative financial instruments

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

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

3.1.6. Hedge accounting

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices than the current IAS 39 requirements and follow a principles-based approach. However, there is an option in IFRS 9 to maintain existing IAS 39 hedge accounting rules until the IASB completes its project on macro hedging. This option has been provided because the macro hedging project is still in the consultation phase, with a second discussion paper due to be issued by the International Accounting Standards Board (IASB) in 2019. Management have analysed the benefits of adopting IFRS 9 hedge accounting but currently the preferred approach is to continue applying IAS39 hedge accounting in its entirety. As a result, there is no change from the 2017 Annual Report and Accounts accounting policy. The revised disclosure requirements of IFRS 7 'Financial Instruments: Disclosures' in relation to hedge accounting will be applied.

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

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

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

Fair value hedges

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

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.6 Hedging accounting (continued)

instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above. In accordance with its hedging strategy, the Company matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The Company uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments.

Hedge ineffectiveness can arise from:

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

Micro fair value hedges

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship are fixed rate debt instruments at FVOCI (or available-for-sale debt securities in 2017) and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis. If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Company decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the company discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement. For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVOCI (or available-for-sale debt securities in 2017), changes in fair value that were recorded in the income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the statement of financial position, the fair value hedge adjustments are transferred from the income statement to OCI. There were no such instances in either the current year or in the comparative year. The Company has designated micro hedge relationship as fair value hedges.

3.1.7. Effective interest method

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

3.2. Revenue Recognition

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

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

To apply this principles of IFRS15 (as stated in note 2.4), the Company follows a five-step model framework:

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.2 Revenue recognition (continued)

Step 2: Identify the performance obligations in the contract.

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

Step 3: Determine the transaction price.

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

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

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

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

3.2.1. Net interest income

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

3.2.2. Fees and commissions

Fees and commissions not included as part of the effective interest rate are recognised on an accruals basis. Arrangement fees are booked as deferred income on the balance sheet and recognised in the profit and loss account over the period of the arrangement, as per the steps described in IFRS 15 (see Note 3.2)

3.2.3. Dividends

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

3.3. Foreign Currency

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

3.3.1. Foreign currency transactions

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

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

3.3.2. Exchange rates

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

One GBP equals	Closing rate		Average rate	
	2018	2017	2018	2017
Euro ("EUR")	1.117	1.127	1.130	1.143
US Dollar ("USD")	1.279	1.351	1.331	1.301

3.4. Investments in subsidiaries

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

3.5. Interests in associates

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.6. Taxation

3.6.1. Current Tax

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

3.6.2. Deferred tax

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

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

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

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

3.6.3. Current tax and deferred tax for the year

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

3.7. Tangible fixed assets

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

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

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

3.8. Intangible assets

3.8.1. Goodwill

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.8.1 Goodwill (continued)

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

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

3.8.2. Software and development costs

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

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

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

3.9. Leases

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.

3.10. Pension costs

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

3.11. Provision for liabilities

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

3.12. Share-based payment

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

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

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.13. Transition disclosures

A reconciliation between the carrying amounts under IAS39 to balances reported under IFRS 9 as at 1st January 2018 is as follows:

Financial assets	IAS39 measurement category	IAS39 measurement amount	Reclassification	Remeasurement ECL	IFRS9 Amount	IFRS 9 Category
Cash and balances at central banks	L&R	247,705	-	-	247,705	AC
Derivative assets	FVPL	16,325	-	-	16,325	FVPL
Loans and advances to banks	L&R	43,388	-	-	43,388	AC
Loans and advances to customers A	L&R	1,168,605	-	(1,027)	1,167,578	AC
Trade and other receivables B	AC	44,388	-	-	44,388	AC
Debt and Investment securities C	AFS	1,010,102	(677)	-	1,009,425	FVOCI
Debt and Investment securities – at FVPL (mandatory)		-	677	-	677	FVPL
Total		2,530,513	-	(1,027)	2,529,486	

Financial liabilities	IAS39 measurement category	IAS39 measurement Amount	Reclassification	Remeasurement ECL	IFRS9 Amount	IFRS 9 Category
Deposits by banks	AC	67,883	-	-	67,883	AC
Customer accounts	AC	2,203,384	-	-	2,203,384	AC
Financial liabilities at FVPL (mandatory)	FVPL	39,056	-	-	39,056	FVPL
Derivative liabilities	FVPL	11,220	-	-	11,220	FVPL
Provision for liabilities	AC	2,167	-	112	2,279	AC
Total		2,323,710	-	112	2,323,822	

Where:

AC – amortised cost

FVPL – Fair value through profit and loss

FVOCI – Fair value through other comprehensive income

L&R – Loans and receivables

AFS – Available for sale

- A As of 01st January 2018, the Company increased the impairment allowance for Loans and advances to customers and therefore reducing the carrying value of the loans and advances to customers financial asset. This remeasurement is due to the first-time adoption of IFRS9.
- B Trade and other receivables is included at the balance sheet value.
- C As of 01st January 2018, the Company has classified equity instruments in its AFS debt and investment securities as financial assets measured at FVPL as the payments did not meet the SPPI criterion. The Company did not elect to apply the FVPL option to any other securities previously recognised in the AFS portfolio.

Notes to the Financial Statements

4. Use of estimates and judgements

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

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

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

4.1. Impairment of loans and advances to customers

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

4.2. Impairment assessment of goodwill

Management assess the potential impairment of goodwill on an annual basis using a discounted cash flow model. Management judgement is applied in the level of cash generating unit, future revenue forecasts and the discount rate applied. Goodwill would be impaired if the profit forecast by the Company was reduced by greater than 11% per annum or there was a 2.4% increase in the discount rate used.

4.3. Provision for liabilities

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

4.4. Fair value of unquoted equity instruments

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

4.5. Impairment of software

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

4.6. Deferred tax asset recoverability

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

5. Net interest income

Interest income and expense by financial instruments

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

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

Notes to the Financial Statements

5. Net interest income (continued)

(In GBP thousands)			2017
	Amortised cost	AFS	Total
Due from banks	860	-	860
Loans and advances to customers	26,745	-	26,745
Investment securities	-	10,090	10,090
Interest income	27,605	10,090	37,695
Due to banks	(116)	-	(116)
Deposits due to customers	(9,729)	-	(9,729)
Interest expense	(9,845)	-	(9,845)
Net interest income	17,760	10,090	27,850

6. Net fee and commission income

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

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

(In GBP thousands)	2018	2017
Asset management fees	28,901	18,184
Brokerage	1,726	2,046
Corporate commissions	4,024	2,151
Financial advisory fees	1,865	2,154
Retail banking customer fees	13,906	10,195
Other	926	386
Fee and commission income	51,348	35,116
Brokerage	(937)	(1,781)
Other	(125)	(15)
Fee and commission expense	(1,062)	(1,796)
Net fee and commission income	50,286	33,320

Included in asset management fees is £910K (2017: £239K) of fee income relating to trust and other fiduciary activities.

Income has significantly increased for 2018 due to the purchase of the business of KBBL in November 2017. A full year's worth of income from that business is therefore included in 2018 as opposed to only two months in 2017.

Notes to the Financial Statements

7. Gains and losses on financial instruments at fair value

The Company's treasury portfolio includes investments in liquid high quality corporate bonds. These bonds are typically measured at fair value and were designated as AFS under IAS39 and was classified as at fair value through other comprehensive income "OCI" under IFRS 9 as explained in Note 3. The gains and losses representing unrealised market movements are recognised in OCI, which are then recycled to the statement of profit or loss upon realisation of the bond. Also recognised in this line of the statement of profit or loss are any gains and losses on derivative instruments held for trading purposes.

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

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

(In GBP thousands)			2017
	At fair value through profit or loss	At fair value through OCI until realised	Total
Gains from sales of debt securities and corporate bonds	-	2,128	2,128
Losses from sales of debt securities and corporate bonds	-	(2,468)	(2,468)
Hedge ineffectiveness from fair value hedging:			
- Losses on hedged items attributable to the hedged risk	(536)	-	(536)
- Gains on hedging instruments	7,986	-	7,986
Foreign exchange gain	479	-	479
Other interest rate instruments	(6,802)	-	(6,802)
Total	1,127	(340)	787

8. Dividend Income

During the year the Company received dividends totalling £64.8m (2017: £0.004m) from its subsidiaries. These dividends were the result of excess capital being released from those subsidiaries.

9. Administrative expenses

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

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

(In GBP thousands)	2018	2017
Personnel expenses (Note 9.1)	61,164	57,437
Professional fees (Note 9.2)	7,984	6,009
Rent, leases and premises costs	4,900	1,734
IT costs	4,356	2,947
Indirect tax and levies	8,187	8,930
Other administrative costs	13,193	5,136
Intercompany recharges to SG Group entities	(12,114)	(17,347)
Intercompany recharges from SG Group entities	3,025	6,473
Total	90,695	71,319

In 2018 the Company has written off significant project costs relating to the implementation of a new banking system. This project is not proceeding further and £9.8m of previously capitalised costs are included in other administrative expenses.

The increase in costs during the year is largely due to the full year of former KBBL costs included in 2018.

Notes to the Financial Statements

9. Administrative expenses (continued)

9.1. Personnel expenses

(In GBP thousands)	2018	2017
Wages and salaries	34,805	34,144
Temporary staff	14,279	12,300
Compulsory social security contributions	5,592	4,966
Contributions to defined contribution plans	2,662	2,488
Share-based payment transactions	774	641
Restructuring expenses – redundancy costs	1,117	2,025
Other staff costs	1,935	873
Total	61,164	57,437

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

The average number of employees employed by the Company was: 472 (2017: 447).

	2018	2017
Full time employees	342	328
Contract and temporary employees	130	119
Total	472	447

In April 2017, 162 full time employees joined the Company from KBBL.

9.2. Professional fees

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

(In GBP thousands)	2018	2017
Audit fees	610	404
Assurance services	-	36
Total fees payable to the Company's auditors	610	440
Other professional fees	7,374	5,569
Total professional fees	7,984	6,009

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

9.3. Operating lease commitments

The Company does not hold the legal title to the leases on either 8 St James's Square or 14 St George Street, but has an obligation to pay rentals on the leases to Société Générale London Branch as the space is used. The latter building is now vacated by the Company and most of the space has been sub-let. A provision of £2.1 million has been recognised for the remaining vacant space as disclosed in Note 23.

9.4. Pension cost

All employees are covered by SG Group pension schemes, subject to their satisfying minimum entry requirements. The schemes are of both the defined benefit and defined contribution type. The total pension cost for the Company was £2.7 million (2017: £2.5 million).

Defined Benefit Scheme

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

Notes to the Financial Statements

9. Administrative expenses (continued)

9.4. Pension cost (continued)

Defined Benefit Scheme (continued)

The total defined benefit pension costs and contribution for the Company was £Nil million in 2018 (2017: £Nil million). The Company is invoiced by Société Générale London Branch for the share of service costs on an annual basis. As required, the Company pays contributions to Société Générale London Branch for the Company's employees in the scheme.

Defined Contribution Scheme

The Company also provides employees with access to a defined contribution scheme, the "SG Money Purchase Scheme". Contributions to this scheme were £2.7 million during the year (2017: £2.4 million). No contributions were outstanding at the year end. The contributions to this scheme currently range from 2.5% to 15.0% of pensionable salary.

10. Share-based payments

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

Global Employee Share Ownership ("GESOP")

Employees of the Company participated in a GESOP scheme where the Company will match the employee's contributions in previous years. The scheme was discontinued from 2015.

Ambition and Long-Term Incentive share schemes

Employees are offered free shares issued by SG subject to the achievement of certain targets as set out by SG. These free shares were awarded between 2006 and 2014 and have a vesting period of five years. As at 31 December 2014, conditions of the award have been met. The number of rights outstanding as at 31 December 2018 was 18,450 (2017: 14,238) amounting to £535,498 (2017: £531,057) based on the reference price of the scheme in which the share was awarded. The Company does not pay SG for any of these shares issued. The value of these shares issued to the Company employees are recognised as additional capital contribution in accordance with IFRS 2.

UK Share plan

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

Société Générale Fidelity Plan (SG Fidelity Plan)

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

The valuations of the Fidelity plan as accrued in the financial statements are based on the prevailing market price as at 31 December 2018. At balance sheet date, the fair value of the Company's portion of the final liability under the plan is £2.3 million (2017: £ (3.4) million) and the element of this valuation relating to variation in the price of SG shares since declaration was £0.4 million (2017: £ (0.1) million). The total profit and loss recognised in the year related to this scheme was an expense of £1.2 million (2017: £0.7 million).

Notes to the Financial Statements

11. Income tax

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

11.1. Tax credited in the income statement

(In GBP thousands)	2018	2017
UK corporation tax		
Current year (credit) / charge at 27% (2017: 27.25%)	(726)	(1,517)
Prior year	(272)	340
	(998)	(1,177)
Deferred tax		
Current year movement	(2,072)	(1,947)
Revaluation due to change in tax rates	5	203
Prior year adjustment	0	(295)
	(2,067)	(2,039)
Total tax (credit) / charge on loss/profit on ordinary activities	(3,065)	(3,216)

11.2. Reconciliation of effective tax rate

The tax credit on the loss on ordinary activities for the year at 5% (2017: 32%) is lower (2017: higher) than the standard rate of corporation tax in the UK for Banks of 27% (2017: 27.25%). The differences are reconciled below:

(In GBP thousands)	2018	2017
Profit / (loss) before income tax	59,145	(9,935)
Income tax using domestic corporation tax @ 27% (2017: 27.25%)	15,969	(2,701)
Permanent differences	534	1,334
Non-taxable dividend income	(17,498)	-
Accelerated capital allowances and tax balances transferred with the KB banking trade	(1,171)	(2,096)
Deferred tax revaluation	5	203
Use of historical tax losses	(632)	-
Prior year adjustment	(272)	44
Total income tax (group tax relief)/expense	(3,065)	(3,216)

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

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

(In GBP thousands)	2018	2017
Arising on income and expenses recognised in OCI:		
Revaluation of FVOCI financial assets	739	169
IFRS 9 FTA ECL	290	-
Total income tax recognised in OCI	1,028	169

11.4. Change in Corporation Tax rate

Finance Act 2015 reduced the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020. These rates are taken into account when calculating the deferred tax rate used in the accounts. As a bank the Company is also subject to the corporate tax surcharge on banks of 8% applicable from 1 January 2016.

11.5. Deferred tax

Deferred tax assets and liabilities are recognised to the extent that they are more likely than not to be recovered at the rates of 25%, which includes the corporate tax surcharge on banks of 8% applicable from 1 January 2016.

Notes to the Financial Statements

11. Income tax (continued)

11.5 Deferred tax (continued)

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

(In GBP thousands)	2018	2017
Deferred tax assets		
Accelerated capital allowances	2,302	899
Employee share scheme	160	133
Deferred bonus	171	135
IFRS 9 FTA ECL	259	
Losses	1,889	1,256
	4,781	2,423
Deferred tax liabilities		
FVOCI movement on debt securities	(641)	(1,279)
	(641)	(1,279)

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

The following deferred tax assets transferred from KBBL have not been recognised:

(In GBP thousands)	2018	2017
Losses	16,418	24,800
Accelerated capital allowances	3,165	4,528
	19,583	29,328

Notes to the Financial Statements

12. Financial instruments

Accounting policies

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

12.1. Financial assets and liabilities

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

12.1.1. Financial assets

(In GBP thousands)	2018				2018
	Fair value through profit or loss	FV through OCI	Amortised cost	Carrying amount	Fair Value
Cash and balances at central banks	-	-	169,360	169,360	166,017
Derivative assets	12,342	-	-	12,342	12,342
Loans and advances to banks (Note 13)	-	-	31,344	31,344	34,687
Loans and advances to customers (Note 14)	-	-	1,074,474	1,074,474	1,074,474
Debt and investment securities (Note 15)	-	1,253,521	-	1,253,521	1,253,521
Total	12,342	1,253,521	1,275,178	2,541,041	2,541,041

(In GBP thousands)	2017				2017
	Fair value through profit or loss	AFS	Amortised cost	Carrying amount	Fair Value
Cash and balances at central banks	-	-	247,705	247,705	247,705
Derivative assets	16,325	-	-	16,325	16,325
Loans and advances to banks (Note 13)	-	-	43,388	43,388	43,388
Loans and advances to customers (Note 14)	-	-	1,168,605	1,168,605	1,168,605
Debt and investment securities (Note 15)	-	1,010,102	-	1,010,102	1,010,102
Total	16,325	1,010,102	1,459,698	2,486,125	2,486,125

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

Notes to the Financial Statements

12. Financial instruments (continued)

12.1.2. Financial liabilities

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

(In GBP thousands)	2017			2017
	At fair value through profit or loss	Amortised cost	Carrying amount	Fair value
Deposits by banks	-	(67,883)	(67,883)	(67,883)
Customers' accounts	-	(2,203,384)	(2,203,384)	(2,203,384)
Financial liabilities at fair value through profit or loss	(39,056)	-	(39,056)	(39,056)
Derivative liabilities	(11,220)	-	(11,220)	(11,220)
Total	(50,276)	(2,271,267)	(2,321,543)	(2,321,543)

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

12.2. Fair values of financial assets and liabilities:

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

Derivatives

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

FV on FVOCI under IFRS9 / Available-for-sale financial investments under IAS39

FVOCI / 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.

12.3. Valuation methods of financial instruments at fair value

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

During the reporting period ending 31 December 2018, there were no transfers between levels of fair value hierarchy (2017: Nil).

Notes to the Financial Statements

12. Financial instruments (continued)

12.3.1. Financial assets measured at fair value:

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

	2017			
(In GBP thousands)	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
- Interest rate swaps	-	6,488	-	6,488
- Forward foreign exchange contracts	-	9,736	-	9,736
- Equity Options	-	101	-	101
Available-for-sale financial investments				
- Government debt securities	174,478	-	-	174,478
- Fixed rate bonds	433,584	-	-	433,584
- Other debt securities	396,373	-	-	396,373
- Certificate of deposits	-	4,990	-	4,990
- Unquoted equities	-	-	677	677
Total financial assets measured at fair value	1,004,435	21,315	677	1,026,427

12.3.2. Financial liabilities measured at fair value

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

	2017			
In GBP thousands)	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
- Interest rate swaps	-	(2,139)	-	(2,139)
- Forward foreign exchange contracts	-	(9,081)	-	(9,081)
- Equity Options	-	-	-	-
Financial liabilities at fair value through profit or loss				
- Options on customer accounts linked to interest rate swaps	-	(39,056)	-	(39,056)
Total financial liabilities measured at fair value	-	(50,276)	-	(50,276)

Notes to the Financial Statements

12. Financial instruments (continued)

12.3.3. Movements of Level 3 unquoted equities

(In GBP thousands)	2018	2017
Balance brought forward 1 January	677	1,016
Purchases	23	520
Sales	(244)	(994)
Revaluations	-	135
Balance carried forward 31 December	456	677

Directors' key judgements and assumptions for level 3:

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

12.4. Hedges

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

As at 31 December 2018 the Company had no fixed rate financial liabilities (2017: £nil) and £375.7 million of fixed rate financial assets (2017: £391.1 million) hedged by interest rate swaps in fair value hedge relationships. The accumulated amount of fair value adjustments on the hedged item is £6.7m (2017: £3.4m)

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

12.5. Maturity of derivative financial instruments

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

12.5.1. Derivative financial assets

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

(In GBP thousands)	2017					Fair value
	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	
Derivative held for trading:						
- Interest rate swaps	444	-	-	2,259	-	2,703
- Forward foreign exchange contracts	9,359	14	326	37	-	9,736
Derivatives used as fair value hedges:						
- Interest rate swaps	-	-	-	154	3,631	3,785
- Equity Options	101	-	-	-	-	101
Total derivative assets	9,904	14	326	2,450	3,631	16,325

Notes to the Financial Statements

12. Financial instruments (continued)

12.5.2. Derivative financial liabilities

2018						
(In GBP thousands)	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Fair value
Derivative held for trading:						
- Interest rate swaps	-	-	-	-	-	-
- Forward foreign exchange contracts	(2,042)	(27)	(1,591)	(170)	-	(3,830)
- Equity option	(294)	-	-	-	-	(294)
- Repo contracts	-	-	-	-	-	-
- Options on customer accounts linked to interest rate swaps	-	-	-	(35,478)	-	(35,478)
Derivatives used as fair value hedges:						
- Interest rate swaps	(79)	(1,216)	(615)	(15)	-	(1,925)
Total derivative liabilities	(2,415)	(1,243)	(2,206)	(35,663)	-	(41,527)

2017						
(In GBP thousands)	Less than 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Fair value
Derivative held for trading:						
- Interest rate swaps	(1,627)	(3)	-	(64)	-	(1,694)
- Forward foreign exchange contracts	(8,767)	(9)	(275)	(30)	-	(9,081)
- Equity option	-	-	-	-	-	-
- Repo contracts	-	-	-	-	-	-
- Options on customer accounts linked to interest rate swaps	(2,268)	-	-	(36,788)	-	(39,056)
Derivatives used as fair value hedges:						
- Interest rate swaps	-	-	-	(81)	(364)	(445)
Total derivative liabilities	(12,662)	(12)	(275)	(36,963)	(364)	(50,276)

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

13. Loans and advances to banks

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

(In GBP thousands)	2018	2017
Cash	-	21
Credit institutions	31,344	43,367
Total	31,344	43,388

Included in loans and advances to credit institutions are £7.9 million (2017: £9.0 million) in unsubordinated loans, due from group undertakings.

13.1. Contractual maturity of loans and advances to banks

(In GBP thousands)	2018	2017
Repayable on demand	31,344	42,040
Remaining maturity:		
- Between 1 day and 3 months	-	-
- Between 3 months and 1 year	-	1,348
Total	31,344	43,388

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

Notes to the Financial Statements

14. Loans and advances to customers

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

(In GBP thousands)	2018	2017
Retail mortgages	827,576	897,040
Other loans	250,797	274,621
	1,078,373	1,171,661
Impairment	(3,899)	(3,056)
Total	1,074,474	1,168,605

No amounts were due from group undertakings.

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

There were no write-offs during the year (2017: Nil)

14.1. Contractual maturity of loans and advances to customers

(In GBP thousands)	2018	2017
Repayable on demand	165,522	234,280
Remaining maturity:		
- Between 1 day and 3 months	49,156	53,145
- Between 3 months and 1 year	158,497	92,923
- Greater than 1 year	705,198	791,313
	1,078,373	1,171,661

14.2. Impairment of loans and advances to customers

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

(In GBP thousands)	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Lombard	227,903	268	-	228,172	236,136
Real estate	821,752	5,062	-	826,814	916,226
Asset-backed	2,210	-	-	2,210	957
Non-guaranteed	12,508	-	-	12,508	15,286
Defaulted	-	-	4,770	4,770	-
Total	1,064,373	5,330	4,770	1,074,474	1,168,605

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

(In GBP thousands)	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount as at 01 January	1,154,667	-	16,994	1,171,661	1,003,951
Transfer to stage 1	8,743	-	(8,743)	-	-
Transfer to stage 2	(5,332)	5,332	-	-	-
Net loans originated / (repaid)	(93,288)	-	-	(93,288)	167,710
Gross carrying amount at 31 December	1,064,790	5,332	8,251	1,078,373	1,171,661

Notes to the Financial Statements

14. Loans and advances to customers (continued)

14.2 Impairment of loans and advances to customers (continued)

Impairment allowance for loans and advances

	2018			2017	
(In GBP thousands)	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount as at 01 January	9	-	3,047	3,056	4,132
Impact of adopting IFRS9	1,027	-	-	1,027	-
Transfer to stage 2	(8)	8	-	-	-
Increase / (decrease) in provision	386	55	(625)	(184)	(1,076)
Gross carrying amount at 31 December	1,414	63	2,422	3,899	3,056

The increase in provision in stage 1 is driven by the increase in the assessment of probability of default due to an analysis of increased data in the model.

No amount has been recovered from previously written off client loans in 2018 (2017: £nil). Included within the year-end stage 3 provision is an amount of £238k (2017: specific provision - £Nil) relating to interest.

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

15. Debt and investment securities

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

(In GBP thousands)	2018	2017
Quoted investments		
Fixed rate bonds	548,625	433,584
Other debt securities:		
- Government debt securities	267,387	174,478
- Floating Rate notes	410,169	396,373
- Certificate of deposits	26,884	4,990
Unquoted investments		
Equity holdings	456	677
Total	1,253,521	1,010,102

15.1. Impairment of investment securities

(In GBP thousands)	2018	2017
At 1 January	69	205
Charged against profits	-	(136)
At 31 December	69	69

The impairment of £0.1 million (2017: £0.1 million) relates to an FVPL (2017: AFS) equity investment in the SG European Distressed Opportunities I Fund.

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

Notes to the Financial Statements

16. Shares in group undertakings

(In GBP thousands)	2018			2017		
	Subsidiaries	Associates	Total	Subsidiaries	Associates	Total
Cost						
At 1 January	231,357	1,740	233,097	121,157	1,907	123,064
Additions	-	-	-	110,261	-	110,261
Disposals	-	-	-	(60)	-	(60)
Exchange movements	-	98	99	(1)	(167)	(168)
At 31 December	231,357	1,838	233,195	231,357	1,740	233,097
Provision for impairment						
At 1 January	(5)	(290)	(295)	(5)	(318)	(323)
Additions	-	-	-	-	-	-
Write-back	-	(17)	(17)	-	28	28
At 31 December	(5)	(307)	(312)	(5)	(290)	(295)
Net Book Value at 31 December	231,352	1,531	232,883	231,352	1,450	232,802

16.1. Ownership interest in subsidiaries

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

(In GBP thousands)	Location	Business type	2018	2017
Credit institutions and financial advisors				
SG Kleinwort Hambros Bank (Channel Islands) Ltd.	St Helier, Jersey	Bank	200,842	200,842
SG Kleinwort Hambros Bank (Gibraltar) Ltd.	Gibraltar	Bank	30,000	30,000
SG Kleinwort Hambros Trust Company (UK) Limited	London, UK	Trust company	250	250
SG Hambros Trust Company Ltd.	London, UK	Trust company	250	250
SGH Trust Co (Canada) Inc.	London, UK	Trust company	-	-
SG Hambros Nominee London	London, UK	Nominee	-	-
St George St Capital (KB) Ltd	London, UK	Holding	-	-
Robert Benson, Lonsdale & Co (Canada)	London, UK	Nominee	10	10
KB Farmland Trust (Managers) Ltd	London, UK	Dormant	-	-
Fenchurch Nominees Limited	London, UK	Nominee	-	-
Frank Nominees Limited	London, UK	Nominee	-	-
KBPB Nominees Ltd	London, UK	Nominee	-	-
KB Unit Trusts	London, UK	Dormant	-	-
KBIM Standby Nominees Ltd.	London, UK	Nominee	-	-
Langbourn Nominees Ltd	London, UK	Nominee	-	-
At 31 December			231,352	231,352

Notes to the Financial Statements

16. Shares in group undertakings (continued)

There was no change in the ownership of the above subsidiaries during the year. During the 2017 year, the Company has increased its investment in SG Kleinwort Hambros Bank (Channel Islands) Limited.

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

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

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

16.2. Ownership interest in associates

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

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

17. Intangible assets

(In GBP thousands)	2018			2017		
	Goodwill	Software	Total	Goodwill	Software	Total
Cost						
At 1 January	42,300	10,444	52,744	16,358	1,922	18,280
Additions	-	2,480	2,480	25,942	8,522	34,464
Disposals	-	(9,772)	(9,772)	-	-	-
At 31 December 2018	42,300	3,153	45,452	42,300	10,444	52,744
Accumulated Depreciation						
At 1 January	(5,110)	(2,642)	(7,752)	(5,110)	(1,816)	(6,926)
Amortisation	-	(228)	(228)	-	(826)	(826)
Reversal of prior charge	-	798	798	-	-	-
At 31 December	(5,110)	(2,071)	(7,181)	(5,110)	(2,642)	(7,752)
Net Book Value at 31 December 2018	37,190	1,081	38,271	37,190	7,802	44,992

During 2017, £25.9 million of goodwill was recognised and £4.6 million of capitalised software costs was acquired as part of the Part VII acquisition of KBBL. A significant proportion of this software and further costs capitalised by the Company as Software relate to the implementation of a new core banking system. In 2018 this project has ceased and the associated assets of £9.7m have been written off.

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

Intangibles impairment

In accordance with IAS 36 (Impairment of Assets), the Company reviewed the carrying values of its intangible assets at 31 December 2018 and 31 December 2017. As a result of this review, the Company recognised an impairment charge of £Nil million (2017: Nil) relating to software that was previously in use and under development which has either had its expected useful life reduced or, for assets under development, will not be brought into use. Judgment has been used by management in determining the length of these remaining useful lives.

In its analysis for the impairment of goodwill the Company has recognised an impairment charge of £Nil (2017: Nil) during the year based on the assumptions of assessment. In determining this conclusion, the Company has assumed a revenue growth rate of 7% per annum (2017: 6%), cost savings of 4% per annum (2017: 3%) and a 10% (2017: 9%) discount rate in its 5-year model.

Notes to the Financial Statements

18. Tangible assets

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

(In GBP thousands)	2018			2017		
	Computer hardware	Furniture, fixtures and fittings	Total	Computer hardware	Furniture, fixtures and fittings	Total
Cost						
At 1 January	1,520	2,087	3,607	1,307	2,087	3,394
Additions	-	11	11	213	-	213
At 31 December 2018	1,520	2,098	3,618	1,520	2,087	3,607
Accumulated Depreciation						
At 1 January	(1,240)	(1,786)	(3,026)	(1,032)	(1,711)	(2,743)
Depreciation	(177)	(83)	(260)	(208)	(75)	(283)
At 31 December 2018	(1,417)	(1,869)	(3,286)	(1,240)	(1,786)	(3,026)
Net Book Value at 31 December 2018	103	229	332	280	301	581

19. Trade and other receivables

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

(In GBP thousands)	2018	2017
Indemnity for loss	3,004	2,619
Accrued income	6,445	7,141
Prepayments	1,374	1,011
Intercompany receivables	12,716	29,002
Indirect taxation receivable	1,556	1,563
Due from brokers	53	306
Settlement balances	-	2,632
Other assets	1,429	114
Total	26,577	44,388

Intercompany receivables consist of amounts owed from subsidiary entities.

Trade and other receivables have been assessed for impairment under the simplified approach in IFRS 9. The above amounts are net of £0.05m (2017: £0.04m) provisions.

20. Deposits by banks

(In GBP thousands)	2018	2017
Repayable on demand to Group undertakings	41,500	66,189
Other	268	1,694
Total	41,768	67,883

Notes to the Financial Statements

21. Customers' accounts

Deposits by customers are classified as follows:

(In GBP thousands)	2018	2017
Call deposits repayable on demand	1,628,110	1,552,084
Term deposits with remaining maturities:		
- Between 1 day and 3 months	256,633	280,266
- Between 3 months and 1 year	269,233	318,770
- Greater than 1 year	37,240	52,264
Total	2,191,216	2,203,384

22. Other liabilities

Trade and other payables

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

(In GBP thousands)	2018	2017
Accrued expenses	38,589	53,084
Intercompany payables	6,830	1,034
Personnel expenses	8,215	8,951
Deferred income	2,344	2,361
Other	4,040	2,938
Total	60,018	68,368

23. Provisions

(In GBP thousands)	2018			2017		
	Onerous contracts	Other	Total	Onerous contracts	Other	Total
Cost						
At 1 January	2,131	36	2,167	-	362	362
Impact of adopting IFRS9 (Note 28.4)	-	112	112	-	-	-
Additions	-	86	86	2,131	-	2,131
Released	-	-	-	-	(326)	(326)
At 31 December	2,131	234	2,365	2,131	36	2,167

Onerous contracts

The Company has provided for lease contracts associated with the former KB premises at 14 St George Street, London.

23.1. Expected maturity of provisions

(In GBP thousands)	2018			2017		
	Onerous contracts	Other	Total	Onerous contracts	Other	Total
Less than 1 year	-	234	234	-	36	36
Between 1 and 5 years	2,131	-	2,131	2,131	-	2,131
Total	2,131	234	2,365	2,131	36	2,167

Notes to the Financial Statements

24. Share capital

(In thousands)	2018		2017	
	Number of shares	Value of shares (GBP)	Number of shares	Value of shares (GBP)
Authorised				
Ordinary shares of £1 each	328,266	328,266	303,266	303,266
Allotted, called up and fully paid				
Ordinary shares of £1 each	328,266	328,266	303,266	303,266

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

In October 2017 £143.2 million of share capital was issued to the Company's immediate parent company, to provide funding for a subsidiary, SG Kleinwort Hambros Bank (CI) Limited to purchase and then integrate the KB Channel Islands banking entities.

25. Capital management

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

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

The Company's capital is monitored using the supervisory requirements set by the PRA. The PRA issues Individual Capital Guidance ("ICG") based on the review of the Company's capital planning model as evidenced under the Individual Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is reviewed annually by the Company and by exception when necessary. At the end of the year the Company's total capital requirement was £118.9m (2017: £102.3m).

Required pillar 3 disclosures will be published at group level by Société Générale on their website www.societegenerale.com.

26. Financial risk management

Risk management and control

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

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

Treasury Rules and Investment Mandate

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

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

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

Notes to the Financial Statements

26. Financial risk management (continued)

26.1. Interest rate risk

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

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

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

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

26.1.1. Interest rate risk sensitivity

Interest rate sensitivity is determined based on the Company's assets and liabilities at 31 December 2018 and by reference to a movement in market interest rates reasonably possible in the Company's next financial reporting period.

If interest rates had been 50 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre-tax profit for the year ended 31 December 2018 would have been £0.5 million lower (2017: £0.1 million) which ultimately would result in £0.4 million (2017: £Nil) post tax profit. This would have mainly resulted from lower interest income on variable rate assets and lower financing costs in respect of its loans.

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

Notes to the Financial Statements

26. Financial risk management (continued)

26.1.2. Interest rate maturities

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

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

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

(In GBP thousands)	Repricing Dates						Total
	Carrying amount	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Non-interest bearing	
Cash and balances with central banks	169,347	165,991	3,343	-	-	13	169,347
Placements with, and loans and advances to other banks	31,367	31,367	-	-	-	-	31,367
Fixed rate	-	-	-	-	-	-	-
Variable rate	31,357	31,357	-	-	-	-	31,357
Investment securities	1,253,521	384,890	166,375	414,616	287,345	295	1,253,521
Debt and other fixed income securities	-	-	-	-	-	-	-
FV through OCI	1,253,521	384,890	166,375	414,616	287,345	295	1,253,521
Loans and advances to customers	1,074,474	1,017,264	4,460	52,750	-	-	1,074,474
Fixed rate	58,804	2,045	4,460	52,299	-	-	58,804
Variable rate	1,015,670	1,015,219	-	451	-	-	1,015,670
Total	2,528,699	1,599,502	174,179	467,366	287,345	308	2,528,699
Loans and deposits due to other banks	41,768	41,768	-	-	-	-	41,768
Fixed rate	-	-	-	-	-	-	-
Variable rate	41,768	41,768	-	-	-	-	41,768
Loans and deposits due to customers	2,191,216	1,917,843	253,245	20,128	-	-	2,191,216
Fixed rate	528,880	255,507	253,245	20,128	-	-	528,880
Variable rate	1,662,336	1,662,336	-	-	-	-	1,662,336
Total	2,232,984	1,959,611	253,245	20,128	-	-	2,232,984
Interest rate derivatives (gross notional inflows)	-	544,280	15,085	7,408	-	-	566,773
Interest rate derivatives (gross notional outflows)	-	34,254	7,951	334,880	189,688	-	566,773
Net notional inflow (outflow)	-	510,026	7,134	(327,472)	(189,688)	-	-

Notes to the Financial Statements

26. Financial risk management (continued)

26.1.2 Interest rate maturities (continued)

2017

(In GBP thousands)	Repricing Dates						Total
	Carrying amount	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Non-interest bearing	
Cash and balances with central banks	247,705	247,684	-	-	-	21	247,705
Placements with, and loans and advances to other banks	43,388	42,040	1,348	-	-	-	43,388
Fixed rate	-	-	-	-	-	-	-
Variable rate	43,388	42,040	1,348	-	-	-	43,388
Investment securities	1,010,102	422,511	104,995	304,609	177,227	760	1,010,102
Debt and other fixed income securities	3	3	-	-	-	-	3
FV through OCI	1,010,099	422,508	104,995	304,609	177,227	760	1,010,099
Loans and advances to customers	1,168,605	1,162,687	-	5,918	-	-	1,168,605
Variable rate	1,160,787	1,160,336	-	451	-	-	1,160,787
Fixed rate	7,818	2,351	-	5,467	-	-	7,818
Total	2,469,800	1,874,922	106,343	310,527	177,227	781	2,469,800
Loans and deposits due to other banks	67,883	67,883	-	-	-	-	67,883
Fixed rate	655	655	-	-	-	-	655
Variable rate	67,228	67,228	-	-	-	-	67,228
Loans and deposits due to customers	2,203,384	1,832,028	319,070	52,285	-	-	2,203,384
Fixed rate	854,780	483,424	319,070	52,285	-	-	854,780
Variable rate	1,348,604	1,348,604	-	-	-	-	1,348,604
Total	2,271,267	1,899,911	319,070	52,285	-	-	2,271,267
Interest rate derivatives (gross notional inflows)	-	397,123	2,000	34,788	-	-	433,911
Interest rate derivatives (gross notional outflows)	-	183,560	2,000	179,526	68,825	-	433,911
Net notional inflow (outflow)	-	213,563	-	(144,737)	(68,825)	-	-

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

2018

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

Notes to the Financial Statements

26. Financial risk management (continued)

26.1.2 Interest rate maturities (continued)

2017

(In GBP thousands)	Carrying amount	Contractual Cashflows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 Years
Financial assets						
Cash and balances with central banks	247,705	247,705	247,705	-	-	-
Derivative assets	16,325	16,325	9,904	340	2,450	3,631
Loans and advances to banks	43,388	43,388	42,040	1,348	-	-
Loans and advances to customers	1,168,605	1,246,986	478,510	62,447	651,519	54,511
Debt and investment securities	1,010,102	1,096,493	158,345	134,201	592,660	211,287
Total financial assets	2,486,125	2,650,897	936,504	198,336	1,246,629	269,429
Financial liabilities						
Deposits by banks	67,883	67,883	67,883	-	-	-
Customer accounts	2,203,384	2,206,619	1,958,818	224,581	23,220	-
Derivative liabilities	11,220	11,220	10,394	368	458	-
Total financial liabilities	2,282,487	2,285,722	2,037,095	224,949	23,678	-

26.1.3. Fair value hedges

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

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

(In GBP thousands)	2018			2017		
	Notional	Carrying amount Assets	Carrying amount Liabilities	Notional	Carrying amount Assets	Carrying amount Liabilities
Micro fair value hedges						
Interest rate swaps	528,479	6,408	1,925	433,911	3,785	1,694
At 31 December	528,479	6,408	1,925	433,911	3,785	1,694

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

(In GBP thousands)	2018		
	Gains/(losses) attributable to hedged risk Hedging item	Gains/(losses) attributable to hedged risk Hedging instrument	Hedge ineffectiveness
Micro fair value hedge relationship			
Interest rate swaps	(2,146)	2,568	422

Notes to the Financial Statements

26. Financial risk management (continued)

26.1.3. Fair value hedges (continued)

				2017
(In GBP thousands)	Gains/(losses) attributable to hedged risk Hedging item	Gains/(losses) attributable to hedged risk Hedging instrument	Hedge Ineffectiveness	
Micro fair value hedge relationship				
Interest rate swaps	(7,338)	7,986	648	

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

						2018
(In GBP thousands)	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Total	
Fixed rate FVOCI debt instruments						
Interest rate swaps	34,254	7,951	334,880	189,688	566,773	
						2017
(In GBP thousands)	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 Years	Total	
Fixed rate FVOCI debt instruments						
Interest rate swaps	183,560	2,000	179,526	68,825	433,911	

26.2. Foreign currency risk

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

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

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

Notes to the Financial Statements

26. Financial risk management (continued)

26.2.1. Foreign exchange sensitivity

Foreign exchange sensitivity is determined based on the Company's foreign currency assets and liabilities at 31 December 2018 and by reference to a movement in foreign currency rates reasonably possible in the Company's next financial reporting period.

A strengthening of GBP against EUR or USD at 31 December 2018 of 1% would have decreased (increased) equity and profit (loss) for the period by the amounts shown below. The analysis is performed on the same basis for the year ended 31 December 2017. A weakening of the EUR or USD against the GBP would have had the equal but opposite effect on the amounts shown below.

(In GBP thousands)	2018		2017	
	Equity	Profit/(loss) for the period	Equity	Profit/(loss) for the period
EUR	(139)	(139)	(5)	(2)
USD	(98)	(98)	-	58

26.3. Credit risk of financial assets

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

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

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

Collateral pledged against loans and advances to customers at the year-end totalled £2,627.7m (2017: £3,119.7m) with £1,553.7m (2017: £1,963.2m) collateral in excess of loans granted and £4.4m (2017: £15.2m) of loans in excess of collateral.

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

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

26.3.1. Credit risk by financial asset class

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

(In GBP thousands)	2018					
	Individually Impaired	Past due but not Impaired	Neither past due nor impaired	Total carrying amount	Impairment allowance	Net Exposure
Balance sheet						
Cash and balances at central banks	-	-	169,347	169,347	-	169,347
Derivative assets	-	-	12,342	12,342	-	12,342
Loans and advances to banks	-	-	31,357	31,357	-	31,357
Loans and advances to customers	7,797	481	1,070,095	1,078,373	(3,899)	1,074,474
Debt and investment securities	-	-	1,253,590	1,253,590	(69)	1,253,521
Trade and other receivables	45	8	26,569	26,622	(45)	26,577
	7,842	489	2,563,300	2,571,337	(4,013)	2,567,618
Off-balance sheet						
Loan commitments granted	-	-	-	62,773	-	62,773
Guarantee commitments granted	-	-	-	52,719	-	52,719
	-	-	-	115,492	-	115,492

Notes to the Financial Statements

26. Financial risk management (continued)

26.3.1. Credit risk by financial asset class (continued)

	2017					
(In GBP thousands)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total carrying amount	Impairment allowance	Net Exposure
Balance sheet						
Cash and balances at central banks	-	-	247,705	247,705	-	247,705
Derivative assets	-	-	16,325	16,325	-	16,325
Loans and advances to banks	-	-	43,388	43,388	-	43,388
Loans and advances to customers	9,322	19	1,162,320	1,171,661	(3,056)	1,168,605
Debt and investment securities	-	-	1,010,171	1,010,171	(69)	1,010,102
Trade and other receivables	40	12	44,376	44,428	(40)	44,388
	9,362	31	2,524,285	2,533,678	(3,165)	2,530,513
Off-balance sheet						
Loan commitments granted	-	-	-	61,787	-	61,787
Guarantee commitments granted	-	-	-	65,399	-	65,399
	-	-	-	127,186	-	127,186

Debt securities are classified as fair value through other comprehensive income in 2018 and available-for-sale assets in 2017 and 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.

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

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

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

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

Expected credit losses (ECL)

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

Exposure classified in stage 1:

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

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

Exposure classified in stage 2:

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

Notes to the Financial Statements

26. Financial risk management (continued)

26.3.1. Credit risk by financial asset class (continued)

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

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

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

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

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

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

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

Exposure classified in stage 3:

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

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

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

Notes to the Financial Statements

26. Financial risk management (continued)

26.3.1. Credit risk by financial asset class (continued)

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

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

Determination of ECL assumptions

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

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

		2018	2017
S1 PD	Lombard	0.16%	0.13%
	Real estate	1.14%	0.74%
	Asset-backed	0.23%	0.10%
	Non-guaranteed	0.22%	0.15%
S1 LGD	Lombard	7.60%	7.60%
	Real estate	15.30%	15.30%
	Asset-backed	13.20%	13.20%
	Non-guaranteed	32.50%	32.50%
S2 PD		20.00%	20.00%
S3 PD		100.00%	100.00%

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

26.3.2. Concentration risk

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

26.4. Liquidity risk of financial assets and liabilities

Liquidity risk is the risk that the Company cannot pay its obligations as they fall due. The liquidity risk appetite for the Company is as follows:

Liquidity Resources

The Company must at all times maintain liquidity resources that are adequate, in terms of both 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, the Company must be self-sufficient for liquidity purposes, and remain within both the Board defined liquidity risk appetite and all regulatory thresholds. This is maintained by the defined liquidity monitoring processes, the ongoing review of the suitability of the liquid asset buffer and the liquidity contingency plan ("LCP").

Liquidity Coverage Ratio ("LCR")

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

Early Warning Indicators

The Company has developed a LCP, which identifies the activities, resources and procedures required in a stress event, and the responsibilities of key personnel. The Company has created a key set of liquidity early warning indicators with individual owners. The indicators are communicated via an internal intranet site and updated on a weekly basis with an alert of any breaches immediately sent as detailed in the LCP and to the ALCO members.

Notes to the Financial Statements

26. Financial risk management (continued)

26.4 Liquidity risk of financial assets and liabilities (continued)

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

Stress Testing

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

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

Contractual maturities

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

2018			
(In GBP thousands)	Carrying amount	Current (<12 months)	Non-current (>12 months)
Financial assets			
Cash and balances with central banks	169,360	169,360	-
Derivative assets	12,342	12,342	-
Loans and advances to banks	31,344	31,344	-
Loans and advances to customers	1,074,474	429,158	645,316
Debt and investment securities	1,253,521	315,766	937,755
Total financial assets	2,541,041	957,970	1,583,071
Financial liabilities			
Deposits by banks	41,768	41,768	-
Customer accounts	2,191,216	2,169,670	21,546
Derivative liabilities	6,049	6,049	-
Total financial liabilities	2,239,033	2,217,487	21,546
2017			
(In GBP thousands)	Carrying amount	Current (<12 months)	Non-current (>12 months)
Financial assets			
Cash and balances with central banks	247,705	247,705	-
Derivative assets	16,325	16,325	-
Loans and advances to banks	43,388	43,388	-
Loans and advances to customers	1,168,605	522,749	645,856
Debt and investment securities	1,010,102	279,361	730,741
Total financial assets	2,486,125	1,109,527	1,376,598
Financial liabilities			
Deposits by banks	67,883	67,883	-
Customer accounts	2,203,384	2,180,985	22,399
Derivative liabilities	11,220	11,220	-
Total financial liabilities	2,282,487	2,260,088	22,399

Notes to the Financial Statements

26. Financial risk management (continued)

26.4 Liquidity risk of financial assets and liabilities (continued)

26.4.1. Encumbered and unencumbered assets

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

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

(In GBP thousand)	2018		
	Encumbered	Unencumbered	Total
	Pledged as collateral	Available as collateral	Carrying Amount
Cash and balances at central banks	-	-	169,360
Derivative assets	-	-	12,342
Loans and advances to other banks	-	-	31,344
Loans and advances to customers	-	-	1,074,474
Debt and investment securities	-	1,253,521	1,253,521
Total	-	1,253,521	1,287,620

(In GBP thousands)	2017		
	Encumbered	Unencumbered	Total
	Pledged as collateral	Available as collateral	Carrying Amount
Cash and balances at central banks	-	-	247,705
Derivative assets	-	-	16,325
Loans and advances to other banks	-	-	43,388
Loans and advances to customers	-	-	1,168,605
Debt and investment securities	-	1,010,102	1,010,102
Total	-	1,010,102	1,476,023

27. Subsequent events

There were no subsequent events that require further disclosure in the financial statements.

28. Commitments and contingencies

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

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

28.1. Contingent liabilities:

(In GBP thousands)	2018		2017	
	Contractual amount	Risk-weighted amount	Contractual amount	Risk-weighted amount
Guarantees and assets pledged as collateral security:				
- guarantees and irrevocable letters of credit	52,719	12,530	65,399	11,262

Included in the above are guarantees given on behalf of subsidiary undertakings of £Nil (2017: £0.84 million).

Notes to the Financial Statements

28. Commitments and contingencies (continued)

28.2. Commitments:

(In GBP thousands)	2018		2017	
	Contractual amount	Risk-weighted amount	Contractual amount	Risk-weighted amount
Undrawn formal standby facilities, credit lines				
Other commitments to lend:				
Within one year	62,773	15,843	61,787	19,248
Between one and five years	-	-	-	-
Over five years	-	-	-	-
Total	62,773	15,843	61,787	19,248

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

28.3. Capital commitments:

(In GBP thousands)	2018		2017	
	Less than 1 year	Between 1 and 5 years	Less than 1 year	Between 1 and 5 years
Software development	-	-	5,801	-

Capital commitments relate to the future contractual payments required on the milestone delivery of software projects by third parties. Judgment has been used by management in determining the future timing of the use of these commitments.

28.4. Impairment on commitments

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

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

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

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

Notes to the Financial Statements

28. Commitments and contingencies (continued)

Impairment allowance on commitments

	2018			2017
(In GBP thousands)	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 01 January	-	-	-	-
Impact of adopting IFRS9	112	-	-	112
Increase in provision	17	-	-	17
Expected credit losses at 31 December	129	-	-	129

28.5. Operating lease commitments

Refer to Note 9.3.

28.6. Other commitments and contingencies

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

29. Related parties

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

29.1. Directors' remuneration

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

(In GBP thousands)	2018	2017
Salary and benefits	1,216	956
Performance related benefits	702	419
Pension contributions to money purchase schemes	58	31
Total	1,976	1,406

During the year, four directors (2017: two) accrued benefits under the defined contribution pension scheme. Four of the current non-executive directors are employed by other entities in the SG Group. Emoluments for these directors are included in the statutory financial statements of SG and are excluded from the figures above. The Company is not directly charged a specified amount for the services of these directors.

Notes to the Financial Statements

29. Related parties (continued)

29.1 Director's remuneration (continued)

Highest paid director

(In GBP thousands)	2018	2017
Salary and benefits	281	282
Performance related benefits	244	271
Total	525	553

The accrued pension contribution of the highest paid director as at 31 December 2018 was £nil (2017: £nil).

29.2. Transactions with Directors

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

	2018		2017	
	Number of persons	Amount (In GBP thousands)	Number of persons	Amount (In GBP thousands)
Directors' loans	-	-	1	14

30. Prior year acquisition of KBBL

On 6 November 2017, the Company acquired the whole of the banking business of Kleinwort Benson Bank Limited from its immediate parent company for £63.2 million, pursuant to court approval of this transfer under a Financial Services and Markets Act 2000 Part VII arrangement.

The Statement of Financial Position of KBBL at the date of acquisition was as follows:

(In GBP thousands)	Acquisition date
Assets	
Cash, cash equivalents and balances with central banks	81,978
Placements with, and loans and advances to other banks	11,873
Investment securities	226,507
Derivative assets	1,328
Loans and advances to customers	151,011
Accrued income and other assets	10,041
Intangible assets	4,581
Total assets	487,319
Liabilities and equity	
Loans and deposits due to credit institutions	21,688
Loans and deposits due to customers	411,226
Derivative liabilities	1,356
Accrued expenses and other liabilities	3,591
Subordinated debt	7,000
Provisions	5,182
Total liabilities	450,043
Total identifiable net assets	37,276
Goodwill	25,942
Total cash consideration	63,218

The £7.0m subordinated debt issued by the Company to KBBL in January 2017 was repaid as an immediate consequence of the acquisition in November 2017.

Subsequent to the acquisition, a number of KBBL's operations have been integrated with the Company's which prevents distinction of KBBL's revenue and profit contribution to the Company. If the acquisition had been completed on the first day of the 2017 financial year, the KBBL operation would have contributed, for the first 10 months of the 2017, further revenue of £21.8 million and loss before tax of £4.9 million.

Notes to the Financial Statements

30. Prior year acquisition of KBBL (continued)

Business combinations involving businesses under common control are business combinations in which all of the combining businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. This will include group restructurings and reorganisations such as the transfer of subsidiaries or businesses between entities within a group. IFRS 3 does not address the methods of accounting that may be appropriate when a business combination involves entities under common control. Accordingly, management are able to develop an accounting policy that is relevant and reliable in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Management considered two accounting policies when developing its accounting policy concerning business combinations under common control, these are:

- A pooling of interest type method; and
- The purchase method in accordance with IFRS 3.

Management decided to account for common control transactions under the pooling of interest method on the basis that there was no substance to the transaction i.e. the acquisition price was not based on fair value.

The following accounting policies have been adopted for business combinations under common control:

- Assets and liabilities of the combining entities are reflected at their carrying amounts;
- No new goodwill is recognised because of the combination. Any difference between the consideration paid/transferred and the equity acquired is reflected in equity; and
- No restatement of comparatives occurs prior to the combination under common control.

31. Ultimate parent company

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

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