Kleinwort Benson

Kleinwort Benson Bank Limited United Kingdom

Directors' Report and Audited Financial Statements
For the year ended 31 December 2015

Contact Details
UK +44 (0) 20 3207 7400 enquiries@kleinwortbenson.com www.kleinwortbenson.com

Contents

The directors present their report and audited financial statements for the year ended 31 December 2015.

Principal activity

Kleinwort Benson Bank Limited ("the Company"), which operates under the trading name of Kleinwort Benson, has a banking heritage dating back to 1786. It has established a sound reputation for wealth management and merchant banking services in the UK. The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The principal activity of the Company is the provision of wealth management and merchant banking services.

Directors and directors' interests

The following directors have held office since 31 December 2015:

Name	Relationship with the Company
K N Graf von Schweinitz	Konstantin Graf von Schweinitz was appointed independent non-executive Chairman of the Company in July 2015, having served on the Board since July 2010. He is Chairman of the Kleinwort Benson Audit Committee and Kleinwort Benson Strategic Risk Committee. He is also an independent non-executive director of Kleinwort Benson Group Limited and has been a director since June 2011. Konstantin Graf von Schweinitz has over 25 years investment and commercial banking experience principally in capital markets and risk management and has acted as an independent advisor to hedge funds, banks and private equity companies.
L H Fischer	Leonhard Fischer was appointed non-executive Chairman of the Company in July 2010. He stepped down as Chairman in July 2015 but continues to hold the position as a non-executive director. He is also a member of the Kleinwort Benson Nomination and Remuneration Committee, having been Chairman until 31 December 2014, and Chief Executive Officer of BHF Kleinwort Benson Group S.A. He is also a non-executive director of Kleinwort Benson Group Limited. Prior to this he held senior positions within the banking and financial services industry.
A J Adcock	Andrew Adcock was appointed as an independent non-executive director of the Company in October 2012. He is also a member of the Kleinwort Benson Audit Committee and, since 1 January 2015, a member of the Kleinwort Benson Strategic Risk Committee. Andrew Adcock was formerly a Managing Partner of Brompton Asset Management, Vice Chairman of Corporate Finance, Citigroup, London and an Equity Partner of Lazard LLC, London.
Dr M D Böckenfeld	Dr Martha Böckenfeld was appointed Chief Executive Officer of the Company in April 2014, having been a non-executive director of the Company since July 2010. She is also the Chief Financial Officer of BHF Kleinwort Benson Group S.A. and has over 15 years of financial services industry experience. She is Chairman of the Kleinwort Benson Management Committee.
D A Hanlon	Duncan Hanlon resigned as the Chief Financial Officer and a director of the Company on 30 June 2015, having joined the Board in January 2011. He is a Certified Accountant and has wide experience at a senior level within the financial services sector. He was a member of the Kleinwort Benson Management Committee until June 2015.

H Linz	Heinrich Linz resigned as a non-executive director of the Company on 31 December 2015, having joined the Board in July 2010. Until 31 October 2014, he held the position of Managing Director with BHF Kleinwort Benson Group SA. He has over 25 years of banking and financial services experience. He was Chairman of the Kleinwort Benson Strategic Risk Committee until December 2015.
J M Roelandt	Jean-Marc Roelandt was appointed as the Chief Financial Officer of the Company in July 2015 and joined the Board on 20 October 2015. He is a Certified Public Accountant and currently holds the position of Managing Director at BHF Kleinwort Benson Group S.A., having previous served as Chief Financial Officer from March 2007 until October 2010. He is a member of the Kleinwort Benson Management Committee.

None of the directors had an interest in the share capital of the Company, or any disclosable interests in the shares or debentures of any group company. The directors are exempt from disclosing their interests in the shares or debentures of the ultimate parent company, BHF Kleinwort Benson Group S.A., as it is incorporated outside the UK.

None of the directors benefited from qualifying third party indemnity provisions during the year or at the date of this report.

Corporate governance

As at 31 December 2015, the Board of Directors comprised two executive directors and four non-executive directors. Two 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 Chairman and Chief Executive are separated and are clearly defined. The Chairman 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 Nomination and Remuneration 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.

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 committees and each of them has formal terms of reference covering its authority and duties, which are regularly reviewed by the Board.

Kleinwort Benson Management Committee ("Management Committee")

The purpose of the Management Committee is to consider the strategic and planning issues for the Company and to make appropriate recommendations to other Committees or the Board. The Management Committee establishes reporting lines, requests reports and information and facilitates the conduct of the business and the effective monitoring and review thereof, including: reviewing budgets, business plans and financial performance and the monitoring of risk.

On 31 December 2015, the members of the Management Committee were:

- Martha Böckenfeld: Chief Executive Officer
- Fraser Ingram: Chief Administration Officer
- Jean-Marc Roelandt: Chief Financial Officer
- Michael Burch: Chief Operating Officer
- Mouhammed Choukeir: Chief Investment Officer
- Andrew Shiels: Chief Risk Officer
- Paul Kearney: Head of Private Banking
- May Steele: Head of Human Resources

The Company and Kleinwort Benson Channel Islands Holdings Limited, have established the following prudential committees. Each of them has formal terms of reference covering its authority and duties, which are regularly reviewed.

Kleinwort Benson Audit Committee ("Audit Committee")

The members of the Audit Committee throughout 2015 were Konstantin Graf von Schweinitz (Chairman), Andrew Adcock and Anne Ewing.

The Audit Committee advises the Board on meeting its external financial reporting obligations following its consideration of

- significant financial reporting issues and judgements made in connection with the financial statements;
- the appropriateness of the accounting policies and bases;
- narrative statements and disclosures to ensure that they are reasonable and consistent with reported results; and
- regulatory financial reporting.

The Audit Committee also

- considers the going concern statement;
- considers the existence of contingent liabilities, the recognition and level of provisions and the disclosures relating to provisions and contingent liabilities for legal and regulatory matters;
- reviews the processes underlying the representations made; and
- advises the Board that the annual report and accounts, taken as a whole is fair, balanced and understandable.

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, reports produced by the Heads of Risk Management and Compliance and 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 approved by the Audit Committee. Over the course of 2015 the Audit Committee received reports on the activities of the internal audit function and on progress with the agreed recommendations. To ensure best practice and access to industry and regulatory internal audit guidance, the internal audit function continued to be outsourced. During 2016, and following the completion of a full tender process, Mazars will take over responsibility for the internal audit function from Grant Thornton.

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.

Terms of Reference detail the roles and responsibilities of the Audit Committee; these are reviewed annually, as is the effectiveness of the Audit Committee.

The Committee has at least three substantive meetings each year. The Chief Executive of Kleinwort Benson, the Chief Financial Officer and the Heads of Risk Management and Compliance shall normally attend meetings, together with the Head of Internal Audit and, if appropriate, a representative of the external auditors. The Chairman of the Board has an ongoing invitation to attend. The Audit Committee has regular discussions with the external auditor and the Head of Internal Audit, with an opportunity for discussions to take place without management present.

Kleinwort Benson Strategic Risk Committee ("Strategic Risk Committee")

The members of the Strategic Risk Committee throughout 2015 were Heinrich Linz (Chairman), Peter Neville and Konstantin Graf von Schweinitz. On 1 January 2016, Konstantin Graf von Schweinitz became Chair of this Committee and Andrew Adcock joined the Committee.

The Strategic 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 Strategic Risk Committee also reviews and recommends actions in respect of oversight, management and control of risk.

The Strategic Risk Committee considers the Group Risk Appetite and Framework 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 firm 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 firm to manage these risks and the approval process governing those policies. The responsibilities of the Strategic Risk Committee also include:

- overseeing the current risk exposures;
- reviewing the risk assessment process;
- assessing reports on any material breaches of risk tolerances and the adequacy of proposed management action.

The Company follows the "three lines of defence" model. Under this, the business, as the first line;

- understands and is accountable for all the key risks faced in achieving their business objectives;
- ensures that process and procedures are in place to manage those risks;
- have a process in place to determine if the controls are working; and
- manage and mitigate any crystallised risk events.

The second line of defence is provided by Compliance and Risk Management, who:

- interpret regulatory requirements, monitor compliance with regulations, provide an advisory service to the first line, conduct risk-based compliance testing and reviews and develop relevant policies; and
- develop tools and policies to implement a risk management framework, set parameters within which the business must operate, escalate risk and control issues to senior management, provide 'independent and effective challenge' at all levels and provide risk management information

The third line of defence is provided by internal audit who:

- undertake independent risk based testing and verification of the first and the second line of defence, providing assurance directly to the Board on the overall control environment;
- make recommendations where there have been audit findings as per industry standards; and
- validate the risk and compliance framework, to include the 'embedding' of the framework, policies/processes and tools.

The Committee has at least three substantive meetings each year. The Chief Executive of Kleinwort Benson and the Heads of Risk Management and Compliance shall normally attend meetings. The Chairman of the Board has an ongoing invitation to attend.

Terms of Reference detail the roles and responsibilities of the Strategic Risk Committee; these are reviewed annually, as is the effectiveness of the Committee.

Kleinwort Benson Nomination and Remuneration Committee ("Nomination and Remuneration Committee")

The members of the Nomination and Remuneration Committee throughout 2015 were Anne Ewing (Chairman), Leonhard Fischer and Richard Robins.

The Nomination and Remuneration Committee sets the strategy regarding the remuneration policy for the Kleinwort Benson Wealth Management companies, ensuring that they meet any legal and regulatory requirements. It also determines specific terms and compensation levels above an agreed threshold and for Material Risk Takers and, where appropriate, makes recommendations to the relevant board.

The Nomination and Remuneration Committee reviews and recommends main Board appointments and key hiring. It also reviews the structure, size, function and composition of the Kleinwort Benson Wealth Management boards and senior committees and makes recommendations to the appropriate boards in relation to any changes deemed necessary.

The Committee has at least two substantive meetings each year.

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.

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 he ought to have taken as a director to make himself 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

Pursuant to Section 487(2) of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Results and dividends

For the year ended 31 December 2015, the Company reported a loss of GBP 11.9 million (2014: loss GBP 10.3million).

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.

Financial instruments

The Company uses financial instruments as set out in notes 1 and 29 to the 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") ("Adopted IFRS"), and comply with the Companies Acts 2006.

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 or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

Approved by the Board of Directors

Signed on behalf of the Board

J C Boait
Secretary

JC Boait

Kleinwort Benson Bank Limited

Company No 2056420

14 St George Street, London W1S 1FE

17 March 2016

Business strategy and objectives of the organisation

The company is a wholly owned subsidiary of Kleinwort Benson Group Limited ("Kleinwort Benson Group"), which is itself a wholly owned subsidiary of BHF Kleinwort Benson Group SA. Oddo et Cie SCA currently owns 97% of the issued shares in BHFKB.

As at the date of these financial statements, Kleinwort Benson Group has an agreement to sell the entire issued share capital of Kleinwort Benson Bank Limited and Kleinwort Benson Channel Island Holdings Limited (which, together with their respective subsidiaries, comprise the Kleinwort Benson Wealth Management business unit ("KBWM") to SG Hambros Limited, subject to the satisfaction of certain conditions, including the receipt of regulatory approvals.

KBWM sees significant medium-term opportunities in the financial services market for a private banking strategy that is focused on a client service approach to banking. KBWM intends to exploit these growth areas through the development of its independent private banking model, based on Wealth Management and Merchant Banking. Kleinwort Benson Bank Limited is key to delivering these ambitions for Wealth Management and Merchant Banking, with its well-known and trusted brand acting as a cornerstone of this strategy.

Measurement and performance

(In GBP millions)	2015	2014
Operating income (net)	28.6	31.5
Operating expenses	(40.5)	(41.8)
Loss before tax	**(11.9)**	**(10.3)**
Asset under management (AuM) (In GBP millions)	3,264	3,396
Tier 1 ratio	23%	23%

The Company reported an increase of GBP 1.6 million in its loss before tax, with losses of GBP 11.9 million for 2015 (2014: GBP 10.3 million loss).

This increase reflects the downturn of financial markets in 2015 with the majority being attributed to GBP 1.7 million losses on financial instruments for 2015 (2014 GBP 0.5 million profit). Excluding these losses, the company reported a decrease of GBP 0.6 million in its loss before tax.

Operating income decreased from GBP 31.5 million in 2014 to GBP 28.6 million in 2015. Within this, net interest income increased from GBP 3.3 million in 2014 to GBP 3.5 million in 2015 reflecting increased returns from lending, deposit taking and treasury activities as a result of both the growth in the size of the books and an increase in margins. Net fee and commission income has decreased however from GBP 28.0 in 2014 to GBP 26.8 in 2015 driven by a fall in AuM and associated fees and lower transaction volumes.

Operating expenses decreased from GBP 41.8 million in 2014 to GBP 40.5 million in 2015 reflecting operational efficiencies as the business moves to a more streamlined and focused operating model. Operating expenses in 2015 include GBP 1.5m (2014 GBP nil) provided for client redress with respect to historical matters identified during the year.

Measurement and performance (continued)

Asset under management ("AUM") include deposits and investing activities arising from client discretionary and advisory mandates. Total AUM decreased by 3.9% from GBP 3.4 billion as at 31 December 2014 to GBP 3.3 billion as at 31 December 2015, driven by net outflows of GBP 180m being partly offset by positive market/other movements of GBP 50m.

Investment performance, including delivery of positive real returns, has remained a feature across all investment strategies and is core to our client proposition. During the period, the Business continued to receive industry recognition for its investment performance, including the more recent Platinum prize for Cautious portfolio in the large firm category at The Portfolio Advisor Wealth Manager Awards 2015 and the prestigious 'High Growth Portfolios' award, at the PAM Awards on 3 March 2016. The Company continues to maintain a solid capital and liquidity position, with key metrics comfortably exceeding regulatory requirements and being at the top end of the European Banking peer set. The Tier 1 ratio was 23% as at 31 December 2015 and our loan to deposit ratio was 27%. During the year, Kleinwort Benson Group Limited injected GBP 10,000,000 of Tier 1 capital into the Company with the intention of maintaining an internal capital buffer in excess of regulatory required capital and to facilitate the investment in the new initiatives that will maintain momentum in execution of the strategy to build an independent merchant banking group.

As a wholly owned subsidiary, the Company provides performance data to Kleinwort Benson Group on a monthly basis. This data is reviewed in the context of the overall group key performance targets of capital, liquidity and operating profit.

Risk and uncertainties

Market conditions during 2015 remained difficult. However, the directors are comfortable that the Company is a robust and stable organisation, which is particularly focused on the efficient preservation and growth of client assets.

The Board has approved the Risk Appetite and Framework, within which the bank is managed. This encompasses the key risks to which the company is exposed and the principal policy statements on how they are managed. Counterparty, credit, market and liquidity risk are monitored regularly against regulatory limits and also internal targets. The financial exposure to these risks is disclosed in note 12 to the financial statements.

The Company adopts a cautious approach to the provision of credit and typically requires that recognised banking collateral is provided with an acceptable spread and margin of cover. Credit risk is mitigated with loans to clients by granting loans with a low loan to value ("LTV") ratio. 97% (2014: 97%) of the mortgages outstanding at the end of 2015 had a LTV lower than 70%.

The Company's Treasury investment policy is to lend only to high quality credit institutions. The lending is focused on institutions that are considered to be banks of national importance in their home markets, having due consideration to the standing of the home market.

Outside of the clearing banks, the Company's treasury portfolio is well diversified, with loans to any one individual institution comprising only a low percentage of the total book. These placements are usually with leading national institutions or banks and are spread over the major western democracies and G20 countries.

Credit risk also manifests itself through fair value movements in the Company's treasury portfolio. Increases in credit spreads in the market can cause prices to fall and this is the main driver behind the fair value losses reported by the company this year.

Operational risks are also assessed regularly and, where appropriate, mitigating actions taken. The firm is aware of its duties with respect to conduct risk and during the year has implemented a significant project to reassess its client suitability to the products offered and sold to them. In certain circumstances this had led to client redress measures being taken.

Future plans, trends and developments

The Company is committed to implement legislative and regulatory changes in a timely manner and has implemented significant regulatory developments during 2015. Preparations are underway to enable the Company to comply with future regulatory developments, for instance, the Common Reporting Standard ("CRS") and the Senior Managers Regime.

At a time when many major firms have seen their brand equity eroded and when much greater importance is attached to reputation and integrity, clients are increasingly looking for wealth management solutions provided by firms with specialist expertise.

Going forward, we expect continued operational progress as the Company continues to focus on efficiencies and revenue growth in order to address its loss making position. In order to facilitate these improvements, we are planning to invest further in the client proposition.

Approved by the Board of Directors

Signed on behalf of the Board

JCBoait

J C Boait

Secretary

Kleinwort Benson Bank Limited

Company No 2056420

14 St George Street, London W1S 1FE

17 March 2016

Independent auditor's report to the members of Kleinwort Benson Bank Limited

We have audited the financial statements of Kleinwort Benson Bank Limited for the year ended 31 December 2015 set out on pages 12 to 47. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditor.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Mike Peck

Michael Peck (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor — 18 March 2016

Chartered Accountants

15 Canada Square, London, E14 5GL

Statement of Profit and Loss

(In thousands)	Note	2015	2014
Fee and commission income		27,338	28,740
Fee and commission expense		(522)	(784)
Net fee and commission income	5	**26,816**	**27,956**
Interest income		9,229	7,532
Interest expense		(5,692)	(4,252)
Net interest income	6	**3,537**	**3,280**
Gains and losses on financial instruments at fair value	7	(1,679)	485
Other income and expense	8	(37)	(161)
Total operating income		**28,637**	**31,560**
Operating expenses	9	(40,564)	(41,858)
Profit (loss) before income tax		**(11,927)**	**(10,298)**
Income tax expense	11	-	-
Profit (loss) for the year		**(11,927)**	**(10,298)**

The losses are entirely attributable to owners of the Company.

The notes to the financial statements, including the audited sections in the "Principal risks and uncertainties" on pages 17 to 47 are an integral part of these statements.

Statement of Comprehensive Income

For the year ended 31 December 2015

There were no recognised gains or losses other than those recorded in the Statement of Comprehensive Income for the current or prior years

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

The notes to the financial statements, including the audited sections in the "Principal risks and uncertainties" on pages 17 to 47 are an integral part of these statements.

Statement of Financial Position

For the year ended 31 December 2015

(In GBP thousands)	Note	2015	2014	2014 Opening
Assets				
Cash and balances with central banks	13	132,870	103,852	126,937
Placements with, and loans and advances to other banks	14	34,784	44,137	23,857
Investment securities	15	249,398	262,447	194,796
Derivative assets	16	184	1,207	880
Loans and advances to customers	14	127,482	108,667	102,195
Accrued income and other assets	17	14,512	16,596	14,665
Investments in group undertakings	31	110	110	110
Property, plant and equipment	18	3,164	5,219	6,627
Intangible assets	19	2,149	1,205	1,680
Total assets		**564,653**	**543,440**	**471,747**
Liabilities and equity				
Loans and deposits due to credit institutions	20	27,447	4,130	5,498
Loans and deposits due to customers	20	461,654	458,510	395,417
Derivative liabilities	16	5,028	5,548	1,170
Accrued expenses and other liabilities	22	9,443	12,845	13,398
Provisions	21	7,758	8,260	8,197
Total liabilities		**511,330**	**489,293**	**423,680**
Share capital	25	135,283	125,283	113,283
Share premium	25	167	167	167
Share-based payment reserve	25	7,788	6,685	4,912
Accumulated loss	25	(89,915)	(77,988)	(70,295)
Equity attributable to owners of the Company		**53,323**	**54,147**	**48,067**
Total equity and liabilities		**564,653**	**543,440**	**471,747**

Approved and authorised for issue by the Board of Directors on 17 March 2016 and signed on its behalf by:

Martha Böckenfeld

M Boeckenfeld	J M Roelandt
Director	Director

The notes to the financial statements, including the audited sections in the "Principal risks and uncertainties" on pages 17 to 45 are an integral part of these statements.

Statement of Changes in Equity

For the year ended 31 December 2015

(In GBP thousands)	Share capital	Share premium	Shared based payment reserve	Accumulated loss	Total equity
Balance at 1 January 2015	**125,283**	**167**	**6,685**	**(77,988)**	**54,147**
Total comprehensive income					
Loss for the year	-	-	-	**(11,927)**	**(11,927)**
Other comprehensive income	-	-	-	-	-
Total comprehensive expense				**(11,927)**	**(11,927)**
Transactions with owners					
Share-based payment transactions	-	-	1,103	-	1,103
Capital increase	10,000	-	-	-	10,000
Transactions with owners, recorded directly in equity	**10,000**	**-**	**1,103**		**11,103**
Balance at 31 December 2015	**135,283**	**167**	**7,788**	**(89,915)**	**53,323**

(In GBP thousands)	Share capital	Share premium	Shared based payment reserve	Accumulated loss	Total equity
Balance at 1 January 2014	**113,283**	**167**	**4,912**	**(70,295)**	**48,067**
Total comprehensive income					
Loss for the year	-	-	-	**(10,298)**	**(10,298)**
Other comprehensive income	-	-	-	-	-
Total comprehensive expense	-	-	-	**(10,298)**	**(10,298)**
Transactions with owners					
Share-based payment transactions	-	-	1,773	-	1,773
Capital increase	12,000	-	-	2,605	14,605
Transactions with owners, recorded directly in equity	**12,000**	**-**	**1,773**	**2,605**	**16,378**
Balance at 31 December 2014	**125,283**	**167**	**6,685**	**(77,988)**	**54,147**

The notes to the financial statements, including the audited sections in the "Principal risks and uncertainties" on pages 17 to 47 are an integral part of these statements.

Statement of Cash Flows

For the year ended 31 December 2015

(In GBP thousands)	Note	2015	2014
Operating activities			
Profit (loss) for the year		(11,927)	(10,298)
Adjustments for non-cash items included in profit (loss):			
Depreciation and amortisation	18 & 19	1,075	1,701
Impairment of property, plant and equipment and intangible assets	19	342	-
Foreign exchange		4,481	(527)
Expense capitalised		-	52
Change in fair value of financial assets		(879)	(3,411)
Equity-settled share-based payment transactions	10	1,102	1,773
Income tax benefit/(expense)	11	-	-
		(5,806)	**(10,710)**
Changes in operating assets and liabilities:			
Change in derivative assets		1,094	(350)
Change in loans and receivables due from other banks and customers		(8,576)	(33,280)
Change in investment securities		-	(109)
Change in accrued income and other assets		1,588	(2,630)
Change in derivative liabilities		(263)	4,100
Change in loans and deposits due to other banks and customers		14,005	66,728
Change in employee benefits		-	(2)
Change in provisions		(502)	63
Change in accrued expenses and other liabilities		(328)	(599)
Change in intercompany receivable		430	1,117
Change in intercompany payable		10,407	(2,093)
Net cash used in operating activities		**12,049**	**22,235**
Investing activities			
Acquisition of investment securities		(183,710)	(388,888)
Proceeds from sale of investment securities		186,420	335,139
Acquisition of property, plant and equipment	18	(21)	(5)
Acquisition of intangible assets	19	(1,629)	(103)
Proceeds from sale of intangible assets		-	237
Net cash from investing activities		**1,060**	**(53,620)**
Financing activities			
Cash received from intercompany		10,000	12,000
Net cash from financing activities		**10,000**	**12,000**
Cash and cash equivalents at the beginning of the year		**129,820**	**149,059**
Net increase/(decrease) in cash and cash equivalents		23,109	(19,385)
Effect of exchange rate fluctuations		(3,263)	146
Cash and cash equivalents at the end of the year	13	**149,666**	**129,820**

The notes to the financial statements, including the audited sections in the "Principal risks and uncertainties" on pages 17 to 47 are an integral part of these statements.

For the year ended 31 December 2015

1. Reporting entity

Kleinwort Benson Bank Limited (the "Company") is a company incorporated and domiciled in the United Kingdom. The Company, which operates under the trading name of Kleinwort Benson, has a banking heritage dating back to 1786. It has established a sound reputation for wealth management and merchant banking services in the United Kingdom. The Company is a wholly owned subsidiary of Kleinwort Benson Group Limited ("Kleinwort Benson Group").

The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

Kleinwort Benson Bank Limited registered address is 14 St George Street, London W1S 1FE. The principal activities of the Company are that of private banking and investment management services.

These are separate non-consolidated financial statements prepared on an exemption basis.

The immediate parent of the Company is Kleinwort Benson Group Limited, a company incorporated in the United Kingdom. The Company's ultimate parent undertaking and controlling party is BHF Kleinwort Benson Group SA ("BHFKB"), incorporated in Belgium under Belgium Law. It is also the smallest and largest group in which the publicly available results of the Company are consolidated. The financial statements of BHFKB are available to the public and may be obtained from BHFKB www.bhfkb.com. On As at 31 December 2015 the ultimate parent company of the Company was BHF Kleinwort Benson Group SA, a limited liability company incorporated under the laws of Belgium, having its registered office at Avenue Louise 326, 1050 Brussels, Belgium. On 15 February 2016, Oddo & Cie, a limited share company with a registered office at 2, boulevard de la Madeleine, Paris (75009), announced that it had obtained 97.22% of the outstanding shares of BHF Kleinwort Benson Group SA, and would proceed to acquire the remaining 2.78% it did not own. On 15 March Oddo & Cie and Societe Generale announced that they had signed a share purchase agreement which, subject to regulatory approval, would see Societe Generale acquire 100% of Kleinwort Benson Bank Limited and Kleinwort Benson Channel Islands Holdings Limited

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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") ("Adopted IFRS"), and comply with the Companies Acts 2006. The financial statements have been authorised for issue by the Board of Directors on 17th March 2016.

2.2. Functional and presentation currency

These financial statements are presented in Great British Pounds ("GBP"), which is the Company's functional currency. All information presented in GBP has been rounded to the nearest thousand.

2.3. 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;
- non-derivative financial instruments at fair value through profit or loss are measured at fair value;
- available for sale financial assets are measured at fair value.

2.4. Transition to IFRS

These are the Company's first set of IFRS financial statements. As part the transition project to IFRS it was identified that loan arrangement fees which had been recognised as income (within Fee and commission income) when the loan was drawn down, should be recognised as part of the effective interest rate on the loan and spread over the estimated life of the loan. The impact of this has been to increase net income by GBP 43k from that previously reported in 2014 under UK GAAP, and to reduce total equity by GBP 388,154 and GBP 345,421 at 1 January 2014 and 31 December 2014 respectively. There were no other adjustments as a result of the transition from the previous GAAP to IFRSs that may have affected the reported financial position, financial performance and cash flow of the Company.

3. Significant accounting policies

Significant accounting policies are as follows and with respect to valuation, note 12 and provisions, note 21. Other accounting policies are referred to in relevant notes.

3.1. Foreign Currency

3.1.1. Foreign currency transactions

Transactions in foreign currencies other than the functional currency are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising from the settlement of foreign currency transactions or on translation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary assets and liabilities that are measured at of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

3.1.2. Foreign operations
The assets and liabilities of a foreign operation with a functional currency other than GBP are translated to GBP at foreign exchange rates prevailing at the reporting date. The revenues and expenses of foreign operations are translated to GBP at exchange rates at the dates of the transactions, which for practical reasons are approximated by using average exchange rates for the year. All resulting exchange differences are recognised directly in the translation reserve, a separate component of equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

3.1.3. Revenue Recognition
The Company's primary source of revenue is from fee and commission income from its merchant banking services. Fees and commissions are recognised on an accruals basis. Transaction-based fees, which vary based on the volume of transactions, are recorded as income as the service is provided and the receipt of income is almost certain.

The Company's interest income comprises income earned from placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients and holding debt and other fixed income securities. Interest expense is comprised of interest paid on loans and deposits from credit institutions and customers. Interest income receivable and interest expense payable are recognised in profit and loss using the effective interest rate method.

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

	Closing rate		Average rate	
One GBP equals	2015	2014	2015	2014
Euro ("EUR")	1.358	1.288	1.377	1.241
Swiss Franc ("CHF")	1.088	1.202	1.067	1.215
US Dollar ("USD")	1.086	1.210	1.110	1.327

3.2. New standards and interpretations not yet adopted
The Company has not adopted any standards which were in issue and which were not required to be implemented by 31 December 2015.

The following Standards and Interpretations relevant to the Company that had been issued but not yet endorsed by the EU or adopted at the year-end were:

- IFRS 15 "Revenue from Contracts with Customers"
- IFRS 9 "Financial Instruments"
- IFRS 16 "Leases"

Standards effective from 1 January 2017

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted subject to EU endorsement. The Company is currently assessing the impact of IFRS 15 on its financial statements. The Company is in the process of assessing the impact of this standard on the financial statements. The Company plans does not plan an early adoption of this Standard.

Standards effective from 1 January 2018

IFRS 9 has yet to be endorsed by the EU and replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The Company's business model and the contractual cash flows arising from its investments in financial instruments determine the classification. Equity instruments will be recorded at fair value, with gains or losses reported either in the Income statement or through equity. However, where fair value gains and losses are recorded through equity there will no longer be a requirement to transfer gains or losses to the Income statement on impairment or disposal. IFRS 9 also introduces an expected loss model for the assessment of impairment. The current incurred loss model (under IAS 39) requires the Company to recognise impairment losses when there is objective evidence that an asset is impaired; under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. The Company is in the process of assessing the impact of this standard on the financial statements. The Company plans does not plan an early adoption of this Standard.

Standards effective from 1 January 2019

IFRS 16: In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. Under the new requirements, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The expected effective date is 1 January 2019. The standard has not yet been endorsed by the EU. The Company is currently assessing the impact the standard will have on the financial statements. The Company is in the process of assessing the impact of this standard on the financial statements. The Company plans does not plan an early adoption of this Standard.

No other Standards or Interpretations issued and not yet effective are expected to have an impact on the Company's 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.

In particular, information about critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – Valuation of financial instruments
- Note 19 – Measurement of the recoverable amount for intangible assets of cash generating units
- Note 21 – Provisions
- Note 29 – Commitments and contingencies

Information about significant assumptions and estimation uncertainties that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – Valuation of financial instruments
- Note 21 – Provisions
- Note 6 – Net interest income (effective interest rate)

5. Net fee and commission income

Asset management fees are generally based on an agreed percentage of the valuation of the Assets under Management ("AuM") and are recognised as the service is provided and it is probable 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.

(In GBP thousands)	2015	2014
Asset management fees	18,190	18,885
Brokerage	5,745	7,279
Trust and other fiduciary activities	1,224	1,128
Corporate commissions	1,336	502
Financial advisory fees	197	205
Retail banking customer fees	565	569
Other	81	172
Fee and commission income	**27,338**	**28,740**
Brokerage	(522)	(784)
Fee and commission expense	**(522)**	**(784)**
Net fee and commission income	**26,816**	**27,956**

6. Net interest income

6.1. Interest income and expense by financial instruments

Interest income receivable and payable is recognised as it is accruals basis.

2015

(In GBP thousands)	At fair value through profit or loss	Loans and receivables (amortised cost)	Total
Cash and balances with central banks	-	531	531
Placements with, and loans and advances to other banks	-	451	451
Investment securities	4,242	-	4,242
Derivative assets	760	-	760
Loans and advances to customers	-	3,245	3,245
Interest income	**5,002**	**4,227**	**9,229**
Loans and deposits due to other banks	-	(338)	(338)
Loans and deposits due to customers	-	(3,182)	(3,182)
Derivative liabilities	(2,172)	-	(2,172)
Interest expense	**(2,172)**	**(3,520)**	**(5,692)**
Net interest income	**2,830**	**707**	**3,537**

2014

(In GBP thousands)	At fair value through profit or loss	Loans and receivables (amortised cost)	Total
Cash and balances with central banks	-	515	515
Placements with, and loans and advances to other banks		569	569
Investment securities	3,050	-	3,050
Derivative assets	237	-	237
Loans and advances to customers	-	3,161	3,161
Interest income	**3,287**	**4,245**	**7,532**
Loans and deposits due to other banks	-	(456)	(456)
Loans and deposits due to customers	-	(2,829)	(2,829)
Derivative liabilities	(967)	-	(967)
Interest expense	**(967)**	**(3,285)**	**(4,252)**
Net interest income	**2,320**	**960**	**3,280**

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 where those bonds are designated at fair value through profit and loss ("FVTPL") the gains and losses representing market movements (both realised and unrealised) are recognised in this line of the income statement as are any gains and losses on derivatives.

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

2015

(In GBP thousands)	At fair value through profit or loss
Net expense from debt securities and corporate bonds	(940)
Net expense from derivatives	(739)
Total	**(1,679)**

2014

(In GBP thousands)	At fair value through profit or loss
Net income from debt securities and corporate bonds	4,337
Net expense from derivatives	(3,852)
Total	**485**

8. Other income and expense

Other operating income consists of items of income and associated expenses that are incidental to the Company's operations.

The other operating income and expenses can be broken down as follows

(In GBP thousands)	2015	2014
FX gain/(loss)	3	(111)
Other	(40)	(50)
Total	**(37)**	**(161)**

9. Operating expenses

Operating expenses comprise the Company's general administrative costs.

Costs are recognised when the service is provided to the Company. Certain costs, such as depreciation and amortisation of capitalised costs, as well as operating lease expenses, are charged evenly over the useful economic life of the asset/life of the contract as appropriate.

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)	2015	2014
Personnel expenses (note 9.1)	29,028	31,862
Professional fees (note 9.1)	1,354	1,082
Rent, leases and premises costs	2,520	2,758
IT costs	2,712	2,865
Travel and entertainment expenses	955	942
Amortisation and depreciation (notes 18 and 19)	1,075	1,701
Impairment	342	-
Insurance	630	625
Outsourcing	2,238	2,246
Other general costs	5,474	2,947
Intercompany recharges	(5,764)	(5,170)
Total	**40,564**	**41,858**

Other general costs includes amounts with respect to client redress matters of GBP 1,497,000 (2014: nil)

9.1. Personnel expenses

(In GBP thousands)	2015	2014
Wages and salaries	18,960	20,807
Temporary staff	3,227	3,395
Compulsory social security contributions	2,552	2,837
Contributions to defined contribution plans	1,949	2,085
Equity-settled share-based payment transactions	1,591	1,770
Restructuring expenses – redundancy costs	749	968
Total	**29,028**	**31,862**

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:

(In GBP thousands)	2015	2014
Full time employees	202	196
Contract and temporary employees	36	24
Total	**238**	**220**

Professional fees include the following fees payable to the Company' auditors. This is inclusive of the audit fees for both the Company and its subsidiaries:

(In GBP thousands)	2015	2014
KPMG:		
Audit of these financial statements and those of the Company's subsidiaries	146	121
Fees payable to the Company's auditors and its associates for other services		
- Audit-related services	42	62
- Other services	-	11
	42	**73**
Total	**188**	**194**

9.2. Operating lease commitments

The Company has a leasehold agreement for its London premises with a remaining period of 5 years. The ultimate parent undertaking, BHFKB, has fully indemnified the Company for the additional costs arising from the move to the premises.

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

At the end of the financial year, the future minimum lease payments under non-cancellable operating leases are payable as follows:

(In GBP thousands)	2015	2014
Less than one year	2,227	3,612
Between one and five years	8,908	14,448
More than five years	-	3,612
Total	**11,135**	**21,672**

Commitments under this leasehold agreement have been reduced during the year following the reassignment of the leases for the third and fourth floors to a third party.

The expense during the year under lease commitment were GBP 2,573,000 (2014: GBP 3,612,000).

At the end of the financial year, the future minimum lease receipts under non-cancellable operating sub-leases are receivable as follows:

(In GBP thousands)	2015	2014
Less than one year	1,043	1,165
Between one and five years	3,219	4,173
More than five years	-	89
Total	**4,262**	**5,427**

The receipts during the year under sub-lease commitment were GBP 1,163,000 (2014: GBP 1,379,000).

10. Share-based payments

The Company operates an equity based incentive plan, allowing recipients to acquire/receive shares in BHFKB with the purpose of attracting and retaining exceptional employees, consultants and independent contractors, and to align their interests with the interests of the BHFKB's shareholders thereby reinforcing the creation of long-term value.

The Company recognises an expense for equity-based incentive plans based on the fair value at grant date of the awards. This fair value is charged to the income statement over the vesting period, with a corresponding increase in equity and liability. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. Such adjustments are made in the period in which the "true-up" event happens, and expenses already recognised in prior years are not restated. For share-based payment awards with non-vesting conditions, the fair value at grant date of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where awards have transfer restrictions which apply after the vesting period, the Company uses various methods (such as Finnerty and/or Chaffee) to determine the discount from BHFKB's publicly quoted market price resulting from such transfer restrictions.

Inputs into the calculation of the grant date fair value of awards include the share price. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Awards take the form of restricted stock units ("RSUs"). For each RSU which vests, the award recipient shall receive one share of BHFKB or, at the option of the BHFKB and subject to the award recipient's consent, a cash amount equal to the fair market value of such share as of the vesting date. The award recipient may also request, subject to the Group's consent, that a portion of the RSUs vest in cash in order to satisfy any tax liabilities that may become due upon or after such vesting.

All the Company's awards are awarded by BHF KB and are therefore considered to be equity settled.

Outstanding RSU awards (all recipients including Executive Management)

			2015
(In units)	Number of options	Fair value amount at grant date	Weighted average exercise price
Outstanding and unvested – Opening balance	1,152	3,569	3.10
Granted during the period	477	1,651	3.46
Forfeited during the period	(104)	(349)	(3.35)
Exercised during the period	(527)	(1,696)	(3.23)
Outstanding and unvested – Closing balance	**998**	**3,175**	**3.18**

			2014
(In units)	Number of options	Fair value amount at grant date	Weighted average exercise price
Outstanding and unvested – Opening balance	1,240	4,150	3.35
Granted during the period	661	1,937	2.93
Forfeited during the period	(134)	(441)	(3.30)
Exercised during the period	(619)	(2,089)	(3.37)
Outstanding and unvested – Closing balance	**1,148**	**3,557**	**3.10**

There were no exercisable and expired RSU at the end of 31 December 2015.

11. Income tax

The Company is liable to tax at rates according to the relevant legislation in the jurisdictions in which they operate. 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. Reconciliation of effective tax rate

(In GBP thousands)	2015	2014
Profit (loss) for the year	**(11,927)**	**(10,298)**
Income tax expense	-	-
Profit (loss) before income tax	**(11,927)**	**(10,298)**
Income tax using domestic corporation tax @ 20.25% (2014: @ 21.5%)	(2,415)	(2,214)
Non-deductible expenses	60	166
Losses available for carry forward	1,488	1,355
Depreciation in excess of capital allowances	569	304
Other short-term timing differences	298	389
Total Income tax expense	**-**	**-**

No deferred tax assets have been recognised with respect to any of the above items as it is not expected that future profits will be available to utilise these assets in the short term.

12. Financial risk management

Risk management and control

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

The Strategic Risk Committee considers the Group Risk Appetite and Framework 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 firm wishes to bear in order to achieve its strategic, profitability and growth objectives while remaining within regulatory constraints. It also notes the key policies established by the firm to manage these risks and the approval process governing those policies.

Recognition and de-recognition

The Company initially recognises loans and advances, and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the settlement date at which the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets

The Company's financial assets include cash, customer loans, debt securities and derivatives which are used as part of the Company's capital and investment strategies.

The Company initially records all financial assets at fair value, which is normally the cost of acquiring the asset or the amount loaned to customers. Financial assets are then classified as either being measured at fair value ("fair value through profit or loss" and "available for sale") or at amortised cost ("held to maturity" and "loans and receivables"). The classification is, in part, dependent on accounting rules but with some scope for the Company to select a treatment.

Financial assets measures at fair value

Financial assets designated as being fair value through profit and loss

These assets have been so classified to reduce the accounting mismatch that would otherwise arise from the fact that the fair value movements on the derivatives which economically hedge market risks on the securities are recognised in profit and loss. The market risks of these assets are treated as non-traded risk, the principal risks being interest rate and/or foreign exchange risks. The Company does not hedge credit risk. Financial assets designated at fair value through profit and loss typically comprise high quality corporate bonds.

Financial assets classified as available for sale

This classification is selected typically when non derivative financial assets that are designated as available-for-sale and that are not classified as financial assets held at fair value through profit or loss, held-to-maturity financial assets or loans and receivables.

Financial assets measured at amortised cost

Financial assets classified as held to maturity or as a loan and receivable

Held to maturity financial assets are so classified when the Company has positive intent and ability to hold the asset to maturity for the purpose of collecting the contractual cash flows of the asset. Assets measured at amortised cost are initially recorded at fair value; the carrying amount is adjusted over time, using the effective interest rate, to take account of any premium or discount on acquisition so that the amount at maturity equals the amounts to be received. Where there is evidence that the full amount will not be recovered, in which case the cost is adjusted to reflect the recoverable amount (see below for impairment indicators).

Financial liabilities

The Company's financial liabilities principally comprise customer deposits. They also include derivatives held for risk management purposes.

Customer accounts and deposits by banks are recorded at the amount deposited. After initial recognition they are accounted for at amortised cost using the effective interest method.

Hedging and derivatives

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives held for risk management purposes are measured at fair value in the statement of financial position with the gain or loss on remeasurement recognised immediately in profit or loss.

Determination of fair value

Where possible the Company will use quoted market prices to determine fair value but where those are not available judgement is required. The degree of judgement involved is discussed in section 12.5.

Derivatives
The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties based on broker quotes.

The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Investment securities
The determination of fair values for investment securities designated at fair value through profit or loss is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

Presentation of financial assets and liabilities
Offsetting
Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by accounting standards.

Impairment
Non-derivative financial assets
A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. Typically the Company considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost
The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity investment securities) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Use of estimates and judgments
Level 3 assets and liabilities include non-listed investments and cash items which are valued according to an appropriate valuation technique. Judgement is used in the appropriate selection of the valuation technique and, where appropriate, estimates are used with respect to inputs into that valuation.

12.1. Classification of financial assets and liabilities

12.1.1. Financial assets

Financial assets and liabilities are classified based on four recognition principles: at fair value through profit or loss, available for sale, loans and receivables or held to maturity. The Company's classification of its principal financial assets and liabilities is summarised below:

(In GBP Pounds)	At fair value through profit or loss	Available for Sale	Loans and receivables	Total
				2015
Cash and balances with central banks	-	-	132,870	**132,870**
Placements with, and loans and advances to other banks		-	34,784	**34,784**
Investment securities	248,395	1,003	-	**249,398**
Derivative assets	184	-	-	**184**
Loans and advances to customers	-	-	127,482	**127,482**
Total	**248,579**	**1,003**	**295,136**	**544,718**

(In GBP thousands)	At fair value through profit or loss	Available for Sale	Loans and receivables	Total
				2014
Cash and balances with central banks	-	-	103,852	**103,852**
Placements with, and loans and advances to other banks	-	-	44,137	**44,137**
Investment securities	251,444	1,003	10,000	**262,447**
Derivative assets	1,207	-	-	**1,207**
Loans and advances to customers	-	-	108,667	**108,667**
Total	**252,651**	**1,003**	**266,656**	**520,310**

12.1.2. Financial liabilities

(In GBP thousands)	At fair value through profit and loss	At amortised cost	Total	At fair value through profit and loss	At amortised cost	Total
			2015			2014
Loans and deposits due to other banks	-	27,447	**27,447**	-	4,130	**4,130**
Loans and deposits due to customers	-	461,654	**461,654**	-	458,510	**458,510**
Derivative liabilities	5,028	-	**5,028**	5,548	-	**5,548**
Total	**5,028**	**489,101**	**494,129**	**5,548**	**462,640**	**468,188**

12.2. 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. The Credit Committee is responsible for approval of lending and other business activity that involves credit risk. Treasury related credit decisions, including requests for new or changes to interbank limited requires the approval of the Asset and Liability Committee. There are pre-determined limits in relation counterparty, geographic and other exposures. A change to the policy requires the approval of the Board. Failure to recover amounts lent or the interest and fees associated with the loans could result in bad debt charges.

12.2.1. Credit risk by financial asset class

The following is a breakdown of the credit risk borne by each class of financial asset:

(In GBP thousands)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Carrying amount	Collateralised	Net Exposure
						2015
Cash and balances with central banks	-	-	132,870	-	-	**132,870**
Placements with, and loans and advances to other banks	-	-	34,784	-	-	**34,784**
Investment securities						**-**
Debt and other fixed income securities	-	-	248,395	-	-	**248,395**
Available for sale	-	-	1,003	-	-	**1,003**
Derivative assets	-	-	184	-	-	**184**
Loans and advances to customers	-	-	127,482	-	127,019	**463**
Total financial assets	**-**	**-**	**544,718**	**-**	**127,019**	**417,699**

Of the amounts shown above none are subject to specific provisioning.

(In GBP thousands)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Carrying amount	Collateralised	2014 Net Exposure
Cash and balances with central banks	-	-	103,852	-	-	**103,852**
Placements with, and loans and advances to other banks	-	-	44,137	-	-	**44,137**
Investment securities						**-**
Debt and other fixed income securities	-	-	261,444	-	-	**261,444**
Available for sale	-	-	1,003	-	-	**1,003**
Derivative assets	-	-	1,207	-	-	**1,207**
Loans and advances to customers	-	-	108,667	-	108,391	**276**
Total financial assets	**-**	**-**	**520,310**	**-**	**108,391**	**411,919**

The Company applies the following definitions when presenting amounts as impaired or past due:

i) Impaired financial instruments

These are instruments for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the financial instrument agreement(s). The Company recognises a provision against these amounts which represents its best estimate of amounts that may not be recovered.

ii) Past due but not impaired financial instruments

These are instruments where contractual interest or principal payments are past due but the Company believes that specific impairment is not appropriate on the basis of the level of security/capital available and/or the stage of collection of amounts owed to the Company. There were none in 2015 (2014: nil)

Collateral held

The table below details the fair value of collateral held, at 31 December 2015 by the Company against loans it has given to customers.

(In GBP thousands)	2015 Carrying amount of loans and receivables	Collateral held	2014 Carrying amount of loans and receivables	Collateral held
Against neither past due nor impaired:				
Property	102,099	102,099	86,230	86,230
Equities	25,383	24,920	22,437	22,161
Total	**127,482**	**127,019**	**108,667**	**108,391**

The collateral held is capped at the value of the loan. For all of the secured loans the value of collateral held was higher than the value of the loan.

12.2.2. Net exposure to credit risk

The following is a breakdown of the net exposure to credit risk by type of credit enhancement:

(In GBP thousands)	Maximum exposure	Property	Equities	2015 Net amount
Cash and balances with central banks	132,870	-	-	**132,870**
Placements with, and loans and advances to other banks	34,784	-	-	**34,784**
Investment securities				
Debt and other fixed income securities	248,395	-	-	**248,395**
Available for sale	1,003	-	-	**1,003**
Derivative assets	184	-	-	**184**
Loans and advances to customers	127,482	102,099	24,920	**463**
Total financial assets	**544,718**	**102,099**	**24,920**	**417,699**

(In GBP thousands)	Maximum exposure	Property	Equities	2014 Net amount
Cash and balances with central banks	103,852	-	-	**103,852**
Placements with, and loans and advances to other banks	44,137	-	-	**44,137**
Investment securities				
Debt and other fixed income securities	261,444	-	-	**261,444**
Available for sale	1,003	-	-	**1,003**
Derivative assets	1,207	-	-	**1,207**
Loans and advances to customers	108,667	86,230	22,161	**276**
Total financial assets	**520,310**	**86,230**	**22,161**	**411,919**

12.2.3. Geographical concentration of financial assets

The following table identifies the geographical concentrations of financial assets:

(In GBP thousands)	Germany	United Kingdom	Rest of Europe	Rest of the world	2015 Total
Cash and balances with central banks	-	132,870	-	-	**132,870**
Placements with, and loans and advances to other banks	4,220	14,752	14,391	1,421	**34,784**
Investment securities	-	-	-	-	-
Debt and other fixed income securities	10,250	69,648	57,802	110,695	**248,395**
Available for sale	-	1,003	-	-	**1,003**
Derivative assets	3	181	-	-	**184**
Loans and advances to customers	2,364	111,561	8,284	5,273	**127,482**
Total	**16,837**	**330,015**	**80,477**	**117,389**	**544,718**

(In GBP thousands)	Germany	United Kingdom	Rest of Europe	Rest of the world	2014 Total
Cash and balances with central banks	-	103,852	-	-	**103,852**
Placements with, and loans and advances to other banks	7,951	14,550	13,566	8,070	**44,137**
Investment securities					
Debt and other fixed income securities	9,720	100,037	90,653	61,034	**261,444**
Available for assets	-	1,003	-	-	**1,003**
Derivative assets	-	1,199	8	-	**1,207**
Loans and advances to customers	1	100,816	3,161	4,689	**108,667**
Total	**17,672**	**321,457**	**107,388**	**73,793**	**520,310**

12.2.4. Concentration of financial assets by sector

The following table identifies the concentrations of financial assets by sector:

(In GBP thousands)	Corporate	Government	Other banks	Retail customers	Unallocated	2015 Total
Cash and balances with central banks	-	132,870	-	-	-	**132,870**
Placements with, and loans and advances to other banks	73	-	34,711	-	-	**34,784**
Investment securities						
Debt and other fixed income securities	40,191	69,187	135,629	3,388	-	**248,395**
Available for sale	1,003	-	-	-	-	**1,003**
Derivative assets	24	-	86	74	-	**184**
Loans and advances to customers	26,580	-	16	100,886	-	**127,482**
Total financial assets	**67,871**	**202,057**	**170,442**	**104,348**	-	**544,718**

(In GBP thousands)	Corporate	Government	Other banks	Retail customers	Unallocated	2014 Total
Cash and balances with central banks	-	103,852	-	-	-	**103,852**
Placements with, and loans and advances to other banks	-	-	44,137	-	-	**44,137**
Investment securities						
Debt and other fixed income securities	50,117	88,269	123,058	-	-	**261,444**
Available for sale	1,003	-	-	-	-	**1,003**
Derivative assets	621	-	578	-	8	**1,207**
Loans and advances to customers	14,958	-	-	93,709	-	**108,667**
Total financial assets	**66,699**	**192,121**	**167,773**	**93,709**	**8**	**520,310**

12.2.5. Credit quality by financial asset class

The following is a breakdown of the credit quality of the Company's financial assets:

(In GBP thousands)	Low risk	Fair risk	Impaired loans	2015 Total	Low risk	Fair risk	Impaired loans	2014 Total
Cash and balances with central banks	132,870	-	-	**132,870**	103,852	-	-	**103,852**
Placements with, and loans and advances to other banks	28,855	5,929	-	**34,784**	27,734	16,403	-	**44,137**
Investment securities								
Debt and other fixed income securities	224,853	23,542	-	**248,395**	228,176	33,268	-	**261,444**
Available for sale	1,003	-	-	**1,003**	1,003	-	-	**1,003**
Derivative assets	-	184	-	**184**	161	1,046	-	**1,207**
Loans and advances to customers	102,024	25,458	-	**127,482**	84,092	24,575	-	**108,667**
Total financial assets	**489,605**	**55,113**	**-**	**544,718**	**445,018**	**75,292**	**-**	**520,310**

(In GBP thousands)	AAA to AA3	A1 to A3	Other	2015 Total	AAA to AA3	A1 to A3	Other	2014 Total
Cash and balances with central banks	132,870	-	-	**132,870**	103,852	-	-	**103,852**
Placements with, and loans and advances to other banks	2,389	26,481	5,914	**34,784**	20,509	7,176	16,452	**44,137**
Investment securities								
Debt and other fixed income securities	187,348	37,617	23,430	**248,395**	165,061	63,115	33,268	**261,444**
Available for sale	-	-	1,003	**1,003**		-	1,003	**1,003**
Derivative assets	-	-	184	**184**	-	161	1,046	**1,207**
Loans and advances to customers	-	-	127,482	**127,482**	-	-	108,667	**108,667**
Total financial assets	**322,607**	**64,098**	**158,013**	**544,718**	**289,422**	**70,452**	**160,436**	**520,310**

Consistent with the Company's investment strategy 71% of the Company's investment in cash, placements with, and loans and advances to other banks, and investment securities are invested with institutions rated A3 and above (2014: 69%).

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 with over 80% being deemed low risk on an internal basis for the year ended 31 December 2015 (2014: 77%).

12.2.6. Loan to values ratios

Included within loans and receivables due from customers is GBP 102,099,118 (2014: GBP 86,230,091) of mortgage loans (see note 12.2.2). The loan to values of the mortgages are disclosed below:

	2015 Mortgage lending amount	2014 Mortgage lending amount
Fully collateralised:		
Less than 25%	3,306	3,900
26% to 50%	48,906	29,173
51% to 70%	47,487	50,757
71% to 90%	2,400	2,400
Total	**102,099**	**86,230**

The following loan to value ratios are for commitments to advance mortgage loans.

	2015	2014
Fully collateralised:		
26% to 50%	100	-
51% to 70%	-	620
Total	**100**	**620**

12.3. Liquidity risk of financial assets and liabilities

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

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.

							2015
(In GBP thousands)	Carrying amount	Contractual Cashflows	On demand	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 Years
Financial assets							
Non-derivative assets							
Cash and balances with central banks	132,870	132,870	132,870	-	-	-	-
Placements with, and loans and advances to other banks	34,784	34,816	18,880	16	-	15,920	-
Investment securities							
Debt and other fixed income securities	248,395	259,224	-	1,364	51,885	205,975	-
Available for sale investments	1,003	-	-	-	-	-	-
Loans and advances to customers	127,482	133,811	11,848	6,614	59,230	56,119	-
Total non-derivative assets and investment securities	**544,534**	**560,721**	**163,598**	**7,994**	**111,115**	**278,014**	-
Derivative assets							
Interest rate swaps and futures	-	576	594	-	-	(18)	-
Forward exchange contracts	184	729	721	8	-	-	-
Total derivative assets	**184**	**1,305**	**1,315**	**8**	-	**(18)**	-
Total financial assets	**544,718**	**562,026**	**164,913**	**8,002**	**111,115**	**278,996**	-

Financial liabilities							
Non-derivative liabilities							
Loans and deposits due to							
Other banks	27,447	27,444	27,444	-	-	-	-
Customers	461,654	465,024	243,322	54,271	69,670	97,761	-
Total non-derivative liabilities	**489,101**	**492,468**	**270,766**	**54,271**	**69,670**	**97,761**	**-**
Derivative liabilities							
Interest rate swaps and futures	2,733	9,997	4,598	31	26	5,342	-
Forward exchange contracts	2,295	936	934	2	-		-
Total derivative liabilities	**5,028**	**10,933**	**5,532**	**33**	**26**	**5,342**	**-**
Total financial liabilities	**494,129**	**503,401**	**276,298**	**54,304**	**69,696**	**103,103**	**-**

(In GBP thousands)	Carrying amount	Contractual Cashflows	On demand	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 Years	2014 More than 5 Years
Financial assets							
Non-derivative assets							
Cash and balances with central banks	103,852	103,852	103,852	-	-	-	-
Placements with, and loans and advances to other banks	44,137	54,400	31,364	16	9,996	13,024	-
Investment securities							
Debt and other fixed income securities	261,444	271,459	-	1,722	21,671	247,063	-
Available for sale investments	1,003	-	-	-	-	-	-
Loans and advances to customers	108,667	113,901	15,892	2,368	7,248	88,393	-
Total non-derivative assets and investment securities	**519,103**	**543,612**	**151,108**	**4,106**	**38,915**	**348,480**	**-**
Derivative assets							
Forward exchange contracts	1,207	1,207	1,102	23	82		-
Total derivative assets	**1,207**	**1,207**	**1,102**	**23**	**82**	**-**	**-**
Total financial assets	**520,310**	**544,819**	**152,210**	**4,129**	**38,997**	**348,480**	**-**
Financial liabilities							
Non-derivative liabilities							
Loans and deposits due to							
Other banks	4,130	4,130	4,130	-	-	-	
Customers	458,510	461,335	264,879	50,640	116,842	28,974	-
Total non-derivative liabilities	**462,640**	**465,465**	**269,009**	**50,640**	**116,842**	**28,974**	**-**
Derivative liabilities							
Interest rate swaps and futures	4,529	4,529	-	-	-	4,529	-
Forward exchange contracts	1,019	1,019	897	46	76	-	-
Total derivative liabilities	**5,548**	**5,548**	**897**	**46**	**76**	**4,529**	**-**
Total financial liabilities	**468,188**	**471,013**	**269,906**	**50,686**	**116,918**	**33,503**	**-**

12.3.1. Liquidity risk – 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.

2015	Encumbered		Unencumbered		Total Carrying
(In GBP thousands)	Pledged as collateral	Other	Available as collateral	Other	Amount
Cash and balances with central banks	-	-	132,870	-	132,870
Placements with, and loans and advances to other banks	-	-	34,784	-	34,784
Investment securities					
Debt and other fixed income securities	-	-	248,395	-	248,395
Available for sales	-	-	1,003	-	1,003
Derivative assets	-	-	184	-	184
Loans and advances to customers	-	-	127,482	-	127,482
Total	**-**	**-**	**544,718**	**-**	**544,718**

2014	Encumbered		Unencumbered		Total Carrying
(In GBP thousands)	Pledged as collateral	Other	Available as collateral	Other	Amount
Cash and balances with central banks	-	12,737	91,115	-	103,852
Placements with, and loans and advances to other banks	-	-	44,137	-	44,137
Investment securities					
Debt and other fixed income securities	23,135	-	238,309	-	261,444
Available for sale	-	-	1,003	-	1,003
Derivative assets	-	-	1,207	-	1,207
Loans and advances to customers	-	-	108,667	-	108,667
Total	**23,135**	**12,737**	**484,438**	**-**	**520,310**

12.4. Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of the Company's financial assets and liabilities. Given that the majority of the Company's financial assets are invested in short-term cash, or in instruments that are measured at fair value, there is little difference between the carrying amounts and the respective fair values.

	2015		2014	
(In GBP thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with central banks	132,870	132,870	103,852	103,852
Placements with, and loans and advances to other banks	34,784	34,784	44,137	44,137
Investment securities				
Debt and other fixed income securities	248,395	248,395	261,444	261,444
Available for sale	1,003	1,003	1,003	1,003
Derivative assets	184	184	1,207	1,207
Loans and advances to customers	127,482	127,482	108,667	108,667
Total financial assets	**544,718**	**544,718**	**520,310**	**520,310**
Loans and deposits due to				
Other banks	27,447	27,447	4,130	4,130
Customers	461,654	462,900	458,510	460,420
Derivative liabilities	5,028	5,028	5,548	5,548
Total financial liabilities	**494,129**	**495,375**	**468,188**	**470,098**

Estimation of fair values of financial instruments at cost

Loans and receivables due from and to other banks

Loans and receivables due from other banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is estimated as their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and receivables due from and to customer

Loans and receivables due from customers are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Other financial assets and liabilities

The fair value of other assets and liabilities has been estimated as the carrying value due to the short maturities on the amounts held.

12.5. Valuation methods of financial instruments at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value of financial instruments may require some judgement or may be derived from readily available sources. The degree of judgement involved is described below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market bid prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies as well as widely recognised valuation methods.

Each instrument has been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities and bonds;
- Level 2: input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) principally comprising of derivatives which have been valued using widely recognised valuation models. The valuation technique used is the present value of future cash flows;
- Level 3: input for the asset or liability that is not based on observable market data (unobservable inputs). Level 3 items consist of equity investments in unquoted companies which have been recorded at cost which the Company believes is the best indicator of fair value based and other assets and liabilities values at amortised cost.

				2015
(In GBP thousands)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Investment securities				
Debt and other fixed income securities	248,395	-	-	**248,395**
Derivative assets	-	184	-	**184**
Total financial assets measured at fair value	**248,395**	**184**	**-**	**248,579**
Financial assets measured at amortised cost:				
Cash and balances with central banks	132,870	-	-	**132,870**
Placements with, and loans and advances to other banks	-	-	34,784	**34,784**
Investment securities				
Available for sale	-	-	1,003	**1,003**
Loans and advances to customers	-	-	127,482	**127,482**
Total financial assets measured at amortised cost	**132,870**	**-**	**163,269**	**296,139**
Total financial assets	**381,265**	**184**	**163,269**	**544,718**
Loans and deposits due to				
Financial liabilities measured at fair value:				
Derivative liabilities	-	(5,028)	-	**(5,028)**
Total financial liabilities measured at fair value	**-**	**(5,028)**	**-**	**(5,028)**
Financial liabilities measured at amortised cost:				
Other banks	-	-	(27,447)	**(27,447)**
Customers	-	-	(461,654)	**(461,654)**
Total financial liabilities measured at amortised cost	**-**	**-**	**(489,101)**	**(489,101)**
Total financial liabilities	**-**	**(5,028)**	**(489,101)**	**(494,129)**

In GBP thousands)	Level 1	Level 2	Level 3	2014 Total
Financial assets measured at fair value:				
Investment securities				
Debt and other fixed income securities	261,444	-	-	**261,444**
Derivative assets	-	1,207	-	**1,207**
Total financial assets measured at fair value	**261,444**	**1,207**	**-**	**262,651**
Financial assets measured at amortised cost:				
Cash and balances with central banks	103,852	-	-	**103,852**
Placements with, and loans and advances to other banks	-	-	44,137	**44,137**
Investment securities				
Available for sale	-	-	1,003	**1,003**
Loans and advances to customers	-	-	108,667	**108,667**
Total financial assets measured at amortised cost	**103,852**	**-**	**153,807**	**257,659**
Total financial assets	**365,296**	**1,207**	**153,807**	**520,310**
Loans and deposits due to				
Financial liabilities measured at fair value:				
Derivative liabilities	-	(5,548)	-	(5,548)
Total financial liabilities measured at fair value	**-**	**(5,548)**	**-**	**(5,548)**
Financial liabilities measured at amortised cost:				
Other banks	-	-	(4,130)	**(4,130)**
Customers	-	-	(458,510)	**(458,510)**
Total financial liabilities measured at amortised cost	**-**	**-**	**(462,640)**	**(462,640)**
Total financial liabilities	**-**	**(5,028)**	**(462,640)**	**(468,188)**

Assets and liabilities have been classified as Level 2 except for quoted bonds which are classified as Level 1. There have been no transfers between Level 1 and Level 2 in 2015. Level 3 investments of GBP 1,002,833 (2014: GBP 1,002,841), classed as available-for-sale were held at cost which remains the best indicator of fair value. There are no movements of Level 3 investments held at fair value through profit and loss during the year.

12.6. Foreign currency risk

The Company is exposed to market risk from changes in exchange rates that could impact the results of operations and the financial position. The Company is exposed to both translation as well as transaction risk. The translation risk is the risk that the financial statements are affected by changes in the prevailing exchange rates of the various currencies of the businesses or their subsidiaries relative to GBP. Transaction risk is the risk that the currency structure of the costs and liabilities deviates from the currency structure of the sales proceeds and assets.

The main currencies the Company is exposed to are EUR, GBP and USD.

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.

The Company's currency exposure as at 31 December 2015 and comparative period are stated in GBP equivalent as follows:

	Gross exposure	Hedged	2015 Net exposure
USD	48,479	**(47,755)**	**724**
EUR	4,802	**(4,897)**	**(95)**
Other	(311)	**682**	**371**
Total currency exposure	**52,970**	**(51,970)**	**1,000**
GBP	811	49,834	50,645
Total	**53,781**	**(2,136)**	**51,645**

	Gross exposure	Hedged	Net exposure
			2014
USD	(17,641)	22,395	4,754
EUR	(11,324)	11,506	182
Other	3,433	(2,922)	511
Total currency exposure	**(25,532)**	**30,979**	**5,447**
GBP	**80,040**	**(31,089)**	**48,751**
Total	**54,508**	**(110)**	**54,198**

A strengthening of GBP against EUR or USD at 31 December 2015, of 10% 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 2014. 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)	2015 Equity	2015 Profit/(loss) for the period	2014 Equity	2014 Profit/(loss) for the period
EUR	(9.5)	(9.5)	18.2	18.2
USD	72.4	72.4	47.5	47.5

12.7. Interest rate risk

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.

2015

	Repricing Dates						
(In GBP thousands)	Carrying amount	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	Non-interest bearing	More than 5 Years	Total
Cash and balances with central banks	132,870	132,870	-	-	-	-	**132,870**
Placements with, and loans and advances to other banks							
Fixed rate	21,702	18,519	-	3,183	-	-	**21,702**
Variable rate	-	-	-	-	-	-	-
Non-interest bearing	13,082	-	-	-	13,082	-	**13,082**
Investment securities							
Debt and other fixed income securities	248,395	31,554	28,553	188,288	-	-	**248,395**
Available for sale	1,003	-	-	-	1,003	-	**1,003**
Loans and advances to customers							-
Variable rate	127,482	127,482	-	-	-	-	**127,482**
Total	**544,534**	**310,425**	**28,553**	**191,471**	**14,085**	-	**544,534**

Loans and deposits due to other banks							
Variable rate	27,386	27,386	-	-	-	-	**27,386**
Non-interest bearing	61	-	-	-	61	-	**61**
Loans and deposits due to customers							**-**
Fixed rate	75,746	33,312	22,053	20,381	-	-	**75,746**
Variable rate	385,910	385,910	-	-	-	-	**385,910**
Total	**489,103**	**446,608**	**22,053**	**20,381**	**61**	**-**	**489,103**
Interest rate derivatives (gross notional inflows)	242,387	193,242	49,146	-	-	-	**242,387**
Interest rate derivatives (gross notional outflows)	(242,387)	(7,364)	(13,564)	(221,460)	-	-	**(242,387)**
Net notional inflow (outflow)	**-**	**185,878**	**35,582**	**(221,460)**	**-**	**-**	**-**

2014

(In GBP thousands)	Carrying amount	Less than 3 months	Between 3 and 12 months	Between 1 year and 5 years	Non-interest bearing	More than 5 Years	Total
		Repricing Dates					
Cash and balances with central banks	103,852	103,852					**103,852**
Placements with, and loans and advances to other banks							
Fixed rate	28,299	5,578	9,984	12,737	-	-	**28,299**
Non-interest bearing	15,838	-	-	-	15,838	-	**15,838**
Investment securities							
Debt and other fixed income securities	261,444	12,268	16,583	232,593	-	-	**261,444**
Available for sale	1,003	-	-	-	1,003	-	**1,003**
Loans and advances to customers							
Variable rate	108,667	108,667	-	-	-	-	**108,667**
Total	**519,103**	**230,365**	**26,567**	**245,330**	**16,841**	**-**	**519,103**
Loans and deposits due to other banks							
Variable rate	35	35	-	-	-	-	**35**
Non-interest bearing	4,095	-	-	-	4,095	-	**4,095**
Loans and deposits due to customers							
Fixed rate	94,949	30,730	37,109	27,110	-	-	**94,949**
Variable rate	363,561	363,561	-	-	-	-	**363,561**
Total	**462,640**	**394,326**	**37,109**	**27,110**	**4,095**	**-**	**462,640**
Interest rate derivatives (gross notional inflows)	272,865	83,391	189,474	-	-	-	**272,865**
Interest rate derivatives (gross notional outflows)	(272,865)	-	-	(272,865)	-	-	**(272,865)**
Net notional inflow (outflow)	**-**	**83,391**	**189,474**	**(272,865)**	**-**	**-**	**-**

For the purpose of comparability we have separately disclosed amounts that are non-interest bearing. These are principally current accounts held with other banks.

The weighted average interest rates are as follows:

(In %)	2015 Other banks	2015 Customers	2014 Other banks	2014 Customers
Loans and advances to	0.39	2.65	0.52	3.01
Loans and deposits due to	0.30	2.00	-	2.22

Amounts due to and from other banks are typically short-term in nature with interest linked to LIBOR.

An increase in the interest rate of 100 basis points would have an adverse effect on equity of GBP 313,300 in 2015 (2014: GBP 773,600).

This approach to market risk exposure has the effect of showing the aggregated potential profit or loss, which the Company would be exposed to if interest rates were to rise or fall by 100 basis points. On such a basis points move, the value of any profits or losses would not be immediately recognised in the financial accounts. 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.

13. Cash and balances with central banks

Cash and balances with central banks are carried at amortised cost in the statement of financial position.

Cash and cash equivalents include unrestricted balances held with central banks which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

For the purposes of the cash flow statement, cash also includes loans and deposits to other banks that can be accessed without significant penalties for withdrawal.

13.1. Breakdown of cash and cash equivalents

(In GBP thousands)	2015	2014
Unrestricted balances with central banks	132,870	103,852
Time deposits and term accounts < 3 months	5,781	5,578
Other bank accounts	11,015	20,390
Total	**149,666**	**129,820**

14. Placements with, and loans and advances to other banks and customers

14.1. Placements with, and loans and advances to other banks

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

(In GBP thousands)	2015	2014
Other banks	34,784	44,137

At the year-end GBP 5,774,994 (2014: GBP 5,503,208) of placements with, and loans and advances to other banks was pledged as collateral against derivative liabilities.

14.2. 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)	2015	2014
Customers		
Retail mortgages	102,100	86,230
Retail other loans	25,382	22,437
Total	**127,482**	**108,667**

15. Investment securities

The Company maintains a high quality, liquid treasury portfolio, the majority of investments being classified as fair value through profit and loss.

(In GBP thousands)	2015	2014
Financial assets at fair value through profit or loss		
Debt securities and corporate bonds	248,395	251,444
	248,395	**251,444**
Certificate of Deposits	-	10,000
	248,395	**261,444**
Available for sale	1,003	1,003
Total	**249,398**	**262,447**

15.1. Transfers of financial assets that are not derecognised in their entirety

GBP Nil (2014: 23,134,609) of Investment securities was pledged as collateral. Collateral was furnished to borrow funds as part of securities repurchase agreements (repos). Deposits of GBP Nil (2014:15,600,000) were held at year end under these agreements.

16. Derivatives

The tables below show the Company's use of derivatives. Derivatives are only used for risk management purposes.

16.1. Derivative assets

2015

(In GBP thousands)	Notional principal amount	Held for risk management	Designated in a hedging relationship	Held for trading	Fair value total
Interest rate					
Foreign currency					
Currency swaps	2,945	3	-	-	3
Forward exchange contracts	12,480	181	-	-	181
Total	**15,425**	**184**	**-**	**-**	**184**

2014

(In GBP thousands)	Notional principal amount	Held for risk management	Designated in a hedging relationship	Held for trading	Fair value total
Interest rate					
Foreign currency					
Currency swaps	14,127	161	-	-	161
Forward exchange contracts	43,059	1,046	-	-	1,046
Total	**57,186**	**1,207**	**-**	**-**	**1,207**

16.2. Derivative liabilities

2015

(In GBP thousands)	Notional principal amount	Held for risk management	Designated in a hedging relationship	Held for trading	Total
Interest rate					
Interest rate swap ("Over the Counter")	242,387	2,700	-	-	2,700
Interest rate forward ("Over the Counter")	400,000	33	-	-	33
Foreign currency					
Currency swaps	26,846	960	-	-	960
Forward exchange contracts	46,083	1,335	-	-	1,335
Total	**715,316**	**5,028**	**-**	**-**	**5,028**

2014

(In GBP thousands)	Notional principal amount	Held for risk management	Designated in a hedging relationship	Held for trading	Total
Interest rate					
Interest rate swap ("Over the Counter")	272,865	4,231	-	-	4,231
Foreign currency					
Currency swaps	14,127	690	-	-	690
Forward exchange contracts	20,997	627	-	-	627
Total	**307,989**	**5,548**	**-**	**-**	**5,548**

17. Accrued income and other assets

Trade and other receivables are stated at their cost less impairment losses. An estimate is made for doubtful receivables based on a review of all outstanding amounts at each reporting date. Impairment losses are recorded during the year in which they are identified.

Prepayments arise where the Company pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense recognised in the income statement.

(In GBP thousands)	2015	2014
Indemnity of loss	6,130	6,101
Accrued income	3,107	3,300
Prepayments	1,055	2,286
Intercompany receivables	1,425	2,181
Settlement balances	1,782	2,098
Trade receivables	379	228
Fee debtors	177	136
Due from brokers	124	32
Other assets	333	234
Total	**14,512**	**16,596**

Indemnity of loss is due from the Company's former 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, as disclosed in note 21.

18. Property, plant and equipment

The Company's property, plant and equipment provide the infrastructure needed to enable the Company to operate and includes buildings, leasehold improvements, office equipment and motor vehicles.

Cost
Property, plant and equipment is stated at historic cost less accumulated depreciation and accumulated impairment losses.

Depreciation
Depreciation is charged as an operating expense on a straight-line basis over the asset's estimated useful life.

Disposals
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within profit and loss.

(In years)	
Buildings	99
Leasehold improvements	3–10
Motor vehicles and computer hardware	3–10
Fixtures and fittings	1–5

(In GBP thousands)		Buildings and leasehold improvements	Motor vehicles and computer hardware	Fixtures and fittings	Other	Total
	As at 01-Jan-14	5,836	417	374	-	**6,627**
Additions		-	5	-	-	**5**
Depreciation		(779)	(385)	(249)	-	**(1,413)**
	As at 31-Dec-14	**5,057**	**37**	**125**	**-**	**5,219**
	As at 01-Jan-15	5,057	37	125	-	**5,219**
Additions		-	-	21	-	**21**
Depreciation		(570)	(32)	(130)	-	**(732)**
Disposals		(1,344)	-	-	-	**(1,344)**
	As at 31-Dec-15	**3,143**	**5**	**16**	**-**	**3,164**

The disposal during the year was in relation to the disposal of the leases of the 3rd and 4th floors of the Company's London office and the consequent write down of leasehold improvements. The cost of this was fully indemnified by BHFKB.

19. Intangible assets

Development costs

Software

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is capitalised if it results in the design for new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives and is recognised within general and administrative expenses in the income statement (see note 10).

The estimated useful lives are as follows:

(In years)		
Software	3–5	3–5
Development costs	3–5	3–5

19.1. Breakdown and roll forward

(In GBP thousands)	Development Costs	Software	Total
As at 01-Jan-14	524	1,156	1,680
Additions	-	103	103
Amortisation	-	(339)	(339)
Transfers to fellow group undertaking	(239)	-	(239)
As at 31-Dec-14	**285**	**920**	**1,205**
As at 01-Jan-15	285	920	1,205
Additions	1,629	-	1,629
Amortisation	-	(343)	(343)
Transfers	(99)	99	-
Impairment	(140)	(202)	(342)
As at 31-Dec-15	**1,675**	**474**	**2,149**

19.2. Impairment testing

19.2.1. Analysis

In accordance with IAS 36 (Impairment of Assets), the Company reviewed the carrying values of its intangible assets at 31 December 2015 and 31 December 2014. As a result of this review, the Company recognised an impairment charge of GBP 341,494.33 (2014: 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.

20. Loans and deposits due to credit institutions and customers

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

(In GBP thousands)	2015	2014
Other banks		
Deposits	27,447	4,130
	27,447	**4,130**
Customers		
Retail	357,034	411,251
Corporate	104,620	47,259
	461,654	**458,510**
Total	**489,101**	**462,640**

The deposits due to customers are classified as follows:

(In GBP thousands)	2015	2014
Retail customers		
Term deposits	156,330	176,782
Call deposits	200,704	234,469
	357,034	**411,251**
Corporate customers		
Term deposits	79,625	39,849
Current deposits	24,995	7,410
	104,620	**47,259**
Total	**461,654**	**458,510**

21. Provisions

Provisions

A provision is recognised when the Company has a present 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 and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The timing and amount of settlement of each legal claim or potential claim and constructive obligation is uncertain. The Company has performed an assessment of the timing and amount and reviews this assessment periodically.

Use of estimates and judgments

In determining the value of specific provisions an number of estimates and judgments have been made by management. This includes judgment that matters are probable for a provision to be made and the use of reliable estimates, based upon current available information, in calculating the amount to be provided for.

Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with the contract.

The provisions have decreased from GBP 8,260,360 to GBP 7,758,062 during the year due to the following changes:

(In GBP thousands)	Restructuring	Legal proceedings	Capital market losses	Other	Total
As at 01-Jan-14	113	7,324	644	116	8,197
Additions	1,065	26	-	186	1,277
Utilisations	(967)	-	-	(247)	(1,214)
As at 31-Dec-14	**211**	**7,350**	**644**	**55**	**8,260**
As at 01-Jan-15	211	7,350	644	55	8,260
Additions	1,001	169	-	1,998	3,168
Utilisations	(1,040)	(1,560)	-	(426)	(3,026)
Released	-	-	(644)	-	(644)
As at 31-Dec-15	**172**	**5,959**	**-**	**1,627**	**7,758**

The restructuring provisions of GBP 172,257 (2014: GBP 210,109) relate to redundancy costs.

Legal provisions include amounts provided for the cost of legal proceedings arising from business undertaken in prior periods. 96% (2014: 70%) of these costs have been indemnified by the previous parent undertaking, Commerzbank AG, as disclosed in note 17.

In other provisions £1,497,000 at the year-end relate to client redress matters identified during the year but relating to past periods.

21.1. Expected maturity of provisions

2014

(In GBP thousands)	Restructuring	Legal proceedings	Capital market losses	Other	Total
Less than 1 year	211	1,560	644	55	2,470
Between 1 and 5 years	-	5,790	-	-	5,790
Total	**211**	**7,350**	**644**	**55**	**8,260**

2015

(In GBP thousands)	Restructuring	Legal proceedings	Capital market losses	Other	Total
Less than 1 year	172	-	-	1,627	1,799
Between 1 and 5 years	-	5,959	-	-	5,959
Total	**172**	**5,959**	**-**	**1,627**	**7,758**

22. Trade payables, accrued expenses and other liabilities

Trade and other payables

Trade and other payables are stated at cost. Trade creditors are costs that have been billed; accruals represent costs, including remuneration, that 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)	2015	2014
Accrued expenses	3,619	6,865
Personnel expenses	4,887	5,463
Deferred income	443	345
Due to brokers	71	17
Other	423	155
Total	**9,443**	**12,845**

Included in personnel expenses is provision for RSU awards totalling GBP 616,494 (2014: Nil)

23. Deferred tax assets and liabilities

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- initial recognition of goodwill;
- initial recognition of assets or liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit;
- Investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is reviewed at each reporting date and probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Losses carried forward of GBP 94,166,669 (2014: GBP 84,919,988) and other grossed-up short-term timing differences of GBP 31,571,941 (2014: GBP 29,040,784) have not been recognised as deferred tax assets as it is not expected that future profits will be available to utilise these assets in the short term.

24. Employee benefits

The Company operates a defined contribution pension scheme.

Defined contribution plans

The Company's exposure to funding DC pension schemes is limited to the contributions it has agreed to make. These contributions generally stop when employments ceases. The income statement charge represents the contributions the Company has agreed to make into employees' pension schemes in that period.

25. Capital and reserves

Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends are recognised as a liability in the period in which they are declared. Transaction costs related to the issuance of shares are accounted for as a deduction from equity, net of any tax effects.

25.1. Share capital and share premium

At 31 December 2015, the share capital of the Company GBP 135,283,333 (2014: GBP 125,283,333) represented by 135,283,333 shares without nominal value (2014:125,283,333 shares). The increase in share capital is as a result of capital injection from KBG of GBP 10,000,000 during the year. All shares have the same rights and are fully paid up. Each share entitles the holder to one voting right.

25.2. Shared based payment reserve

At 31 December 2015, the share based payment reserve of the Company GBP 7,787,851 (2014: GBP 6,685,401).

26. Capital management

The Company's policy is to maintain a capital base which preserves investor and creditor confidence and to sustain future development of the business. Since the Company has a degree of flexibility regarding its capital usage and associated regulatory requirement, due to the liquid nature of its asset base, management believes it would be able to maintain suitable Tier 1 and solvency ratios even in the event of stresses to the profit or loss account. During the year, the Company has not breached its capital requirements.

The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position, especially in the light of the current market conditions.

The Company's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of the PRA. The Company must at all times monitor and demonstrate the compliance with the relevant regulatory capital requirements of the PRA. The Company has put in place processes and controls, including a range of detailed stress testing scenarios, to monitor and manage the Company's capital adequacy.

Certain subsidiaries are subject to dividend restrictions resulting from minimum capital and solvency requirements imposed by regulations in the countries in which those subsidiaries operate.

Below is the consolidated Tier 1 capital ratio and risk weighted assets ("RWA") of the Company. The figures for 2015 have been calculated on a Basel III basis, whereas 2014 are shown on a Basel II basis (the figures below are unaudited).

(In GBP thousands)	2015	2014
Capital – Tier 1	51,174	52,942
Total assets	564,653	543,440
RWA - unaudited		
Credit risk	11,896	11,493
Market risk	834	1,182
Counterparty risk	146	262
Operational risk	4,848	5,178
Total Pillar 1 capital requirement (unaudited)	**17,724**	**18,115**
Total RWA (unaudited)	**221,550**	**226,438**
Tier 1 ratio (unaudited)	**23%**	**23%**

Required pillar 3 disclosures will be published on the Company's website.

27. Earnings per share

The calculation of earnings per share ("EPS") shows the amount of profit (or loss) attributable to each share (excluding shares held by the Company).

(In GBP thousands)	2015	2014
Profit/(Loss) for the period attributable to shareholders of the Company Deposits	(11,927)	(10,298)
Issued ordinary shares (in units)	**135,283**	**125,283**
Basic and diluted loss per share (in GBP)	**0.09**	**0.08**

28. Assets under management

Assets under management include all clients' private banking assets (securities, investment funds, interest, and non-interest deposits/accounts) including both discretionary and advisory investment relationships. Structured products are included when they form part of a client's investment portfolio, notwithstanding the fact that this may be the sole product offering taken up by the client. The following products are excluded from the assets under management:

- Loans to customers.
- Trust and Fund administration relationships where the assets of the trust are not managed by the Company.
- Global custody relationships where the Company is safekeeping assets only.

The Company manages various assets for its clients and the main categories of assets are:

- Discretionary: Assets that are managed and monitored on a client's behalf subject to an agreed mandate.
- Advisory: Assets that are managed based on a client's specific risk requirements. The client maintains the final decision on whether to purchase, hold or sell any investment.
- Deposits: Cash deposits received from customers.

At 31 December 2015 and 31 December 2014, the assets under management are composed as follows:

(In GBP thousands)	2015	2014
Deposits	199,718	177,047
Advisory	1,001,333	1,095,681
Discretionary	2,062,462	2,123,274
Total	**3,263,513**	**3,396,002**

29. Commitments and contingencies

Contingent liabilities:

(In GBP thousands)	2015	2014
Guarantees and letters of credit	6	75
	6	**75**

Commitments:

(In GBP thousands)	2015	2014
Undrawn formal standby facilities, credit lines		
Other commitments to lend:		
Within one year	810	1,213
Between one and five years	678	570
Total	**1,488**	**1,783**

Capital commitments:

(In GBP thousands)		2015
	Less than 1 year	Between 1 and 5 years
PWM Replatforming	1,201	-
Treasury	207	172
Total	**1,408**	**172**

There were no capital commitments in 2014.

Judgment has been used by management in determining the future timing of the use of these commitments.

Other contingent liabilities
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. In addition there were commitments arising in the normal course of business for forward foreign exchange contracts.

Commitments
The Company has a leasehold agreement for its London premises with a remaining life of 5 years. The ultimate parent undertaking, BHFKB, has fully indemnified the Company for the additional costs arising from the move to the premises.

30. Related parties

Directors' remuneration

The directors' remuneration includes employee benefits which are all short term related.

(In GBP thousands)	2015	2014
Aggregate emoluments	743	830
Company pension contributions to money purchase schemes	34	25
Share-based payments	280	70
Compensation for loss of office	139	435
Total	**1,196**	**1,360**

Highest paid director

(In GBP thousands)	2015	2014
Aggregate emoluments	317	238
Company pension contributions to money purchase schemes	34	9
Share-based payments	280	-
Compensation for loss of office	63	435
Total	**694**	**682**

Other related parties

Name of related party	Nature of relationship
KB Channel Islands	Group company
KB Group	Parent group company
KB Investors (Dublin)	Group company
BHF KB	Parent group company
BHF Bank	Group company
DII Capital UK Advisor LLP	Common management personnel
Total	

(In GBP thousands) 2015

Name of related party	Nature of the transaction	Outstanding balance		Amount for period	
		Receivable	Payable	Expense	Income
KB Channel Islands	Sharing of fees & recharges	1,366	19,611	2,186	5,052
KB Group	Recharges	51	-	-	475
KB Investors (Dublin)	Recharges	72	-	-	-
BHF KB	Recharges	124	7,713	-	-
BHF Bank	Derivative transactions	7	-	-	-
DII Capital UK Advisor LLP	Sub-lease	-	-	-	66
Total		**1,620**	**27,324**	**2,186**	**5,593**

(In GBP thousands) 2014

Name of related party	Nature of the transaction	Outstanding balance		Amount for period	
		Receivable	Payable	Expense	Income
KB Channel Islands	Sharing of fees & recharges	1,010	3,885	2,685	3,642
KB Group	Recharges	709	-	-	475
KB Investors (Dublin)	Recharges	53	-	-	-
BHF KB	Recharges	335	12,451	-	-
DII Capital UK Advisor LLP	Sub-lease		-	-	356
Total		**2,107**	**16,336**	**2,685**	**4,473**

All the related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

31. List of significant subsidiaries
31.1. Ownership interest in subsidiaries

(In GBP thousands)	2015	2014
At 1 January	110	110
At 31 December	**110**	**110**

(In GBP thousands)	2015	2014
The subsidiary undertakings and their costs are:		
Financial advisers		
Kleinwort Benson Trustees Limited	100	100
Non trading	*	*
Fenchurch Nominees Limited	*	*
Frank Nominees Limited	*	*
KBIM Standby Nominees Limited	*	*
KBPB Nominees Limited	*	*
Kleinwort Benson Farmland Trust (Managers) Limited (75% owned)	*	*
Kleinwort Benson Unit Trusts Limited	*	*
Langbourn Nominees Limited	*	*
Robert Benson Lonsdale & Co (Canada) Limited	10	10
At 31 December	**110**	**110**

* The aggregate cost of this company is less than GBP 1,000.

All the companies are incorporated in Great Britain and registered in England & wales. All the companies are 100% owned except as noted below. The holdings are in ordinary shares unless stated otherwise. None of the subsidiary companies is a bank. All the investments are unlisted.

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.

There was no change in the ownership of the above subsidiaries during the year.

Cash amounts totalling GBP 125,577 (2014: GBP 125,577) owned by the above entities are held within loans and deposits due to customers.

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.

No profit or loss has been incurred in any of these entities in 2015 or 2014.

32. Subsequent events
As at 31 December 2015 the ultimate parent company of the Company was BHF Kleinwort Benson Group SA, a limited liability company incorporated under the laws of Belgium, having its registered office at Avenue Louise 326, 1050 Brussels, Belgium.

On 15 February 2016, Oddo & Cie, a limited share company with a registered office at 2, boulevard de la Madeleine, Paris (75009), announced that it had obtained 97.22% of the outstanding shares of BHF Kleinwort Benson Group SA, and would proceed to acquire the remaining 2.78% it did not own.

On 15 March Oddo & Cie and Societe Generale announced that they had signed a share purchase agreement which, subject to regulatory approval, would see Societe Generale acquire 100% of Kleinwort Benson Bank Limited and Kleinwort Benson Channel Islands Holdings Limited.