

EFG Private Bank Limited

Annual report and financial statements

for the year ended 31 December 2018

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COMPANIES HOUSE

Registered No. 2321802

Registered office and principal place of business: Leconfield House, Curzon Street,
London W1J 5JB. Telephone: 020 7491 9111 Facsimile: 020 7872 3706

Authorised by the Prudential Regulation Authority and regulated by the
Financial Conduct Authority and the Prudential Regulation Authority

Contents

| | |
|--|-----------|
| Report of the Directors | 3 |
| Independent auditors' report | 10 |
| Income statement | 15 |
| Statement of comprehensive income | 16 |
| Balance sheet | 17 |
| Statement of changes in equity | 18 |
| Cash flow statement | 20 |
| Notes to the financial statements | 23 |

Report of the Directors

The Directors present their report together with the audited financial statements of EFG Private Bank Limited ("the Company") for the year ended 31 December 2018. The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, the Prudential Regulation Authority and the Jersey Financial Services Commission.

Principal activities

The Company provides banking, stockbroking, wealth management and investment advisory services for private clients and their corporate interests. As an integral part of these activities, the Company is active in the money markets in both deposit taking and lending, engages in spot and forward foreign exchange business, as well as undertaking transactions in securities, off-balance sheet instruments and derivatives, primarily on behalf of clients.

The Company's wholly owned subsidiary in Guernsey, EFG Private Bank (Channel Islands) Limited, provides similar services to those of the Company. In 2017, the Company was granted a licence for a branch in Jersey. The Jersey branch, EFG Private Bank Limited Jersey Branch, commenced trading on 5th November 2018 with the transfer of clients from the Jersey branch of EFG Private Bank (Channel Islands) Limited.

Immediate parent company

The Company's immediate parent company is EFG International AG ("EFGI"), a company incorporated in Switzerland and listed on the SIX Swiss Exchange, into which the Company's results are consolidated (see website: www.efginternational.com). In accordance with permitted exemptions, no separate consolidated financial statements of the UK sub-group are prepared.

Other borrowed funds

The Company has borrowed GBP 66,630,000 (2017: GBP 66,630,000) in additional tier 1 capital from a group entity. Details are disclosed in note 42 to the financial statements.

Property plant and equipment

The changes in property plant and equipment are set out in Note 28 to the financial statements.

Directors

The Directors of the Company who served during the year and up to the date of the signing of the Annual report and financial statements were:

A Cooke-Yarborough
M Higgin
J E Mathias (Resigned 31 March 2019)
D Politis
P Pradelli
J Reed - Chairman
A Simmonds
R Thomas - Chief executive officer

All directors served throughout the year except for R Thomas who was appointed on 2nd January 2019.

Details of Directors' interests in the shares of the immediate parent company EFGI are contained in their financial statements. None of the Directors has any notifiable interest in the shares of the Company or any other parent or subsidiary undertaking.

Charitable donations

During the year the Company made donations totalling GBP 6,652 (2017: GBP 31,365) to various charities in support of their social responsibility objectives. No political donations were made (2017: Nil).

Dividends

An interim dividend of £8,000,000 was declared and paid in respect of the financial year ended 31 December 2018 (2017: Nil). No final dividend is proposed (2017: Nil).

Employees

The Company is committed to providing employment practices and policies which recognise the diversity of its workforce and ensure equality for all employees regardless of sex, race, disability, age, sexual orientation or religious beliefs. Employees are updated on any changes that may affect them via regular internal communications and briefings. Eligible employees are required to participate in a deferral scheme whereby an element of variable compensation is deferred and settled at a future date either in cash or equity-settled via options granted over shares in EFGI. In addition, the Company operates a HMRC approved Share Incentive Plan which is available to all employees, including those of its subsidiary companies.

Report of the Directors

Directors' remuneration

Details of the remuneration of directors who served during the year are as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|--|--------------------------------|--------------------------------|
| | GBP '000 | GBP '000 |
| Short-term employment benefits | 1,781 | 2,402 |
| Share-based payments | 494 | 549 |
| Pension payments | 125 | 127 |
| Number of directors to whom retirement benefits are accruing under a money purchase scheme | 1 | 1 |
| Number of directors awarded share options | 2 | 2 |
| Number of directors exercising share options | | 1 |

Post balance sheet events

There have been no material post balance sheet events.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under those laws the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of disclosure of information to the auditors

Each of the directors confirms that:

- (a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

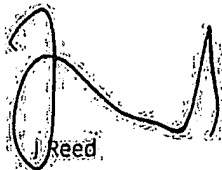
The auditors, PricewaterhouseCoopers LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Report of the Directors

Matter covered in the Strategic Report

Details regarding a review of the business, including future developments, dividends, existence of branches outside of the UK, principal risks and uncertainties are provided in the Strategic Report on pages 6 to 9.

Approved by the Board of Directors on 10th April 2019 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'J. Reed', written over a faint, dotted rectangular box.

Chairman
10th April 2019

Strategic Report of the Directors

The Company recorded a profit of GBP 35,553,000 (2017: GBP 9,713,000) and the details of its results are set out in the financial statements and accompanying notes. An interim dividend payment of GBP 8,000,000 was declared and paid in respect of the financial year ended 31 December 2018 (2017: NIL).

The 2018 financial result reflects a solid performance of the underlying business.

The Company's core business and its strategy of providing high quality private banking services to a range of individuals, corporate entities, trusts and institutional clients did not materially change in the year. The model of organic growth through its team of experienced relationship managers continued to prove itself to be the right one in a challenging business environment where market volatility and political risk continue to provide headwinds.

Income growth continues and the Company's capital position is sound and in excess of regulatory thresholds. Asset quality remains strong. The Company continues to maintain a solid liquidity position benefiting from a stable funding source of client deposits.

Some of the notable events experienced by the business during the year include:

- Operating income (excluding dividend income) increased by 12% (2017: 17% increase).
- Net interest income increased by 16% (2017: 21% increase), principally driven by loan book growth.
- Net fee and commission income increased by 10% overall (2017: 13% increase), principally the result of a 10% increase in wealth management fees driven by higher AUM balances that benefitted from strong market appreciation for much of 2018.
- Operating expenses increased by 10% (2017: 29% decrease). Excluding depreciation, operating expenses increased by 8% reflecting business focus on controlling costs, whilst continuing to invest selectively in regulatory and systems infrastructure improvement projects. The increased depreciation charge in 2018 resulted from identification of a dilapidations requirement within the lease commitments. The catch up in provision over the term of the lease resulted in an additional GBP 624,000 charge in the year.
- Staff expenses increased by 8% (2017: 13%) due to the increased investment in the business.

- On 28th February 2017 the sale of the Company's subsidiary EFG Independent Financial Advisors Ltd was completed. All outstanding aspects of the sale and purchase agreement are now completed and the final deferred consideration was received in 2018. An additional loss of GBP 167,000 was recognised in the year (2017: GBP 115,000 loss)

- Customer loans increased by 5% to GBP 1.663bn (2017: 11% increase to GBP 1.581bn) including transfers in as part of the new Jersey Branch and the effect of the sub-participation transactions described below.

- As part of its balance sheet management strategy, the Company entered into a number of sub-participation transactions during 2018 to sell the full economic risks and rewards of GBP 223,700,000 of mortgage-backed loans to the following EFGI entities:

- EFG Private Bank (Channel Islands) Ltd GBP 100,300,000 (sold April 2018)
- EFG Bank AG (Cayman branch) GBP 123,400,000 (sold October 2018)

An additional GBP 27,000,000 was sub-participated during 2018 to Chestnut II Mortgage Financing II plc under the terms of that facility.

The sales resulted in the complete derecognition of these loan assets from the Company balance sheet in return for payment of an equivalent amount in cash. The Company continues to act as lender of record for the underlying loans and also administers the loans in return for a fee payable by the economic owner.

- Customer deposits increased overall by 16% (GBP 0.316bn) to GBP 2.245bn (2017: 8% increase GBP 0.137bn) including GBP 0.440bn transferred from the Jersey Branch. Excluding the new Jersey Branch, customer deposits decreased 10% in the year.

- During 2017 the Company was granted a licence to operate a branch in Jersey. The Branch commenced trading on 5th November 2018 with the transfer of the clients of the Jersey Branch of the Company's Guernsey subsidiary, EFG Private Bank (Channel Islands) Ltd. Loans and advances to customers of GBP 112,896,000 together with deposits from customers of GBP 440,076,000 were transferred into the new Branch. The standalone Branch had net income for the 2018 operating period of GBP 782,881.

- The Company's Guernsey subsidiary, EFG Private Bank (Channel Islands) Ltd, made profits after tax of GBP 16,983,000 in 2018 (2017: GBP 18,396,000). Dividends of GBP

Strategic Report of the Directors

33,000,000 were received in 2018 from this subsidiary (2017: GBP 5,000,000).

- Total assets under management increased by 1.7% to GBP 14.90bn (2017: GBP 14.64bn) including assets held with other EFG companies.

Regulatory Capital

The Company's regulatory capital is Tier 1 capital comprising share capital, retained earnings, qualifying Additional Tier 1 subordinated loans and reserves less the book value of intangibles, investment in subsidiaries and other regulatory capital deductions.

The table below summarises the composition of regulatory capital and the ratios for the Company for the year ended 31 December. Capital figures quoted below are based upon the Company's regulatory reporting submissions and differing timings and treatments mean they will not necessarily directly correspond to capital figures included elsewhere within these financial statements. The Company undertook interim profit verifications during 2018 in order to recognise the capital benefits of dividends received at the earliest opportunity.

| | Year ended 31 December 2018 GBP '000 | Year ended 31 December 2017 GBP '000 |
|---------------------------------|---|---|
| Tier 1 capital | | |
| Share capital & share premium | 98,235 | 98,235 |
| Other reserves | 58,842 | 29,639 |
| Total qualifying Tier 1 capital | 157,077 | 127,874 |
| Additional Tier 1 Capital | | |
| Subordinated loan Capital | 66,630 | 66,630 |
| Total qualifying Tier 1 capital | 223,707 | 194,504 |
| Less: Deductions from Tier 1 | (12,838) | (10,866) |
| Total regulatory capital | 210,869 | 183,638 |
| Total risk weighted assets | 1,104,166 | 922,648 |
| Total Capital Ratio | 19.10% | 19.90% |

During the past two years the Company complied with all regulatory capital requirements to which it is subject.

The Company benefits from a surplus of capital resources above the Pillar 1 regulatory capital requirement. The Company is also required to hold additional capital in the form of a Bank specific add-on (Pillar 2a), which is part of its Total Capital Requirement plus regulatory buffers.

The Company's Total Capital Requirement is 16.68% (2017: 15.6%).

Business environment, strategy and future outlook

The directors are satisfied that both the level of business and the year end financial position were satisfactory.

Contingency plans are in place to enable the Company to continue to service its EU clients in the event of a "no-deal" Brexit on the basis of expert advice received from external advisers. The majority of EU clients will continue to be serviced by the Company on a cross-border basis, according to applicable EU regulation. However, a minority of EU clients would need to be transferred to a sister entity within the EFGI Group. Measures to ensure adherence to EU regulation include an extensive compliance training programme and enhancement of the existing control framework that specifically addresses the requirements of cross-border activity for the Company's Client Relationship Officers. Additionally, the Company is providing support and information to EU staff members who may be impacted in the event of a "no deal Brexit". At present, it does not anticipate finding it difficult to attract or retain talent.

A slowing global economy and heightened Brexit uncertainties may impact the business environment over the next 12 months. Prime London property, where many of the Company's international clients invest, has been negatively impacted by uncertainty created by the ongoing Brexit negotiations. However, the Company provides mortgage finance at conservative loan to value ratios and current market levels, combined with relative GBP weakness, may present an opportunity for its clients to invest.

The Company operates in a highly regulated and competitive market environment for private banking and wealth management activities.

Accepting these facts the directors remain confident that the Company's successful client-focused approach will deliver its growth plans and that the Company has sufficient resources to continue in operation for the foreseeable future.

Key performance indicators (KPIs)

The Company monitors performance on a divisional basis. Detailed analyses summarising financial performance are reported on a regular basis to executive management and to board meetings. The primary KPIs monitored include interest margin, fees and commissions, trading income, assets under management and the credit quality of the assets, which enable the management to run the business in line with the agreed strategy. Details of these measures are set out in these financial statements – a more detailed

Strategic Report of the Directors

analysis of the use of KPIs is discussed in the annual report of the parent company, EFGI.

Employee Involvement

The Company is committed to ensuring that employees share in its success. Employees participate in performance-based incentive schemes and have the opportunity to invest in shares of EFG International AG through an employee Share Incentive Plan. They are kept informed of matters of concern to them in a variety of ways including newsletters, the intranet and management briefings. These communications help achieve a common awareness among employees of the financial conduct and economic factors affecting the Company. Employees are also provided with opportunities to share their views and provide feedback on matters that are important to them through, for example, the employee survey, Town Halls and forums.

Disabled Employees

The Company is committed to being an equal opportunities employer and opposes all forms of unlawful discrimination. The Company is committed to providing equal employment opportunity to all qualified persons, including disabled persons. The Company will make every effort to enable any employee who becomes disabled during employment to continue their career with the Bank.

Principal risks and uncertainties

The management of the business and execution of the Company's strategy are subject to a number of risks. The Risk Management policies and procedures established within the board-approved Risk Management Framework are consistent with the risk management practices of the Company's parent company, EFGI, incorporated in Switzerland, but ultimate responsibility for the risk strategy and policy of the Company lies with the Company's board of directors. Details of the risk management activities of EFGI are set out in its Annual Report, available at www.efginternational.com.

The Company has implemented the "Three Lines of Defence" model as the primary means to demonstrate and structure roles, responsibilities and accountabilities for decision-making, risk management and control; this achieves appropriate governance and oversight of risk management and assurance regarding the effectiveness of the risk management framework. Roles and responsibilities are assigned across the three lines in order to coordinate effectively and efficiently among businesses and functions so that there are neither "gaps" in control, nor unnecessary duplications of coverage.

The responsibilities for risk management across the Company are as follows:

- The Board and its principal committees (the Board Risk Committee and the Audit Committee) provide governance and oversight. The Board Risk Committee, under delegated authority from the Board of directors, provides supervisory oversight over all risks. The Audit Committee oversees and assesses the effectiveness and adequacy of the key elements of the control environment and internal control systems, and the internal and external audit processes.
- Management rests with the Executive Committees (including the Management Committee, as well as the three principal executive risk committees – the Operational & Regulatory Risk Committee, the Credit Committee and the Asset & Liability Committee
- The Business Units, Support and Control Functions own the risk incurred in their activities, including regulatory and compliance related risks.

Each layer is aligned to a Line of Defence:

The management of the business and execution of the Company's strategy are subject to a number of risks spanning operational and regulatory risk (including reputational, conduct, compliance and legal risks) as well as liquidity, market and credit risk.

The Operational & Regulatory Risk Committee ("ORRC") has prime responsibility for the management of operational and regulatory risk. Operational risk is defined as the risk of direct or indirect losses resulting from the inadequacy or failure of internal processes, people and/or systems or from external events. It includes compliance and legal risks, regulatory sanctions and agreements. The ORRC manages these risks through a variety of means, including the overall system of internal control, policies and procedures, training and insurance and business continuity arrangements. Significant compliance and legal resources are employed to help ensure the Company complies fully with legal and regulatory requirements and a dedicated Conduct Risk Committee has additionally been established under the ORRC.

Day-to-day management of market and liquidity risks is carried out by Treasury, under the oversight of the Asset & Liability Committee. The maturity profile and distribution of assets and liabilities are managed actively, with particular focus being given to short-dated maturities. Liquidity management also involves control over asset maturities and the volume and quality of holdings of cash and high quality

Strategic Report of the Directors

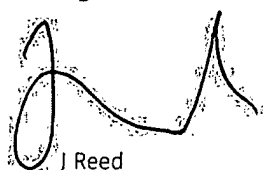
liquid assets that can be realised at short notice in order to generate additional liquidity. In addition, in evaluating the Company's liquidity position, account is taken of undrawn lending commitments, the usage of overdraft facilities, funding arrangements with fellow EFG subsidiaries, the stability of retail deposits and the possible impact of outstanding contingent liabilities and commitments.

Issuer, currency and interest rate trading positions are taken by Treasury using both cash and derivatives contracts, including forwards, futures and options. Limits are set by product, currency, open position and stop loss limits. Derivatives contracts are also used to facilitate client transactions, to match or eliminate risk arising from market rate movements on trading and non-trading positions and to trade in expectation of profit. Derivatives contracts on interest rates and exchange rates are entered into using forward exchange contracts, forward rate agreements, futures, interest rate swaps and options. Risk positions are monitored daily, including independent daily mark-to-market valuations of all market risk positions and monitoring compliance with approved market risk limits. Position, gap and stop loss limits are applied and regular sensitivity analyses are carried out to ensure market risks are controlled and understood.

The Credit Committee has responsibility for all aspects of client credit activity, including approval of credit extensions and arrears management, as well as oversight of the credit portfolio approving recovery strategies and setting counterparty exposure, country and sector limits.

Further details of the Company's financial risk management activities are set out in Note 5 to 11 to the financial statements.

Approved by the Board of Directors on 10th April 2019 and signed on its behalf by:



J Reed
Chairman
10th April 2019

Independent auditors' report to the members of EFG Private Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, EFG Private Bank Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

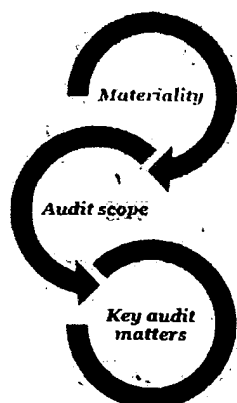
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 54 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: £1,434,500 (2017: £855,000), based on 1% of Net Assets.
 - The company comprises one legal entity in the UK, which has banking, stockbroking, wealth management and investment advisory services which have global linkages with other group entities.
 - Credit impairment provisions.
 - Provisions and contingent Liabilities.
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority and Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, management bias in accounting estimates, the valuation of investments, and transactions that are not in the ordinary course of business. The engagement team shared this risk assessment with auditors outside the engagement team so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing key correspondences with the regulators;
- Identifying and testing journal entries.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| Credit impairment provisions <i>Refer to: Note 2; Adoption of IFRS 9 Financial Instruments, page 25. Note 3; Accounting Policies, page 31 & 32. Note 6; Credit Risk, page 46 – 51. Note 7; Credit Risk Exposure, page 52. Note 8; Credit Risk gross exposures and loss allowance, page 53 – 58. Note 25; Financial assets at fair value through Other Comprehensive Income, page 73.</i> The identification and determination of credit impairment provisions is inherently judgemental. The adoption of IFRS 9 from 1 January 2018 has increased the number of management judgements and involves increased use of forward looking assumptions. This increases the estimation uncertainty. We consider the principal assumptions applied by management, in estimating impairment provisions for stage 3 loans to be a key area of judgement. Areas of estimation uncertainty include the valuation of collateral, forecast cash flows and reasonableness of the probability weighting of expected likely outcomes. | Our audit procedures included: <ul style="list-style-type: none">• Understanding and testing the key controls around the identification of impaired loans and the review, challenge and approval of key judgements and assumptions;• Testing controls on changes made to standing data;• Testing the annual loan review process, the compilation and review of the credit watch list, approval of external collateral valuation vendors and approval of significant individual impairments by the Credit Committee;• Testing a sample of individually assessed loans to ensure the provision is reasonable, including testing the right to any collateral, the valuation of the collateral and any forecast cash flows; and• Testing a sample of loans from the remaining 'good book' to confirm completeness of the watch list. |

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Provisions and contingent Liabilities</p> <p>Refer to: Note 3; Accounting Policies; page 34. Note 4; Critical accounting estimates and judgements in applying accounting policies, page 35. Note 20; Income Tax, page 68. Note 39; Provisions, page 83.</p> <p>In the ordinary course of business potential claims may arise from legal, tax or employment related matters among others. Some of these may require provisions to be estimated by management where there is a present obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.</p> <p>The current tax charge reported in the income statement includes amounts provided for in relation to ongoing HMRC enquiries and included within other provisions are associated amounts.</p> <p>The HMRC provision included in the current tax charge reported in the income statement and the associated amounts included within other provisions involve management judgement and there are inherent uncertainties involved meaning the provision and the final outcome may be different to current estimates. As a result the HMRC provision represented a key audit matter.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Understanding the key controls around the calculation, review and approval of provisions. • Reviewing correspondence with HMRC and external advisors. • Reviewing management's assessment and the assumptions made in estimating the provision. We assessed the reasonableness of the assumptions in conjunction with tax specialists and given the estimation uncertainty we performed a sensitivity analysis to consider other possible outcomes and assessed the impact on the financial statements. • We evaluated the disclosures made in the financial statements against the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 1 Presentation of Financial Statements. <p>Based on the procedures performed and the evidence obtained we found management's assumptions and disclosure in the financial statements to be reasonable.</p> |

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

To conduct this risk assessment, we considered the inherent risks facing the Company, including those arising from its respective business operations, and how the Company manages these risks. We also considered a number of other factors including the design and implementation of the Company's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and the risk of management override of controls.

A number of key processes and controls, including those relating to information systems, are centralised at Switzerland. We relied on various key controls tested by PwC Switzerland for local statutory audit purposes.

We performed audit work for all financial statement line items with a balance above our performance materiality of £1,075,800. For each in-scope line item, we performed audit procedures to bring the untested balance below performance materiality.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|--|--|
| Overall materiality | £1,434,500 (2017: £855,000). |
| How we determined it | 1% of Net Assets. |
| Rationale for benchmark applied | <p>The primary users of the financial statements are the parent company and the regulators who are principally focused on the regulatory capital of the Company.</p> <p>Net assets was chosen as the materiality benchmark as it closely corresponds to regulatory capital.</p> <p>This represents a change in approach compared to the prior year but is deemed to be the most appropriate measure considering the stakeholders in the company and the users of the financial statements.</p> |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £79,000 (2017: £43,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

2. Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and

for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting


Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 31 August 1989 to audit the financial statements for the year ended 31 December 1989 and subsequent financial periods. The period of total uninterrupted engagement is 30 years, covering the years ended 31 December 1989 to 31 December 2018.



Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 April 2019

Income statement for the year ended 31 December 2018

| | | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|------|--------------------------------|--------------------------------|
| | Note | GBP '000 | GBP '000 |
| Interest and discount income | | 77,244 | 63,758 |
| Interest expense | | (33,163) | (25,739) |
| Net interest income | 12 | 44,081 | 38,019 |
| Banking fee and commission income | | 45,175 | 41,272 |
| Banking fee and commission expense | | (2,546) | (2,534) |
| Net banking fee and commission income | 13 | 42,629 | 38,738 |
| Dividend income | 14 | 33,000 | 5,000 |
| Net trading income and foreign exchange gains less losses | 15 | 3,712 | 2,714 |
| Gains less losses on disposal of financial assets at fair value through other comprehensive income | 16 | 23 | 1,076 |
| Net other income | | 36,735 | 8,790 |
| Operating income | | 123,445 | 85,547 |
| Operating expenses | 17 | (86,414) | (78,715) |
| Loss on assets held for sale | | (167) | (115) |
| Reversal of loss allowance on financial assets at amortised cost and debt instruments measured at fair value through other comprehensive income | 19 | 209 | 943 |
| Profit before tax | | 37,073 | 7,659 |
| Income tax (charge) / credit | 20 | (1,520) | 2,054 |
| Net profit for the year | | 35,553 | 9,713 |
| Net profit for the year attributable to: | | | |
| Net profit attributable to owners of the parent | | 35,553 | 9,713 |
| | | 35,553 | 9,713 |

The notes on pages 23 to 90 form an integral part of these financial statements

Statement of comprehensive income for the year ended 31 December 2018

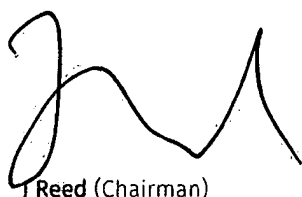
| | Note | Year ended 31 December 2018 GBP '000 | Year ended 31 December 2017 GBP '000 |
|--|------|--|--|
| Net profit for the year | | 35,553 | 9,713 |
| Other comprehensive income / (loss) | | | |
| Items that may be reclassified subsequently to the income statement: | | | |
| Net (losses) on investments in debt instruments measured at fair value through | | | |
| Other Comprehensive Income ("FVTOCI") | | (1,842) | (10,752) |
| Net gains on investments in debt instruments measured at FVTOCI hedge | | | |
| instruments | | 2,743 | 13,937 |
| Transfer to the income statement of realized gains / (losses) on debt | | | |
| instruments at FVTOCI | 16 | (23) | (1,076) |
| Fair value (losses) / gains on cash flow hedges | | (24) | 430 |
| Income tax relating to components of other comprehensive income | | (519) | (408) |
| Other comprehensive income for the year, net of tax | | 335 | 2,131 |
| Total comprehensive income for the year | | 35,888 | 11,844 |
| Total comprehensive income for the year attributable to | | | |
| Owners of the parent: | | 35,888 | 11,844 |
| | | 35,888 | 11,844 |

The notes on pages 23 to 90 form an integral part of these financial statements

Balance sheet at 31 December 2018

| | Note | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------|------------------------------|------------------------------|
| Assets | | | |
| Cash and balances with central banks | 21 | 242,322 | 388,847 |
| Due from other banks | 23 | 88,516 | 90,495 |
| Derivative financial instruments | 24 | 14,105 | 9,629 |
| Financial assets at fair value through other comprehensive income | 25 | 1,012,721 | - |
| Financial assets: | | | |
| Available-for-sale | | - | 617,977 |
| Loans and advances to customers | 26 | 1,663,380 | 1,581,428 |
| Investment in subsidiary | | 10,000 | 10,000 |
| Property, plant and equipment | 28 | 2,494 | 2,267 |
| Intangible assets | 29 | 1,803 | 432 |
| Deferred income tax assets | 30 | 3,457 | 3,290 |
| Other assets | 31 | 34,438 | 24,216 |
| Total assets | | 3,073,236 | 2,728,583 |
| Liabilities | | | |
| Due to other banks | 36 | 553,870 | 539,624 |
| Due to customers | 37 | 2,244,736 | 1,928,747 |
| Derivative financial instruments | 24 | 8,153 | 13,603 |
| Current income tax liabilities | | 1,935 | - |
| Provisions | 39 | 2,124 | 1,054 |
| Other liabilities | 41 | 35,590 | 44,290 |
| Subordinated loans | 42 | 66,912 | 66,910 |
| Total liabilities | | 2,913,320 | 2,594,228 |
| Equity | | | |
| Share capital | 43 | 1,596 | 1,596 |
| Share premium | 44 | 96,639 | 96,639 |
| Capital redemption reserve | | 10,000 | 10,000 |
| Other reserves | 45 | 13,402 | 9,166 |
| Retained earnings | 46 | 38,279 | 16,954 |
| Total equity | | 159,916 | 134,355 |
| Total equity and liabilities | | 3,073,236 | 2,728,583 |

The financial statements on pages 10 to 87 were approved by the Board of directors on 10th April 2019 and signed on its behalf by:



J. Reed (Chairman)



A Cooke-Yarborough (Director)

EFG Private Bank Limited - Registered No: 2321802

The notes on pages 23 to 90 form an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2018

| GBP'000 | Attributable to owners of the parent | | | | | Total equity |
|---|--------------------------------------|---------------|-----------------------------|----------------|-------------------|----------------|
| | Share capital | Share premium | Capital Redemption reserves | Other Reserves | Retained earnings | |
| At 1 January 2017 | 1,596 | 96,639 | 10,000 | 11,430 | (261) | 119,404 |
| Net profit for the year | - | - | - | - | 9,713 | 9,713 |
| Available-for-sale securities - net changes in fair value net of tax | - | - | - | 1,749 | - | 1,749 |
| Cashflow hedges net of tax | - | - | - | 382 | - | 382 |
| Total Comprehensive Income for the year | - | - | - | 2,131 | 9,713 | 11,844 |
| Dividend paid on ordinary shares | - | - | - | - | - | - |
| Employee stock option plans amortisation | - | - | - | 3,388 | - | 3,388 |
| AT1 interest treated as appropriation of retained earnings | - | - | - | - | (281) | (281) |
| Opening Balance stock option transfer IFRS2 | - | - | - | 1,669 | (1,669) | - |
| Transfer to retained earnings on lapse of employee equity incentive plans | - | - | - | (9,452) | 9,452 | - |
| At 31 December 2017 | 1,596 | 96,639 | 10,000 | 9,166 | 16,954 | 134,355 |

The notes on pages 23 to 90 form an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2018 continued

| GBP'000 | Attributable to owners of the parent | | | | | Total equity |
|--|--------------------------------------|---------------|-----------------------------|----------------|-------------------|----------------|
| | Share capital | Share premium | Capital Redemption reserves | Other Reserves | Retained earnings | |
| At 1 January 2018 | 1,596 | 96,639 | 10,000 | 9,166 | 16,954 | 134,355 |
| Changes on initial application of IFRS 9 | | | | 45 | (314) | (269) |
| Restated balance at 1 January 2018 | 1,596 | 96,639 | 10,000 | 9,211 | 16,640 | 134,086 |
| Net profit for the year | | | | | 35,553 | 35,553 |
| Net gains on investments in debt instruments measured at FVTOCI | | | | 878 | | 878 |
| Fair value (losses) on cash flow hedges | | | | (24) | | (24) |
| Income tax relating to components of other comprehensive income | | | | | (519) | (519) |
| Total Comprehensive Income for the year | | | | 854 | 35,034 | 35,888 |
| Dividend paid on ordinary shares | | | | | (8,000) | (8,000) |
| AT1 interest treated as appropriation of retained earnings | | | | | (5,395) | (5,395) |
| Employee equity incentive plans amortization and net of exercise costs | | | | 3,337 | | 3,337 |
| At 31 December 2018 | 1,596 | 96,639 | 10,000 | 13,402 | 38,279 | 159,916 |

The notes on pages 23 to 90 form an integral part of these financial statements

Cash flow statement for the year ended 31 December 2018

| | Note | Year ended 31 December 2018 GBP '000 | Year ended 31 December 2017 GBP '000 |
|--|-----------|--|--|
| Cash flows from operating activities | | | |
| Interest received | | 73,995 | 56,048 |
| Interest paid | | (37,335) | (25,950) |
| Banking fee and commission received | | 46,487 | 37,935 |
| Banking fee and commission paid | | (2,546) | (2,533) |
| Net trading income | | 3,713 | 1,076 |
| Other operating income received | | 23 | 2,714 |
| Staff Costs | | (60,279) | (53,995) |
| Other operating expenses | | (24,042) | (20,749) |
| Income tax received | | - | 3,755 |
| Cash flows from / (used in) operating activities before changes in operating assets and liabilities | | 16 | (1,699) |
| Changes in operating assets and liabilities | | | |
| Net increase / (decrease) in due to / from other banks | | 13,864 | (120,500) |
| Net (increase) / decrease in derivative financial instruments | | (38,768) | 12,394 |
| Net increase in loans and advances to customers | | (80,966) | (144,814) |
| Net (increase) in other assets | | (13,792) | (261) |
| Net increase in due to customers | | 315,149 | 137,128 |
| Net (decrease) / increase in other liabilities | | (2,689) | 11,939 |
| Net cash flows from / (used in) operating activities | | 192,814 | (104,114) |
| Cash flows from investing activities | | | |
| Purchase of investment securities | | (513,380) | (275,955) |
| Proceeds from sale/ maturities of securities | | 150,523 | 471,911 |
| Sale of available for sale investments | | (167) | 4,318 |
| Purchase of intangible assets | | (1,502) | (436) |
| Purchase of property, plant and equipment | 28 | (1,792) | (649) |
| Dividend received | 14 | 33,000 | 5,000 |
| Net cash flows (used in) investing activities | | (333,318) | (204,189) |
| Cash flows used in financing activities | | | |
| Dividend paid on ordinary shares | | (8,000) | - |
| Net cash flows used in financing activities | | (8,000) | (106) |
| Net change in cash and cash equivalents | | (148,504) | 98,267 |
| Cash and cash equivalents at beginning of period | | 479,342 | 381,075 |
| Net change in cash and cash equivalents | | (148,504) | 98,267 |
| Cash and cash equivalents | 22 | 330,838 | 479,342 |

The notes on pages 23 to 90 form an integral part of these financial statements

Notes to the financial statements

| | | |
|----|--|----|
| 1 | General information | 23 |
| 2 | Adoption of IFRS 9 Financial Instruments | 23 |
| 3 | Principal accounting policies | 27 |
| 4 | Critical accounting estimates and judgements in applying accounting policies | 35 |
| 5 | Financial risk assessment and management | 35 |
| 6 | Credit risk | 45 |
| 7 | Credit risk exposure | 52 |
| 8 | Credit risk – gross exposure and loss allowances | 53 |
| 9 | Market risk | 59 |
| 10 | Liquidity risk | 63 |
| 11 | Capital management | 65 |
| 12 | Net interest income | 66 |
| 13 | Net fee and commission income | 66 |
| 14 | Dividend income | 66 |
| 15 | Net trading income and foreign exchange gains less losses | 67 |
| 16 | Gains less losses on disposal of financial assets at fair value through Other Comprehensive Income | 67 |
| 17 | Operating expenses | 67 |
| 18 | Staff costs | 67 |
| 19 | Loss allowance on financial assets at amortised cost and debt instruments measured at FVOCI | 68 |
| 20 | Income tax | 68 |
| 21 | Cash and balances with central banks | 69 |
| 22 | Cash and cash equivalents | 69 |
| 23 | Due from other banks | 69 |
| 24 | Derivative financial instruments | 69 |
| 25 | Financial assets at fair value through Other Comprehensive Income | 73 |
| 26 | Loans and advances to customers | 73 |
| 27 | Loss allowances on loans and advances to customers | 73 |
| 28 | Property, plant and equipment | 74 |
| 29 | Intangible assets | 75 |
| 30 | Deferred tax assets and liabilities | 76 |
| 31 | Other assets | 76 |
| 32 | Valuation of financial assets and liabilities | 77 |
| 33 | Financial assets and liabilities measured at amortised cost | 79 |
| 34 | Business combinations | 81 |
| 35 | Shares in subsidiary undertakings | 82 |
| 36 | Due to other banks | 82 |
| 37 | Due to customers | 82 |
| 38 | Financial liabilities at amortised cost | 83 |
| 39 | Provisions | 83 |
| 40 | Contingent liabilities | 84 |
| 41 | Other liabilities | 84 |
| 42 | Subordinated loans | 84 |
| 43 | Share capital | 85 |
| 44 | Share capital, share premium and capital redemption reserves | 85 |
| 45 | Other reserves | 86 |
| 46 | Retained earnings | 86 |
| 47 | Dividends | 87 |
| 48 | Off-balance sheet items | 87 |
| 49 | Fiduciary transactions | 87 |
| 50 | Employee equity incentive plans | 88 |
| 51 | Related party transactions | 89 |
| 52 | Key management compensation | 90 |
| 53 | Highest paid Director | 90 |
| 54 | Auditors remuneration | 90 |
| 55 | Assets under management and assets under administration | 90 |

1. General information

EFG Private Bank Limited, incorporated and domiciled in England and Wales, is active in private banking, stockbroking, wealth management and investment advisory services for private clients and their corporate interests. As an integral part of these activities, the Company is active in the money markets in both deposit taking and lending, it engages in spot and forward foreign exchange business, as well as undertaking transactions in securities, off-balance sheet instruments and derivatives, primarily on behalf of clients. The principal places of business are London, Birmingham and Jersey. The Company is a member of the London Stock Exchange.

The average monthly number of staff, including directors, employed during the year was 387 (2017: 383).

The Company's immediate parent is EFG International AG, a limited liability company incorporated and domiciled in Switzerland.

These financial statements were approved by the Board of Directors on 10th April 2019.

2. Adoption of IFRS 9 Financial Instruments

The principal accounting policies applied in the preparation of the financial statements are set out in note 3. These policies have been consistently applied to all the years presented.

Adoption of IFRS 9 financial instruments

Effective 1 January 2018, the Company adopted IFRS 9 Financial Instruments (IFRS 9) and the related consequential amendments to other IFRSs on their effective dates without restatement of financial information presented in prior periods as permitted by IFRS 9. Any adjustments to the carrying values of the financial assets and liabilities as of 1 January 2018 were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

IFRS 9 introduces new requirements for the recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting with principal features as follows:

Classification and measurement

IFRS 9 introduces three classifications for financial assets:

- Amortised cost – Financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the amounts outstanding.
- Fair value through Other Comprehensive Income (FVTOCI). Financial assets with terms that give rise to interest and principal cash flows only and which are held in a business model with the objective to collect their cash flows and through sale. Also, certain equity investments may be irrevocably designated at fair value through other comprehensive income.
- Fair value through profit and loss (FVTPL) – All other financial assets are measured at fair value through profit and loss.

Total remeasurement losses of GBP 314,000 were recognised in opening reserves at 1 January 2018 which comprises:

- GBP 225,000 related to on balance sheet positions
- GBP 89,000 relating to off-balance sheet positions

In addition the following impacts were reflected:

- An amount of GBP 45,000 was reclassified from retained earnings to other reserves at 01 January 2018 in respect of expected credit losses on Financial assets through other comprehensive income

The following table summarises the category and the carrying value of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 (the transition date to IFRS 9):

| | | New Measurement | | | |
|--|---|--------------------|------------------|----------------------|--------------------|
| Original Measurement | | Category Under | Carrying Value | | New Carrying Value |
| Category Under IAS 39 | | IFRS 9 | Under IAS 39 | | under IFRS 9 |
| | | | 31 December | Remeasurements | |
| | | | 2017 | Expected Credit | 1 January 2018 |
| | | | GBP'000 | Losses | GBP'000 |
| | | | | GBP'000 | |
| Amortised Cost | | | | | |
| Cash and balances with central banks | Amortised cost (loans and receivables) | Amortised cost | 388,847 | | 388,847 |
| Due from other banks | Amortised cost (loans and receivables) | Amortised cost | 90,495 | | 90,495 |
| Loans and advances to customers | Amortised cost (loans and receivables) | Amortised cost | 1,581,429 | (180)) | 1,581,249 |
| Total financial assets measured at amortised cost | | | 2,060,771 | (180)) | 2,060,591 |
| Fair Value Through Profit or Loss (FVTPL) | | | | | |
| Derivative financial instruments | Fair value through profit and loss (held for trading) | FVTPL | 6,217 | | 6,217 |
| Derivative financial instruments | Fair value through profit and loss (hedging instrument) | FVTPL | 3,413 | | 3,413 |
| Investment securities | Available for sale | FVTPL | | | |
| - Opening balance under IAS 39 | | | 617,977 | | |
| - Reclassification debt securities | Available for sale | FVTPL | | (617,977) | |
| - Closing balance under IFRS | | | | | |
| Total financial assets measured at FVTPL | | | 627,607 | (617,977) | 9,630 |
| Fair Value Through Other Comprehensive Income (FVOCI) | | | | | |
| Investment securities | | | | | |
| - Opening balance under IAS 39 | | | | | |
| - Reclassification - | Available for sale | FVOCI | | 617,977 (45)) | 617,932 |
| - Closing balance under IFRS 9 | | | | 617,977 (45)) | 617,932 |
| Total Fair Value Through Other Comprehensive Income (FVOCI) | | | | 617,977 (45)) | 617,932 |
| Total financial assets | | | 2,688,378 | (225)) | 2,688,153 |

Credit impairment

IFRS 9 introduces new credit impairment requirements which apply to debt instruments measured at amortised cost, assets measured at fair value through other comprehensive income, loan commitments and financial guarantees. This introduces the concept of 'expected credit losses' (ECL), whilst previously impairment was on an incurred loss model.

Upon initial recognition of an asset, ECL resulting from default events that are possible within the next 12 months, defined as Stage 1, are recognised. Where a significant increase in credit risk since initial recognition has been identified, the loss allowance increases to recognise all expected default events over the life of the asset, being Stage 2. Stage 3 reflects instruments which are considered as credit-impaired, and a loss allowance is created on a lifetime basis.

Expected credit losses on loans and advances to customers

The Company has recognised GBP 314,000 of additional expected credit losses on 1 January 2018. These arise primarily from the following:

- Mortgage lending GBP 118,000
- Lombard and Other lending GBP 62,000
- Fair Value Assets through OCI GBP 45,000
- Loan commitments and financial guarantees GBP 89,000

Hedge accounting

The new hedge accounting requirements have been designed to improve the decision usefulness of the financial statements by better aligning hedge accounting with the risk management activities of the Company permitting a greater variety of hedging instruments and simplifying certain rule-based requirements from the previous standard. IFRS 9 provides an accounting policy choice: entities can either continue to apply hedge accounting requirements of IAS 39 (until the standard is fully updated), or they can apply IFRS 9, which is required to be applied for all hedges.

The Company adopted the hedge accounting requirements of IFRS 9, and such change allowed the Company to consider a wider range of hedging options, with the ability to continue with the existing hedging relationships. In particular, the new standard removed the prescribed range for hedge effectiveness purposes to allow greater flexibility for an entity to apply hedge accounting. No financial assets or liabilities have been reclassified or revalued as a result of this change.

Financial liabilities

Upon adoption of IFRS 9, the classification of financial liabilities remained unchanged for the Company. Financial liabilities continue to be measured at either amortised cost or Fair Value through Profit and Loss.

Reconciliation of impairment / loss allowances from IAS 39 to IFRS 9

The following table reconciles the credit loss allowance upon adoption of IFRS 9 on 1 January 2018:

| Measurement category | Loan loss allowance under IAS 39/Provision | Reclassification | Remeasurement | ECL under IFRS 9 |
|---|---|------------------|---------------|------------------|
| | 31 December 17 | | | 1 January 18 |
| | GBP '000 | GBP '000 | GBP '000 | GBP '000 |
| Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9) | | | | |
| Cash and balances with central banks | | | | |
| Due from other banks | | | | |
| Loans and advances to customers | | | | |
| – Mortgage loans | 2,426 | (600) | 118 | 1,944 |
| – Other and Lombard loans | | 600 | 62 | 662 |
| Total | 2,426 | | 180 | 2,606 |
| Available for sale financial instruments (IAS 39)/Financial assets at FV TOCI (IFRS 9) | | | | |
| Investment securities | | | 45 | 45 |
| Loan commitments and financial guaranteed contracts | | | | |
| Loan commitments and financial guarantees | | | 89 | 89 |
| Total | 2,426 | | 314 | 2,740 |

The notes to the Company's 2017 Financial Statements included estimates of the likely impact of ECL provisions on adoption on 1st January 2018. The difference between those estimates and the final remeasurement figure is due to payments received subsequent to the year end which reduced the ECL.

3. Principal accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are for the year ended 31 December 2018. These financial statements have been prepared in accordance with those International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretations Committee (IFRS Interpretations Committee) interpretations issued and effective, for the year ended 31 December 2018 and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Directors have confirmed that it is appropriate to use the going concern assumption as a basis for presenting these financial statements.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process also requires management to exercise its judgement in the process of applying the group's accounting policies.

Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Further information about critical estimates and judgements are presented in note 4.

The Company's presentation currency is Great British Pound (GBP) being the functional currency of the Company.

New and amended standards adopted by the Company:

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

However, had the amendments to IFRS 2 not been adopted in the current period, there would have been a small increase in the share-based payment expense and an associated reduction in tax expense. Future profits could also be affected through the requirement to remeasure the proportion of the share-based payment that would have had to be accounted for as cash-settled under the old rules.

New and amended standards not yet adopted:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases - IFRS 16 comes into force on 1 January 2019. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Company has reviewed all of its leasing arrangements over the last year in light of IFRS 16. The standard will affect primarily the accounting for the Company's operating leases.

As at the reporting date, the Company has non-cancellable operating lease commitments of GBP 14,473,000. On 1 January 2019, the Company expects to recognise right-of-use assets and lease liabilities of approximately GBP 13,726,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Company expects that net profit after tax will decrease by approximately GBP 127,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately GBP 3,127,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Company has no activities as a lessor.

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(b) Consolidation

The Company has taken advantage of the exemption afforded by Section 401 of the Companies Act 2006 in not preparing consolidated financial statements. The Company is a wholly owned subsidiary of EFG International AG (Bleicherweg 8 P.O. Box 6012 - CH-8022 Zurich), which is a limited liability company incorporated and domiciled in Switzerland, which prepares consolidated financial statements to 31 December each year in accordance with International Financial Reporting Standards, IFRIC interpretations and compliant with the provisions of the EU Seventh Directive.

A listing of the Company's main subsidiaries is set out in note 35.

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the

market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the Income Statement.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the fair value reserve in equity.

The presentation and functional currency of the Company is Sterling (GBP).

Year-end exchange rates and average exchange rates for the main currencies are as follows:

| | 2018 Closing rate | 2018 Average rate | 2017 Closing rate | 2017 Average rate |
|-----|-------------------------|-------------------------|-------------------------|-------------------------|
| USD | 1.280 | 1.331 | 1.352 | 1.297 |
| CHF | 1.259 | 1.299 | 1.319 | 1.268 |
| EUR | 0.894 | 0.886 | 0.887 | 0.876 |

(d) Derivative financial instruments and hedging

Derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is derived from its comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives embedded in other financial instruments, such as the option in a structured product, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Income Statement, unless the Company chooses to designate the hybrid contracts at fair value through profit and loss. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument; and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge)
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge)

Hedge accounting is used for derivatives designated as such, provided certain criteria are met. The Company documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, as well as upon a significant change in the circumstances affecting the hedge effectiveness requirements, of whether a hedging relationship meets the hedge effectiveness requirements.

The Company will discontinue hedge accounting in the following scenarios:

- When the Company determines that a hedging relationship no longer meets the risk management objective
- When the hedging instrument expires or sold or terminated
- When there is no longer an economic relationship between the hedge item and the hedging instrument or the effect of credit risk starts to dominate the value changes that result from that economic relationship

Hedge ineffectiveness represents the amount by which:

- The changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk
- The changes in the present value of future cash flows of the hedging instrument exceed changes (or expected changes) in the present value of future cash flows of the hedged item

Such ineffectiveness is recorded in current period earnings in net gain/(loss) from financial instruments measured at fair value. Interest income and expense on derivatives designated as hedging instruments in effective hedge relationships is included in net interest income.

The below summarises the different treatment of derivatives (whether or not hedge accounting applied):

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the Income Statement over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in Other Comprehensive Income are recycled to the Income Statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast transaction that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement. The fair values of derivative instruments held for trading and hedging purposes are disclosed in note 29.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Such a right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- In the normal course of business
- The event of default
- The event of insolvency or bankruptcy

(f) Revenue

(i) Interest income and expenses

Interest income and expenses are recognised in the Income Statement for all interest-bearing instruments on an accrual basis, using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and any other premiums or discounts. Negative interest on assets is recorded as an interest expense, and negative interest on liabilities is recorded as interest income.

For financial assets at amortised cost or debt instruments at fair value through other comprehensive income in stage 3, the original effective interest rate is applied to the amortised cost of the asset rather than to the gross carrying amount.

Negative interest recorded on euro balances taken from customers is presented within interest income and on placements to other institutions presented within interest expense.

(ii) Banking fees and commissions

Fees and commissions are generally recognised on an accrual basis. Fees and commissions relating to foreign exchange transactions, bank charges, brokerage activities and portfolio management are recognised, as applicable, on either a time-apportioned basis, at the transaction date or on completion of the underlying transaction.

Fees and commission arising from negotiating a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance related fees or fee components are recognised when the performance criteria are fulfilled and the fee can be reliably measured.

(iii) Dividend income

Dividend income represents gross dividends from investments (principally in subsidiary companies) and is recognised when the Company's right to receive payment is established.

(iv) Trading income

Net trading income comprises results from foreign exchange transactions and revaluation of assets and liabilities denominated in other currencies, including the mark to market of interest rate swaps and currency forwards and swaps; plus any gain or loss from financial instruments measured at fair value.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are periodically reviewed for impairment, with any impairment charge being recognised immediately in the Income Statement.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment, to their residual values over their estimated useful life as follows:

- Buildings and Leasehold improvements over the remaining life of the lease (maximum 15 years)
- Computer hardware: 3-4 years
- Furniture and equipment: 4-10 years
- Antiques and Artwork: 50 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the Income Statement.

(h) Intangible assets

- (i) This includes the following categories: Other intangible assets – Computer software

Computer software is stated at cost less accumulated amortisation and impairment losses. It is periodically reviewed for impairment, with any impairment charge being recognised in the Income Statement. Amortisation is calculated using the straight-line method over a 3 to 4 year basis. The acquisition cost of software capitalised is on the basis of the cost to acquire and bring into use the specific software.

(i) Financial assets and liabilities

All financial assets are recorded on the day the transaction is undertaken. Purchases and sales of financial assets at fair value or amortised cost are recognised on the date on which the Company commits to purchase or sell the asset. Loans and advances to customers are recognised when cash is advanced to the borrowers.

Measurement methods:

Amortised cost and effective interest rate

The amortised cost is the value at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial value and the maturity value and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the

expected life of the financial asset or financial liability to the gross carrying value of a financial asset or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For credit-impaired financial assets the Company calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying value and incorporates the impact of expected credit losses in estimated future cash flows.

When the Company revises the estimates of future cash flows, the carrying value of the respective financial asset or financial liability is adjusted to reflect the new estimated discount using the original effective interest rate. Any changes are recognised in profit or loss.

Initial recognition and measurement

At initial recognition, the Company measures a financial asset or financial liability at its fair value. In case of a financial asset or financial liability subsequently not measured at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions are included to the fair value at initial recognition. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed as incurred.

Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Business models: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how management are compensated.

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

Fair value through other comprehensive income

Debt instruments that are held for collection of contractual cash flows and for selling the assets, where the assets cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at fair value through Other Comprehensive Income. Movements in the carrying amount are taken through other comprehensive income, except for loss allowances, interest revenue and foreign exchange gains and losses on the instruments amortised cost, which are recognized in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains/losses on derecognition of financial assets and liabilities'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit and loss, except where the Companies management has elected at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Companies policy is to designate equity investments in FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit and loss, including on disposal.

Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit and loss as other income when the Company's right to receive payment is established.

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. Other movements in the fair value (for example from interest rate or credit risk changes) and are not part of a hedging relationship, are presented in the income statement within 'Fair value gains less losses on financial instruments measured at fair value' in the period in which they arise.

Gains and losses on equity investments at fair value through profit and loss are included in "Fair value gains less losses on financial instruments measured as fair value).

Impairment

The Company assesses on a forward-looking basis the ECL associated with debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted value that is determined by evaluating a range of possible outcomes
- The time value of money
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Further detail is provided in note 7.

Classification and subsequent measurement of financial liabilities, financial guarantees contracts and loan commitments

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking). Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the value of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the value that is not

attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining value of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss

- Financial guarantee contracts and loan commitments: Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the expected credit loss value; and the premium received on initial recognition less income recognised in accordance with the principles of IAS 18. Loan commitments provided by the Company are measured as the value of the expected loss allowance. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. If the contract includes both a loan and an undrawn commitment and the expected credit loss on the undrawn commitment cannot be separated from the loan component, the expected credit loss on the undrawn commitment is recognised together with the loss allowance for the loan. If the combined expected credit loss exceeds the carrying amount of the loan, the excess is recognised as a provision

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the contractual rights to receive cash flows from the asset have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control. In case of modification of loans when the Company renegotiates or otherwise modifies the contractual cash flows of a loan, it assesses whether or not the new terms are substantially different from the original terms, considering a range of factors that include reduction in cash flows when the borrower is expected to be able to pay, new substantial terms are introduced, extension of the loan term, changes in interest rate and currency or insertion of collaterals or credit enhancement facilities. If terms are substantially different after the modification, the Company derecognises the original financial asset and recognises a new asset at fair value, recalculating a new effective interest rate for the asset. If the terms of the modified asset are not substantially different, the asset is not derecognised, but the Company revises the new cash flows, resulting in a modification gain or loss.

A financial liability is derecognised when extinguished (i.e. the obligation specified in the contract is discharged,

cancelled or expires). In case of modification of terms of financial liabilities, the Company extinguishes the current liability and recognises a new liability only if the modification is considered a substantial modification of the terms (i.e. if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounting using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability). Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment if the modification is accounted for as an extinguishment. Otherwise, costs and fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(j) Debt securities in issue and other financial liabilities

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Income Statement over the life of the borrowings using the effective interest method.

(k) Leases

The leases entered into by the Company are operating leases. The total payments made under operating leases are charged to the Income Statement on a straight-line basis over the life of the lease.

(l) Deferred income tax

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured using substantively enacted rates which are expected to apply when the temporary difference reverses. The principal temporary differences arise from goodwill impairment, property, plant and equipment depreciation, stock options, and revaluation of certain financial assets and liabilities, including derivative instruments.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered in the future. Deferred tax relating to changes in fair values of financial assets classified as Fair Value through Other Comprehensive Income, which are taken directly to the Statement of Other Comprehensive Income, is charged or credited directly to Other Comprehensive Income and is subsequently recognised in the Income Statement together with the deferred gain or loss.

Income tax payable on profits, based on the enacted or substantively enacted tax law where relevant, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. The Company recognises interest on late paid taxes plus any penalties, if applicable, as part of operating expenses or provisions in the Income Statement, depending on circumstances.

(m) Employee benefits

(i) Retirement benefit obligations

The Company operates defined contribution plans for employees. The Company pays contributions to privately administered pension plans and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(ii) Short-term employee benefits

The Company recognises short-term compensated absences, being the value of annual leave not taken at the year end date, and approved bonuses as a liability and an expense.

(iii) Deferred variable compensation

Certain employees are entitled to participate in a cash or equity-settled, share-based variable compensation plan with options granted over the shares in EFG International. The fair value of the employee services received in exchange for the grant of the options or restricted stock units is recognised as an expense over the vesting period for options or restricted stock units granted under the plan.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options, restricted stock units or the cash granted, excluding the impact of any non-market-vesting conditions (for example, profitability and revenue growth targets). Non-market-vesting conditions are included in assumptions about the number of options and restricted stock units that are expected to become exercisable. The expense recognised during each period is the pro-rata amount of the fair value of options expected to become exercisable plus the impact of the revision of original estimates, if any, which is recognised in the Income Statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

(n) Related party transactions

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis.

(o) Provisions

Provisions are recognised when:

- The Company has a present legal or constructive obligation as a result of past events
- It is probable that an outflow of economic benefits will be required to settle the obligation
- Reliable estimates of the amount of the obligation can be made
- A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the obligation which forms part of the Company's unavoidable cost of meeting its obligations under the lease contracts.

(p) Share capital and share premium

Both share capital and share premium are classified as equity.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

(q) Fiduciary activities

Where the Company acts in a fiduciary capacity, such as nominee, trustee or agent, assets and income arising on fiduciary activities, together with related undertakings to return such assets to customers, are excluded from the financial statements. The Company holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority. As the Company is not the entitled beneficiary, such monies and the corresponding liability to clients are not shown on the Balance Sheet. See note 49.

(r) Cash and cash equivalents

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

4. Critical accounting estimates and judgements in applying accounting policies

In the process of applying the Company's accounting policies, the Company's management makes various judgements, estimates and assumptions that may affect the reported amounts of assets and liabilities recognised in the financial statements in future periods. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and Fair Value through Other Comprehensive Income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring the expected credit losses are further detailed in note 6, which also sets out the key sensitivities of the expected credit losses to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring the expected credit losses, such as:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated expected credit losses
- Establishing groups of similar financial assets for the purposes of measuring the expected credit losses

(b) Income taxes and deferred tax

Significant estimates are required to determine the current and deferred tax assets and liabilities. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. This will include judgement of the amount of tax payable on open tax computations where the liabilities remain to be agreed with HMRC, including where subject to formal HMRC enquiries. Due to the uncertainty associated with such tax items it is possible that at a future date, on conclusion of any open tax matters, the final outcome may vary significantly.

A deferred tax asset is recognised for the carry-forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. To the extent that it is not probable that taxable profit will be available against which unused tax losses can be utilised, the deferred tax asset is not recognised.

(c) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. The determination of whether an outflow is probable and the amount, which are assessed by Company's management in conjunction with the legal and other advisors, requires the judgement of the Company's management.

5. Financial risk assessment and management

The Company acknowledges that carrying out business in the banking and financial services industry entails risks, i.e. that events may appear which impact the Company's ability to deliver on its objectives. The Company believes that the proper management of risks is critical for continued success.

Risk management comprises the people, processes, and systems designed to ensure that risks are appropriately identified, measured, monitored and reported, as well as mitigated on an ongoing basis.

Importance of risk management

For the Company, risk management is of crucial importance in order to:

- Ensure it understands and controls its exposure to risk
- Ensure that risk exposures are in line with risk capacity and defined risk appetite and strategy
- Help the Company successfully implement its corporate strategy
- Protect clients from potential risks, such as unsuitable products or excess concentrations
- Contribute to the orderly functioning and sound reputation on the markets in which the Company operates

Approach to risk management

The Company has developed a multi-dimensional approach to risk management:

- There are independent Risk Control and Compliance functions with clearly defined objectives

- There is a unique, comprehensive and prioritised list of risk categories
- There is a defined risk strategy and risk appetite
- There is a coherent and comprehensive set of policies, standards and procedures to govern risk management
- There is continuous, independent measurement and assessment of risk exposures
- The effectiveness and efficiency of risk management is supervised by the Board of Directors with the support and advice of a dedicated Risk Committee

Purpose and objectives of the risk management

The objectives of risk management are to:

- Provide transparency on the risks the Company incurs
- Provide independent oversight and challenge that risks are adequately managed
- Enable better management of the risk-return trade-off
- Support the Board of Directors in defining an adequate risk appetite and strategy and ensure the actual risk profile remains in line with these

The role of risk culture in supporting effective risk management

The Company believes the behavioural element is key to ensure sound risk management, and that this is guided by the risk culture of the organisation. Accordingly, risk culture is viewed as a core component of effective risk management.

To frame this topic, the Company approaches risk culture in line with Financial Stability Board principles:

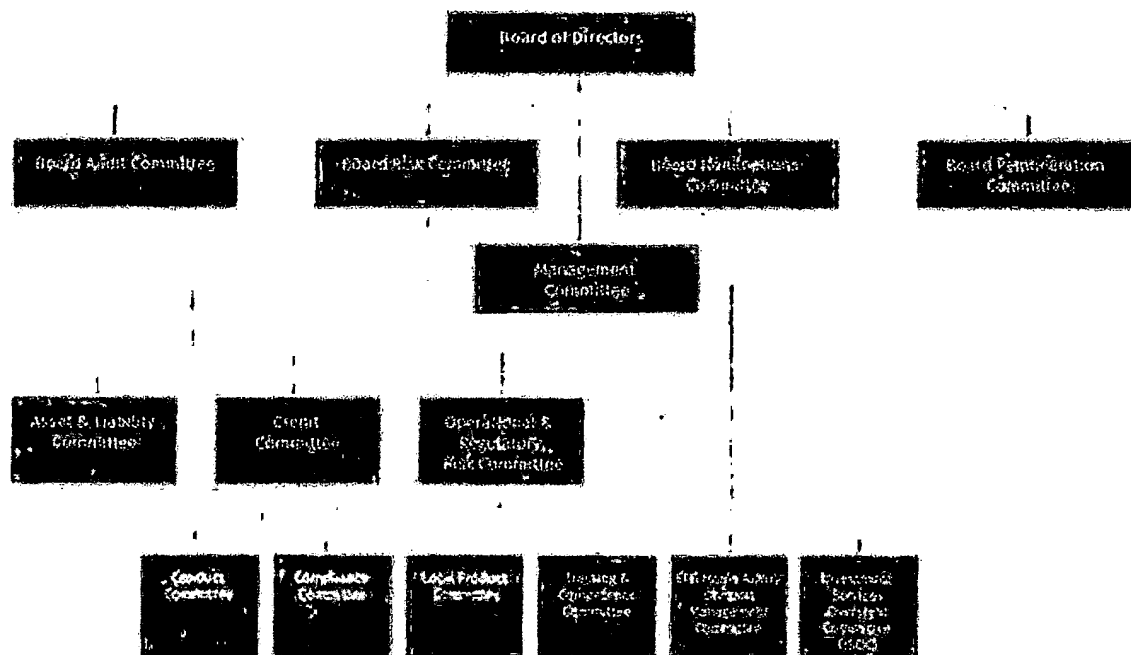
- **Tone from the top:** The Board of Directors, the Executive Committee and senior management are the starting point for setting the Company's core values and risk culture; their behaviour reflects the risk culture that is expected throughout the organisation and is communicated through formal and informal channels
- **Accountability:** The risk management framework and the risk policies clearly assign accountability for risk management and decision-making to functions and specific unit heads; staff acceptance of risk-related goals and related values is essential
- **Effective communication and challenge:** An environment must allow for open communication and promote effective challenge in the decision-making process; this is supported by independent Risk and Compliance functions

Financial and non-financial incentives are reviewed to ensure they do not encourage excessive risk-taking.

Risk governance and organisation

Risk management in the Company involves committees, functions and business units. The figure below shows the Company's committees while the roles of the different committees for risk management are described below:

Board of Directors & Committees 2018



The Board of directors sets and approves the risk strategy, the risk appetite and the risk management framework of the Company and monitors its risk profile, as well as the effectiveness of risk management.

The Risk Committee is the primary advisory committee to the Board of Directors on matters relating to risk and compliance. The Risk Committee proposes the risk management framework of the Company and advises the Board of Directors accordingly. In addition, it monitors the risk profile, ensures that the risk management is effective, reports on the state of risk culture and interacts with and oversees the Chief Risk Officer and the Head Compliance. The Risk Committee's work includes oversight of the strategies for capital and liquidity management as well as the management of all relevant risks of such as credit, market, liquidity, operational and reputational risks, to ensure they are consistent with the stated risk appetite.

The Audit Committee oversees the internal audit function, which represents the third line of defence, and is responsible for the oversight of:

- The financial and business reporting processes, including the selection and application of appropriate accounting policies
- The integrated internal control systems for financial reporting as well as the internal controls of areas beyond financial reporting
- The Company's tax risks
- The internal and external audit processes

The Management Committee is tasked by the Board of Directors with the following responsibilities with regards to risk management:

- Consider the design and operating effectiveness of the Company's risk management framework including risk appetite, risk appetite framework and risk management strategies, seeking Board approval as appropriate, and ensure they are implemented;
- Manage risk in line with the risk capacity of the Company (defined according to capital and liquidity resources, available funding and limits set by EFGI) and the risk appetite/risk tolerance set by the Board.
- Review and comment upon sub-committee reports from ALCO, Credit Committee and Operational, Regulatory & Compliance Committee to determine a consolidated Company risk profile and take action in relation to the issues raised in the risk reports as it considers appropriate;
- Consider the Chief Risk Officer's consolidated risk report, including regulatory compliance and conduct risk, for

presentation to Risk Committee. Where Management Committee disagrees with the Chief Risk Officer, the Committee reserves the right to present a separate view to Risk Committee.

The Management Committee will either directly or via Operational, Regulatory & Compliance Committee, Asset & Liability Management Committee or Credit Committee as appropriate:

- Assess and supervise the operational and regulatory risks of the Company and ensure risks are managed in accordance with the defined risk appetite and tolerances of the Company.
- Act on all material and/or business wide risk and control matters across the Company, including, but not limited to, financial and non-financial (operational, regulatory, compliance and conduct) risk as well as reputation and strategic risk matters.
- Oversee the effective management of the Company's current and future balance sheet, with particular focus on capital and liquidity, in line with its chosen business strategy and approved risk appetite, under normal and under stress conditions.

Risk Management Committees

Reporting to the Management Committee are a number of committees that play key roles in the oversight of risk management. These committees are established as forums for discussion on important risk management issues, for the identification of relevant changes in the risk profile and new risks arising, for decision-making, and as a point of escalation where resolution is required. Each Risk Committee has dedicated Terms of Reference, which provide more detail on membership, scope and responsibilities.

Risk Committees jointly ensure there is coverage of the key Risk Categories for discussion, decision and escalation. Information exchange across committees is maintained through cross-membership.

The Operational and Regulatory Risk Committee is responsible for oversight with regards to matters relating to non financial risks including operational, regulatory compliance, conduct and regulatory risk.

The Asset & Liability Committee is responsible for the management of the Company's balance sheet and for the implementation of capital allocation across risk categories,

In particular, it is responsible for the management of the Company's market risk exposure and liquidity risk.

The Credit Committee has responsibility for the management of client credit risk and oversight of issuer risk.

The Chief Risk Officer is responsible for oversight and challenge of credit, ALM and operational risks of the Company through:

- Risk identification
- Risk measurement
- Risk monitoring and reporting
- Risk mitigation.

The Head of Compliance Officer leads the Compliance function and is responsible for providing efficient support to the Company's managing bodies with regards to the management of compliance, regulatory and reputational risk. In addition, the Compliance function is also responsible for monitoring compliance with anti-money laundering/know-your-customer and cross-border activity rules, as well as adherence to product suitability, product selling restrictions and the Code of Conduct.

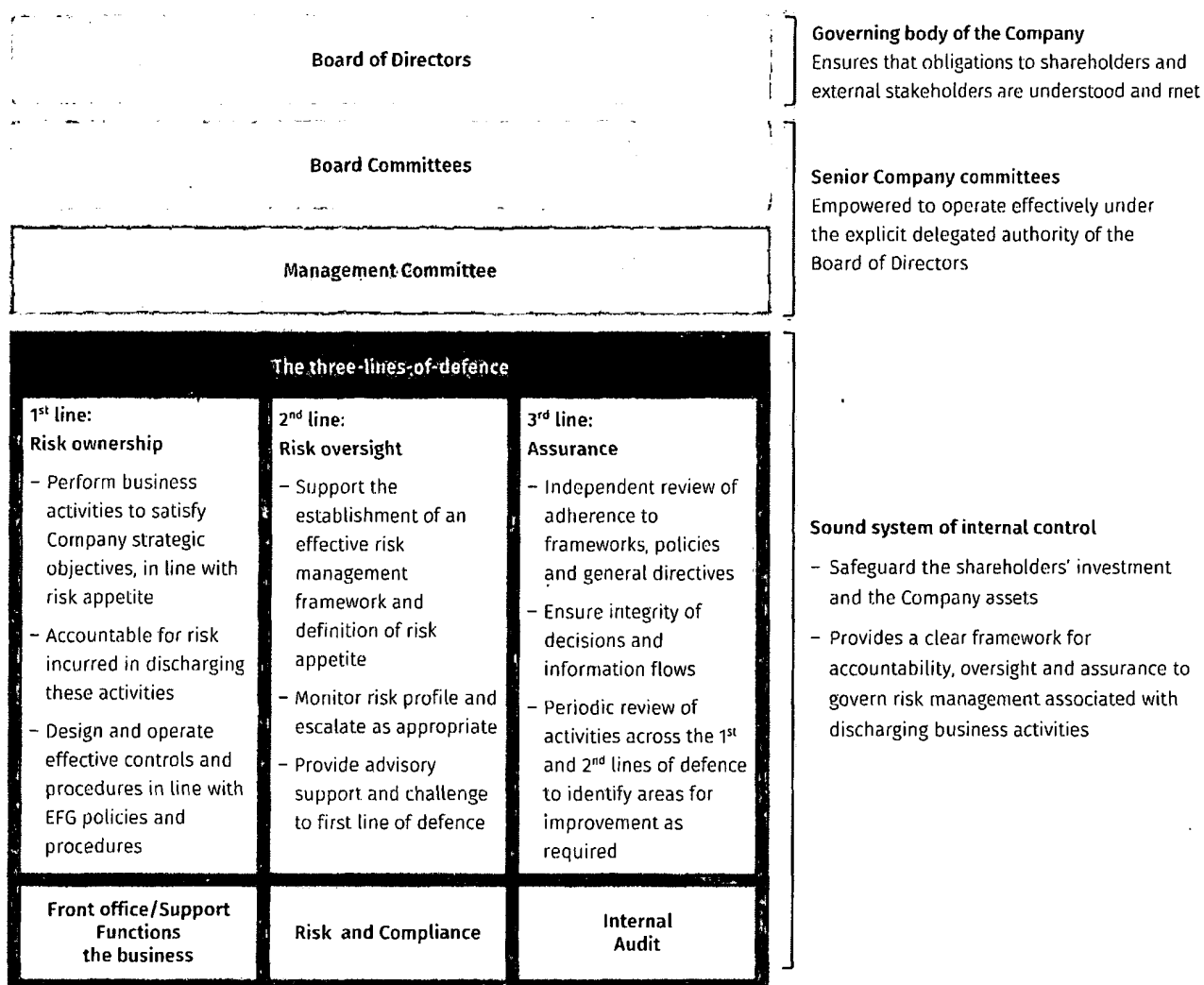
Both Risk Management and Compliance interface with other functions as required.

The three-lines-of-defence model

The Company manages its risks in accordance with a three-lines-of-defence (3LoD) model. The 3LoD model delineates the key responsibilities for the business, control functions and audit to ensure that the organisation has a coherent and comprehensive approach to risk management.

The Company's interpretation of the 3LoD model is in line with industry practice and is consistent with that of the Company's ultimate parent company, EFG International Incorporated in Switzerland.

An overview of the 3LoD model is presented in the figure below:



Risk appetite framework

The Board of Directors approve the risk appetite framework. The risk appetite framework describes the Company's approach, governance and processes in relation to setting risk appetite and is structured by qualitative considerations (risks appetite) as well as quantitative considerations (risk appetite metrics).

The risk appetite framework sets the overall approach to risk appetite, documenting the level of risk that the Company is prepared to incur; it includes:

- The risk appetite and risk tolerance limited, thresholds and statements.
- Key indicators/metrics
- Risk exposure monitoring, reporting and escalation Risk categories

The strategic, market, liquidity, credit, operational and compliance risks of the Company are defined in the risk management framework, in the risk taxonomy and are described in the related risk policies. The risk taxonomy identifies the risk categories that the organisation wants to consider in its discussion of risk and provides a definition of the identified risks. The risk categories establish a common language on risks and thereby enable alignment across business units, geographies and functions.

Business and strategic risk

Business and strategic risk is the risk of loss arising from changes in the business environment and from adverse business decisions or improper implementation of decisions. The business and strategic risk includes the following risk categories:

- Client portfolio risk: The risk inherent in client portfolios in general as well as the risk of a reduction in assets under management and/or loss of client relationships as a result of other risk types, e.g. performance, reputation, operational risks, compliance, etc.
- Strategic risk and governance: The risk of the enterprise or particular business areas making inappropriate strategic choices, or being unable to successfully implement selected strategies or related plans and decisions, which may result in a variance to business plans and strategies
- Competitive risk: The risk of an inability to build or maintain sustainable competitive advantage in a given market or markets
- Human resources risk: The risk arising from inadequate or insufficient human resource performance and/or staffing or key people (including client relationship officers) leaving the Company

Credit risk

Credit risk is defined as the risk of loss resulting from the failure of the Company's borrowers and other counterparties to fulfil their contractual obligations and that collateral provided (if any) does not cover the Company's claims. The credit risk arises not only from the Company's client lending operations but also from its Treasury activities. The Company incurs credit risk from counterparty default, on traditional on-balance sheet products (such as loan or issued debt), where the credit exposure is the full value but also on off-balance sheet products (such as derivatives) where the 'credit equivalent' exposure covers both actual exposure (as a function of prevailing market prices) and potential exposures (i.e. an add-on for volatility of market price) or other guarantees issued (contingent liabilities).

The Company's credit risk exposure is comparatively low because its primary credit exposures relate to loans collateralised by mortgages, cash or securities portfolios; or unsecured exposures to rated financial institutions and corporate bond issuers.

Credit risks related to clients

The credit risk strategy for private banking clients is explicitly defined in the Company's risk appetite framework, and is based on four dimensions, as described below:

- Client type: The Company's client business is focused on its private banking clients and includes loans to individuals and to standard wealth planning structures held by private individuals. In all cases, the borrower or beneficial owner must be able to bear the financial risk of the loan. In addition, where the loan is secured by real estate or any other non-financial asset or where the extension of credit relies on elements other than the value of the collateral, the borrower or guarantor must be sufficiently credit worthy to repay the loan should the collateral (if any) be insufficient to cover the loan balance
- Credit purpose: Credits are extended to finance or re-finance the purchase of real estate. In addition, credits are extended in order to leverage portfolios of financial assets and to support margin requirements for foreign exchange or other derivative positions.
- Collateral type: Credits are secured by real estate primarily residential but also commercial or by diversified portfolios of financial assets including cash, bonds, equities, precious metals and funds, as well as EFG International Group guarantees and life insurance policies. The Company may consider exposures with a risk concentration against shares at conservative loanable values provided that the quality and the liquidity of the collateral justifies it; or, may provide loans on an

unsecured basis, subject to the credit worthiness of the client

- Profitability: The Company seeks to optimise the profitability of its lending business and has established requirements for the minimum pricing of loans and the minimum amount of banking business required to justify the extension of credit. The Company focuses on the profitability of the overall banking relationship.

Counterparty credit risk

The Company incurs counterparty credit risk in its Treasury activities, where credit risk derives from the financial assets and derivative instruments that the Company uses for investing its liquidity and managing foreign exchange and interest rate risks in its funding and lending transactions. To ensure the efficient management of its banking activities, the Company engages and maintains business relationships with said counterparties only if certain criteria with regard to solvency, reputation and the quality of the services received are met.

Global limits are proposed and approved by the Company's parent, EFG International and delegated to the Company. Delegated amounts considered and approved by the Company's Credit Committee and subject to country limits. The responsibility for management of delegated counterparty credit risk lies fully with the Company. The Credit department monitors the adherence to delegated limits:

Country risk

Country risk is defined as the transfer and conversion risk that arises from cross-border transactions. Country risk also encompasses direct and indirect sovereign risk, the default risk of sovereigns or state entities acting as borrowers, guarantors or issuers.

EFG International Group determines the country risk that it wishes to accept and the exposure allowed to these countries.

Market risk

The Company is exposed to market risk, which mainly arises from foreign exchange, interest rate, share prices and commodity prices.

The Company's balance sheet and off-balance sheet positions generate low foreign exchange risk and interest rate exposures. The Company has no exposure to equity and commodity risks.

The management of Company's interest rate risk exposure is performed in accordance with risk appetite on the impact of various interest rates scenarios on economic value and interest income sensitivity. The Company uses value at risk (VaR), sensitivity analysis and stress tests as methodologies to monitor and manage foreign exchange risks inherent to its structure.

The market risk strategy at balance sheet level approved by the Board of Directors is defined as follows:

- To manage interest rate risk in line with predefined interest rate limits and risk appetite to generate profits for the benefit of the Company
- To manage foreign exchange risk in order to control its impact on annual results

The Company holds an investment portfolio that allows it to diversify balance sheet assets and to optimise any excess liquidity. To mitigate the credit spread and interest rate exposure, minimum country and issuer rating standards and concentration limits have been determined. In addition, VaR, interest rate, credit spread sensitivities and stress metrics as well as P&L limit are computed and monitored.

The investment portfolio risk strategy approved by the Board of Directors is the following:

- To seek to turn liquidity into profit while maintaining liquidity buffers with high-quality liquid securities in accordance with external rules
- To generate income primarily through taking liquidity, interest rate and credit spread risk, and only incur non-material FX risk in the banking book
- To not take on any equity, commodity, longevity and mortality risk
- To limit the extent of concentrations in our investment portfolio

The Company manages liquidity risk in such a way as to ensure that ample liquidity is available to meet commitments to customers, both in demand for loans and repayments of deposits and to satisfy the Company's own cash flow needs. The Company's customer deposit base, capital and liquidity reserves position and conservative gapping policy when funding customer loans ensure that the Company runs only limited liquidity risks.

Liquidity is handled by treasury, which ensures the ongoing process of sourcing new funds, in the case of a lack of liquidity or the investing of funds, if there is an excess of liquidity and are responsible for ensuring compliance with liquidity regulation and risk management limits.

The Company also has a liquidity management process in place that includes liquidity contingency plans.

Operational risk

Operational risk is defined as the risk of losses resulting from the inadequacy or failure of internal processes, people and/or systems or from external events. It includes compliance and legal risks, regulatory sanctions and agreements. Operational risk differs from other banking risks in that it is not normally assumed directly against an expected gain; rather, it is an inherent part of the day-to-day activities and is therefore a risk common to all the Company's activities.

The Company aims to mitigate significant operational risks it may inherently run to a level it considers appropriate and commensurate with its size, structure, nature and complexity of its service/product offerings, thus adequately protecting its assets and its shareholders interests.

The Board of Directors and senior management strive to set the operational risk culture through, among others, the definition of the overall operational risk appetite of the organisation (expressed in quantitative thresholds and qualitative statements), which is embedded in the organisation's risk management practices. The supervision of operational risk at the Board of Directors level is under the responsibility of the Board Risk Committee.

While the primary responsibility for managing operational risk lies with the first line of defence, the development, implementation and oversight of the operational risk policy of the Company forms part of the objectives of the Operational Risk Management function.

The operational risk management work in collaboration with functions that also undertake operational risk oversight for their respective area of responsibility, such as the Chief Financial Officer, the Chief Operating Officer, the Head of Compliance and the Head of Legal. The principal aim of operational risk management is to ensure that the Company has an appropriate operational risk management framework and program in place for identifying, assessing, mitigating, monitoring and reporting operational risk. The operational risk management team reports to the Chief Risk Officer.

Main tools applied by the Operational Risk Management for the identification, assessment, monitoring and reporting of operational risk are:

- Assessment and monitoring of key operational risks
- Monitoring of key risk indicators

- Collection, analysis and reporting of operational risk events and losses
- Consolidated operational risk reporting to the Chief Risk Officer and Board Risk Committee
- Follow-up of actions taken to remedy key operational risk-related control issues
- Establishment of an operational risk awareness programme

The Company designs and implements internal controls and monitoring mechanisms in order to mitigate key operational risks that it inherently runs in conducting its business.

The Company continuously invests in business continuity management in order to ensure continuity of critical operations in the event of a major disruptive event. Business continuity management encompasses backup operating facilities and IT disaster recovery plans, which are tested regularly.

Considering the rapidly evolving risks relating to IT security and data confidentiality in the financial industry, the Company continuously assesses its cyber defences and internal processes in order to ensure adequate mitigation of risks and adherence to the increasing regulatory requirements in this area.

As a member of the EFG International Group the Company is covered by insurance to hedge (subject to defined exclusions) potential low-frequency-high-impact events. EFG International Group administers centrally three layers of insurance cover, being comprehensive crime insurance, professional indemnity insurance and directors, and officers, liability insurance. The Company manages insurances such as general insurances locally.

Compliance risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation which the Company may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, generally accepted practices, and codes of conduct applicable to its banking activities.

The compliance risk is identified, measured, monitored, reported and mitigated by a clearly distinguished and dedicated Compliance department, in alignment with the roles and responsibilities defined in the Company's risk management framework.

Changes in the regulatory environment are monitored, and policies and procedures are adapted as required. In line

with these evolving regulations, the Company continuously invests in personnel and technical resources to maintain adequate compliance coverage.

A compliance risk policy is in place, complemented by a comprehensive set of standards and procedures and regular specialised training sessions delivered to all staff to raise their awareness and understanding of the compliance risks.

Compliance risk is managed in accordance with the 3LoD, outlined in details in the risk management framework.

The Company aims to mitigate any compliance risks that it inherently runs taking into account the size, structure, nature and complexity of its business and services/product offering. The Company is committed to sound and effective compliance risk management as the core foundation for a sustainable financial institution. Effective compliance risk management means meeting the compliance obligations and protecting the Company from loss or damage. It is vital for long-term-oriented and sustainable business.

A major focus of regulators is the fight against money laundering and terrorism financing. The Company has in place comprehensive policies on anti-money laundering and know your customer, as well as on anti-bribery and corruption, to detect, prevent and report such risks. Through dedicated monitoring and quality assessment programmes, the Compliance ensures compliance these.

The Company has defined a set of standards governing the cross-border services it offers, and has developed country-specific manuals for the major markets it serves. Mandatory staff training is in place to ensure adherence to the standards and compliance with the country manuals. They are complemented by a tax compliance framework. Those frameworks are continuously enhanced to comply with new regulations such as MiFID II or CRS.

Conduct risk is managed by the Compliance department, which maintains the relevant policies and has oversight over the monitoring of the regulated asset management businesses and the associated discretionary management of assets. The same team also ensures that all products or securities sold to clients or bought for them have been through the appropriate approval process.

Legal risk

Legal risk is the risk to the firm's profitability arising from changes in legislation and/or as results from legal actions against the institution.

The General Counsel ensure the Company adequately manages and controls its legal risks. This includes supervising and giving strategic direction to all outside counsel advising the on civil, regulatory and enforcement matters.

Any change in the legal environment can constitute a challenge for the Company in its relations with competent authorities, clients and counterparties.. The General Counsel function is responsible for providing legal advice to management as well as handling client complaints and assisting authorities in their criminal and administrative investigations. It has principal responsibility for overseeing and advising the management on significant civil litigation and all government enforcement matters.

Reputational risk

Reputational risk is defined as the risk of an activity performed by the institution or its representatives impairing its image in the community or public confidence, and that this will result in the loss of business and/or legal action or additional regulatory oversight. Typically a result of other risk categories.

The Company considers its reputation to be among its most important assets and is committed to protecting it.

Reputational risk for the Company inherently arises from:

- Potential non-compliance with increasingly complex regulatory requirements
- Potential non-compliance with anti-money laundering regulatory requirements
- Its dealings with politically exposed persons or other clients with prominent public profiles
- Its involvement in transactions executed on behalf of clients other than standard investment products
- Potential major incidents in the area of IT security and data confidentiality
- Potential malfeasance by its employees
- Any other potential negative internal or external event arising from other risk categories (e.g. in case of significant downturn on bonds or equities markets or of a blow up of a particular housing market speculative bubble, etc.)

The Company manages these potential reputational risks through the establishment and monitoring of the risk appetite by the Board of Directors, and through established policies and control procedures.

6. Credit risk

Credit risk refers to the possibility that a financial loss will occur as a result of a borrower's or counterparty's deteriorating creditworthiness and/or inability to meet its financial obligations. The Company's primary credit exposures relate to loans collateralised by mortgages, cash or by securities portfolios, or to rated financial institutions, sovereigns and corporates.

6.1 Credit risk management

(a) Loans and advances

A basic feature of the credit approval process is a separation between the Company's business origination and credit risk management activities. Credit requests are initiated by Client Relationship Officers and must be supported by a senior independent member of the Credit Committee. The Company's Credit Committee ensures the implementation of the credit policies and procedures defined by the Board and approves major client credit related risks. The Credit Administration Department monitors credit exposures linked to and arising from investment securities, amounts due from banks, and loans and advances to customers, against approved limits and

pledged collateral. Management is required to understand the background and purpose of each loan (which is typically for investment in securities, funds, and investment related insurance policies or real estate) as well as the risks of the underlying collateral of each loan.

The Company's internal grading system assigns each client credit exposure to one of ten rating categories. The rating assesses the borrower's repayment ability and the value, quality, liquidity and diversification of the collateral securing the credit exposure. The credit policy and the nature of the loans ensure that loan book is of high quality. Consequently, an overwhelming majority of the Company's credit exposures are rated within the top three categories.

Following table describes the internal definition of different grading level (broadly they follow the risk categories of external rating agencies):

| Grading | Description of grade | | S&P's rating |
|---------|----------------------|--|--------------|
| 1 | Top | Secured by "cash collateral or equivalent" – good diversification | AAA |
| 2 | High | Secured by "cash collateral or equivalent" – imperfect diversification | AA |
| 3 | Very good | Secured by "other collateral" | A |
| 4 | Good | Partly secured by "cash collateral or equivalent" | BBB |
| 5 | Acceptable | Unsecured but prime borrower | BB |
| 6 | Weak | Borrower situation/collateral value is deteriorating | B |
| 7 | Poor | Conditions of initial credit are no longer being met | CCC |
| 8 | Unacceptable | Interest is no longer being paid – collateral is being held | CC to C |
| 9 | Potential loss | Bank holds illiquid – uncollectible or no collateral | D |
| 10 | Loss | No collateral or uncollectible collateral | D |

(b) Debt securities and other bills

For debt securities and other bills, external credit ratings such as Standard & Poor's rating or their equivalents are used the Company for managing the credit risk exposures.

6.2 Risk limit control and mitigation policies

Credit loans guaranteed by real estate are treated in conformity with regulation pertaining to examination, valuation and treatment of credits guaranteed by real estate and with the internal policies and procedures on mortgage loans. All

the real estate provided as collateral must be evaluated by the Credit department and/or by external professionals. Mortgage valuations are reviewed annually using statistical (indexation) methods, and larger mortgages are subject to periodic independent valuation.

To qualify as collateral for a lombard loan, a client's securities portfolio must generally be well diversified with differing haircuts applied depending on the type of risk profile and liquidity of the security. Additional haircuts are applied if the loan and the collateral are not in the same currency or diversification criteria are not fully met.

The Credit department monitors credit exposures against approved limits and pledged collateral. If necessary, they initiate rectification steps. Most collateral is valued daily (but may be valued more frequently during periods of high market volatility). Structured notes, certain mutual and hedge funds are valued monthly, whereas insurance policies are valued at least annually.

Management of exposure to financial institutions is based on a system of counterparty limits coordinated at the EFG International Group level, subject to country limits. Limits for exposure to counterparties are granted based upon internal analysis. The limits are set and supervised by the relevant Group Committees depending on each counterparty's S&P or Moody's ratings (with reference to individual and support ratings) and on the counterparties total equity. These limits are annually reported to the Group's Risk Committee.

Other specific control and mitigation measures are outlined below.

(a) Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for credit exposures. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and to a limited extent commercial properties
- Charges over cash balances held with the Company and cash equivalent
- Charges over financial instruments such as debt securities, equities and funds
- Bank guarantees

(b) Derivatives

The Company maintains a strict monitoring of credit risk exposure induced by over-the-counter derivative transactions versus dedicated limits granted. Credit risk exposure considers the current credit risk exposure through the mark-to-market of the transactions and the potential future exposure through dedicated add-on factors applied to the notional of the transactions. While being ignored in the computation of credit risk, the Company has signed mitigating agreements with its most important financial institutions counterparties; with collateral paid or received being taken into consideration.

(c) Credit related commitments

Credit related commitments include the following:

- Guarantees, forward of risk and standby letters of credit; these carry the same credit risk as loans
- Commitments to extend credit; these represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Company is potentially exposed to loss in an amount equal to the total unused commitments. However, commitments to extend credit are contingent upon customers maintaining specific credit standards

The guarantees and irrevocable lines of credit can be drawn by the customers only if the client has adequate collateral pledged with the Company. Should the guarantees and irrevocable lines of credit be drawn, the majority of the facilities would be rated by the Company with an internal rating of 1 to 3.

6.3 Credit loss measurement

The Company applies the 'three-stage' approach introduced by IFRS 9 for impairment measurement based on changes in credit quality since initial recognition:

- Stage 1: financial assets that have not experienced a significant increase in credit risk (SICR) since initial recognition
- Stage 2: significant increase in credit risks (SICR) since initial recognition but not yet deemed to be credit-impaired
- Stage 3: credit-impaired on payment default

Financial instruments in Stage 1 have their expected credit losses (ECL) measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

Specific ECL measurements have been developed for each type of credit exposure. Generally the three components of ECL are exposure at default, probability of default and loss given default, defined as follows:

- Exposure at default (EAD) is based on the amounts the Company expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur
- Probability of default (PD) represents the likelihood of a borrower defaulting on its financial obligation (as per 'definition of default and credit-impaired' below), either over the next 12 months (12-month PD), or over the remaining lifetime (Lifetime PD) of the obligation
- Loss given default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of EAD expected to be non-recoverable if the default occurs in the next 12 months and lifetime LGD is the percentage of EAD expected to be non-recoverable, the default occurs over the remaining expected lifetime of the loan

6.4 Due from banks and investment securities

This includes all assets that are classified as follows:

- Cash and balances with central banks
- Treasury bills and other eligible bills
- Due from other banks
- Investment securities – Fair value through other comprehensive income (FVTOCI)

Inputs and assumptions

The ECL for all products above is estimated via three components:

- EAD: Depending on the product and on the IFRS9 asset classification; book value for amortised cost assets and purchase value adjusted for amortisation and discount unwind for assets designated as FVTOCI

- PD: Estimated for a 12-month and lifetime period based on external counterparty credit risk rating information (Standard & Poor's annual global corporate default study and rating transition)
- LGD: For Stage 1 and Stage 2 assets. LGD for sovereign, bank and corporate exposure is approximated by an expert judgement aligned to the credit default swap ISDA market standard that estimates a recovery rate for sovereign exposure of 40%, resulting in 60% LGD. In case of Stage 3 assets, LGD value is determined on an individual basis for sovereign, bank and corporate exposure

Estimation techniques

Macroeconomic expectations for sovereign securities and central banks debt are incorporated via their respective rating obtained from Standard & Poor's as part of their assessment of counterparty credit risk. For banks and corporate counterparties the PD and related transition matrices are impacted on the basis of EFG International Group's macroeconomic expectations.

Significant increase in credit risk

An internal expert panel performs a quarterly assessment to determine if an asset is subject to a significant increase in credit risk. A rapid deterioration in credit quality triggers an ad-hoc review of the individual asset. In addition to the quantitative SICR test based on changes in the rating agency's rating for the respective financial instrument, the assessment of the expert panel considers a range of external market information (e.g. credit default spreads, rating outlook). The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not generally available. Consequently, management judgement based upon historical regression analysis has been used to determine a reasonable basis for estimating the original PD. More detailed analysis of the evolution of lifetime PD's versus initial recognition PD's will be developed for future reporting periods.

Definition of default

The default is triggered through a payment default on the instrument or any cross-default indication from rating agencies.

6.5 Residential and commercial mortgages

This includes assets that are classified within loans and advances to customers that are predominantly secured by real-estate collateral.

Inputs and assumptions

The ECL for mortgages is estimated by four components:

- EAD: the exposure considers contractual repayments, as well as potential drawdown over the lifetime of the loan
- Rank ordering of loans: each loan is assigned to a risk grade on the basis of its credit quality (i.e. rank order estimation)
- PD is derived from historical transition matrices. To derive forward-looking default estimates, these matrices are conditioned to the macroeconomic expectation of Company
- LGD: the loss estimate is calculated based on the possibility to cure (derived from the transition matrix), as well as loss given loss (LGL) component. The LGL takes into account the current LTV and the future recovery value of the underlying collateral. The recovery value depends on parameters such valuation haircuts and their volatility, time to sell the collateral, as well as associated selling costs. The house price development until sale, as well as the effective interest rate are also taken into account

Estimation techniques

Forward-looking macroeconomic effects are incorporated with forecasts on gross domestic product (GDP) growth and house price development.

The GDP forecasts impact the migration matrices used to determine the PD and the probability to cure considered in the LGD:

- GDP growth for the United Kingdom is estimated with an explicit forecast for the United Kingdom
- GDP growth for all other countries is estimated with a weighted forecast for the major global economies

House price developments for the UK are estimated with an explicit forecast for the London area. House prices for other countries are estimated with a weighted forecast that includes the major global economies. The house prices impact the LTV ratios used to calculate the LGD.

Significant increase in credit risk

SICR for these assets has occurred if any credit is greater than 30 days past due. Other criteria used to identify assets with SICR are the relative deterioration in credit quality since origination, also taking into account the internal scorecard rating and credit watch list status, or if a loan has previously been defaulted.

Definition of default

Mortgages are considered to be in default if the credits are greater than 90 days past due. Other criteria used to identify non-performing assets are the internal scorecard

rating, watch list status and individual assessment of the respective counterparty.

Lombard lending

This includes assets that are classified within loans and advances to customers, including Lombard loans and other exposures covered by financial collaterals.

Lombard loans are loans secured by diversified portfolios of investment securities, and the risk of default of the loan is driven by the valuation of the collateral. The lending decision is not based on 'traditional lending' criteria such as affordability, and is typically undertaken by clients with an existing investment portfolio who wish to leverage their portfolio in pursuit of higher investment returns or for diversification reasons or who have short-term liquidity needs.

Inputs and assumptions

The ECL for Lombard lending are estimated with two components:

- ECL due to adverse market price movements in the collateral that captures the risk that a shortfall arises when collateral values decrease to a level insufficient to cover the respective lombard loan exposure and
- ECL due to a default of a large single collateral position (Top 1 to Top 5) yielding a shortfall for the lombard loan exposure

Due to the importance of collateral characteristics for lombard lending asset segmentation has been defined balancing the need for a high granularity and the tractability of overall model. Asset classes have been distinguished by asset price volatility, credit and liquidity risk. Asset classes differentiate cash and cash equivalent, bonds, equities, funds, commodities, guarantees, derivatives, real-estates, insurance policies and other assets. Further asset sub-classes consider other relevant characteristic such as investment grade or non-investment grade issuance, or country of issuance.

ECL due to adverse market price movements is based on assumptions regarding:

- Loan-to-value (LTV) close-out trigger levels
- Market price volatility of underlying collateral sub-asset class
- Currency mismatch between loan and collateral
- Close-out periods
- Exposure at close-out considering a credit conversion factor for undrawn lombard credit lines

- LGD considering sales cost incurred during collateral liquidation

ECL due to default of a large single collateral position are based on assumptions regarding:

- Risk concentrations in top 5 collateral per asset sub-class
- PD for each sub-asset class based on counterparty risk ratings
- LGD to assess the collateral value after default
- LTV close-out trigger levels
- Market price volatility of underlying collateral sub-asset class
- Currency mismatch between loan and collateral
- Close-out periods
- Exposure at close-out considering a credit conversion factor for undrawn lombard credit lines
- LDG considering sales cost incurred during collateral liquidation

Estimation techniques

Differently from the general measurement approach, ECL measurement for lombard loans do not consider the PD of the borrower. The measurement approach calculates the probability that a given loan hits its close-out trigger level, conditional on this, its expected positive exposure (EPE) is calculated. This corresponds to an uncovered shortfall which in combination with the LGD parameter determines the ECL. For lombard lending, no additional macro-conditioning of variables is necessary as macroeconomic effects are captured through parameters like volatility and LTV levels.

Significant increase in credit risk

Credit risk for lombard loans is based on the underlying collateral. Hence, a SICR is driven by LTV metric for each individual lombard loan that is at or above the closeout trigger. Stage 2 lombard loans are loans with LTV above the close-out trigger which according to policy could have been closed out, but have been decided to be maintained, taking a higher credit risk.

Definition of default

Lombard loans that were closed-out or have their collateral liquidated, resulting in an actual shortfall, or where liquidation is still in progress resulting in a potential shortfall are considered credit-impaired and classified as Stage 3.

Other loans

This includes assets that are classified within loans and advances to customers that are not lombard loans nor mortgage loans and includes overdrafts and unsecured lending.

Inputs and assumptions

The ECL for other loans is estimated by four components:

- EAD: the exposure considers contractual repayments, as well as potential drawdown over the lifetime of the loan
- Rank ordering of loans: each loan is assigned to a risk grade on the basis of its credit quality (i.e. rank order estimation)
- PDs are derived from historical transition matrices for commercial loans. To derive forward-looking default estimates, these matrices are conditioned to the macro-economic expectation of the bank. Other, non-commercial loans, used an adjusted transition matrix that replicated their historical default rates due to the insufficient number of historical observations
- LGD: the loss estimate is calculated based on the possibility to cure (derived from the transition matrix), as well as a LGL component. The LGL takes into account the current LTV level and the future recovery value of the underlying collateral, for collateralised or partially collateralised exposures. Expert-based LGL rates are used for exposures without collateral

Estimation techniques

Forward-looking macroeconomic effects are incorporated with forecasts on GDP growth and house price developments. See residential and commercial mortgages for details.

Significant increase in credit risk

SICR for these assets has occurred if any credit is greater than 30 days past due. Other criteria used to identify assets with SICR are the relative deterioration in credit quality since origination, also taking into account the internal scorecard rating and credit watch list status, or if a loan has previously been defaulted.

Definition of default

Other loans are considered to be in default if they are more than 90 days past due. Other criteria used to identify non-performing assets are the internal scorecard rating, watch list status and individual assessment of the respective counterparty.

Contractual modifications

The Company modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view of maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms of initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Company may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 in accordance with the new terms for the six consecutive months or more.

Write off policy

The company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity
- Where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full

The Company may write off financial assets that are still subject to enforcement activity. The Company still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectations of full recovery.

Macro-economic scenario and sensitivity analysis

The ECL results are based on forward-looking projections. These projections consider different macroeconomic scenarios, in particular a base, upside and downside scenario is considered.

The most significant assumptions affecting the ECL are as follows:

- For investment securities, treasury and other eligible bills as well as for dues from other banks: GDP, given the correlation with counterparties' business environment, hence in turn their ability to repay the loans.
- For residential and commercial mortgages: House price index, given the impact it has on mortgage collateral valuations; GDP, given the correlation with the customers' wealth, as well as the commercial clients' business environment, hence in turn their ability to repay the loans.
- For due from customers – Other loans and Lombard lending : Asset volatility, given the impact it has on financial collateral valuations; GDP, given the correlation with the customers' wealth, as well as the commercial clients' business environment, hence in turn their ability to repay the loans.

Most significant Macro-economic scenario assumptions

| | | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------------|----------|--------|--------|------|--------|------|
| World GDP Growth | Base | 3.5% | 3.6% | 3.6% | 3.6% | 3.6% |
| | Upside | 4.5% | 4.4% | 4.3% | 4.1% | 4.0% |
| | Downside | 2.5% | 2.8% | 3.0% | 3.1% | 3.2% |
| Weighted GDP Growth | Base | 2.1% | 1.6% | 1.5% | 1.4% | 1.3% |
| | Upside | 3.1% | 2.4% | 2.2% | 1.9% | 1.7% |
| | Downside | 1.1% | 0.8% | 0.9% | 0.9% | 0.9% |
| House Price Index UK (London) | Base | (1.2%) | (0.2%) | 3.8% | 2.6% | 4.2% |
| | Upside | 4.8% | 4.6% | 7.6% | 5.7% | 6.7% |
| | Downside | (7.2%) | (5.0%) | 0.0% | (0.5%) | 1.7% |

House Price Index model assumptions are UK (London) reflecting the main geographic location of mortgage collateral. A Weighted GDP Growth series model has been used as it is believed to better represent the international nature of the Company's wealthy clientele better than a UK GDP series.

In addition, the list of changes to the ECL as of 31 December 2018 that would result from reasonably possible changes in the follow parameters from the actual assumptions used:

| Portfolio | Scenario | Impact on ECL | Scenario | Impact on ECL |
|---------------------------------------|-------------------|---------------|-------------------|---------------|
| Due from Customers – Mortgage Lending | +100 bps GDP | (2.5%) | -100 bps GDP | 3.1% |
| | +100 bps | | -100 bps | |
| | house price index | (0.2%) | house price index | 0.4% |
| | x2 | | | |
| Due from Customers – Lombard lending | asset volatility | (7.1%) | | |
| Due from Customers – Other lending | +100 bps GDP | (12.87%) | -100 bps GDP | 17.2% |

6.6 Collateral and other credit enhancements

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for credit exposures. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and to a limited extent commercial properties.
- Charges over financial instruments such as debt securities and equities.

6.7 Concentration of risks of financial assets with credit risk exposure

The Company manages the risk of concentration by monitoring and reviewing on a regular basis its large exposures.

7. Credit risk exposure

The table below summarises the carrying values, credit grades, expected credit loss allowance by stage and fair

values of collateral of those financial assets that were measured at amortised cost (or at fair value through other comprehensive income) as of 31 December 2018:

| | AAA-AA | A | BBB-BB | B-C | Unrated | Total carrying value |
|--|------------------|------------------|---------------|---------------|---------------|----------------------|
| 31 December 2018 | GBP '000 | GBP '000 | GBP '000 | GBP '000 | GBP '000 | GBP '000 |
| Cash and balances with central banks | 242,322 | - | - | - | - | 242,322 |
| Due from other banks | - | 88,516 | - | - | - | 88,516 |
| Loans and advances to customers | 402,336 | 1,069,205 | 88,949 | 58,240 | 44,650 | 1,663,380 |
| Investment securities – FVTOCI | 969,380 | 43,341 | - | - | - | 1,012,721 |
| Total on-balance sheet assets as at | | | | | | |
| 31 December 2018 | 1,614,037 | 1,157,764 | 88,949 | 58,240 | 44,650 | 3,006,938 |
| Loan Commitments | 107,878 | - | - | - | - | 107,878 |
| Financial Guarantees | 19,724 | - | - | - | - | 19,724 |
| Total | 1,742,639 | 1,157,764 | 88,949 | 58,240 | 44,650 | 3,134,540 |

| | Fair value of collateral held | Total carrying value | ECL Staging | | | ECL allowance included in carrying values |
|--|-------------------------------|----------------------|-------------|-----------|--------------|---|
| 31 December 2018 | GBP '000 | GBP '000 | Stage 1 | Stage 2 | Stage 3 | GBP '000 |
| Cash and balances with central banks | - | 242,322 | - | - | - | - |
| Due from other banks | - | 88,516 | 2 | - | - | 2 |
| Loans and advances to customers | 3,951,203 | 1,663,380 | 157 | 26 | 1,678 | 1,861 |
| Investment securities – FVTOCI | - | 1,012,721 | 38 | - | - | 38 |
| Total on-balance sheet assets as at | 3,951,203 | | | | | |
| 31 December 2018 | | 3,008,769 | 197 | 26 | 1,678 | 1,901 |
| Loan Commitments | - | 107,878 | 89 | - | - | 89 |
| Financial Guarantees | - | 19,724 | - | - | - | - |
| Total | 3,951,203 | 3,136,371 | 286 | 26 | 1,678 | 1,990 |

8. Credit risk – gross exposures and loss allowances

8.1 Balances with central banks

The table below presents the aggregate changes in gross carrying values and loss allowances for Balances with central banks (excluding Cash):

| Balances with central banks - Gross carrying value | Stage 1 GBP '000 | Stage 2 GBP '000 | Stage 3 GBP '000 | GBP '000 |
|---|--|--|--|-------------------|
| Gross carrying value as at 1 January 2018 | 388,459 | | | 388,459 |
| Financial assets derecognised during the period other than write-offs | (388,459) | | | (388,459) |
| New financial assets originated or purchased | 241,812 | | | 241,812 |
| Gross carrying value as at 31 December 2018 | 241,812 | | | 241,812 |
| Balances with central banks - Loss allowance | Stage 1 12-month ECL GBP '000 | Stage 2 Lifetime ECL GBP '000 | Stage 3 Lifetime ECL GBP '000 | Total GBP '000 |
| Loss allowance as at 1 January 2018 | | | | |
| Movements with P&L impact | | | | |
| Other movements with no P&L impact | | | | |
| Loss allowance as at 31 December 2018 | | | | |
| Net carrying value as at 31 December 2018 | 241,812 | | | 241,812 |

There were no purchased credit impaired balances during the reporting period, nor were the terms of any contracts modified. In addition, no amounts were written off in the period.

8.2 Due from other banks

The table below presents the aggregate changes in gross carrying values and loss allowances for Due from other banks:

| Due from other banks - Gross carrying value | Stage 1 GBP '000 | Stage 2 GBP '000 | Stage 3 GBP '000 | GBP '000 |
|---|--|--|--|-------------------|
| Gross carrying value as at 1 January 2018 | 90,495 | | | 90,495 |
| Financial assets derecognised during the period other than write-off | (90,495) | | | (90,495) |
| New financial assets originated or purchased | 88,518 | | | 88,518 |
| Gross carrying value as at 31 December 2018 | 88,518 | | | 88,518 |
| There were no purchased credit impaired balances during the reporting period, nor were the terms of any contracts modified. In addition, no amounts were written off in the period. | | | | |
| Due from other banks - Loss allowance | Stage 1 12-month ECL GBP '000 | Stage 2 Lifetime ECL GBP '000 | Stage 3 Lifetime ECL GBP '000 | Total GBP '000 |
| Loss allowance as at 1 January 2018 | 1 | | | 1 |
| Financial assets derecognised during the period other than write-offs | (1) | | | (1) |
| New financial assets originated or purchased | 2 | | | 2 |
| Loss allowance as at 31 December 2018 | 2 | | | 2 |
| Net carrying value as at 31 December 2018 | 88,516 | | | 88,516 |

There were no purchased credit impaired balances during the reporting period, nor were the terms of any contracts modified. In addition, no amounts were written off in the period.

8.3 Investment Securities (FVTOCI)

The table below presents the aggregate changes in gross carrying values and loss allowances for Investment securities held at fair value through other comprehensive income:

| Investment Securities (FVTOCI) - Gross carrying value | | | | |
|--|--|--|--|-------------------|
| | Stage 1 GBP '000 | Stage 2 GBP '000 | Stage 3 GBP '000 | GBP '000 |
| Gross carrying value as at 1 January 2018 | 617,977 | | | 617,977 |
| Financial assets derecognised during the period other than write-offs | (150,545) | | | (150,545) |
| New financial assets originated or purchased | 513,369 | | | 513,369 |
| Changes in fair value | (1,599) | | | (1,599) |
| Changes in interest accrual | 2,180 | | | 2,180 |
| FX and other movements | 31,377 | | | 31,377 |
| Gross carrying value as at 31 December 2018 | 1,012,759 | | | 1,012,759 |
| Investment Securities (FVTOCI) - Loss allowance | | | | |
| | Stage 1 12-month ECL GBP '000 | Stage 2 Lifetime ECL GBP '000 | Stage 3 Lifetime ECL GBP '000 | Total GBP '000 |
| Balance as of 1 January 2018 | 45 | | | 45 |
| Movements with P&L impact - New financial assets originated or purchased | (10) | | | (10) |
| New financial assets originated or purchased | 19 | | | 19 |
| FX and other model movements | (16) | | | (16) |
| Loss allowance as at 31 December 2018 | 38 | | | 38 |
| Net carrying value as at 31 December 2018 | 1,012,721 | | | 1,012,721 |

There were no purchased credit impaired balances during the reporting period, nor were the terms of any contracts modified. In addition, no amounts were written off in the period.

8.4 Loans and advances to customers

Loans and advances to customers comprise the following:

| | | 31 December 2018 GBP '000 | 1 January 2018 GBP '000 |
|--|-------|------------------------------|----------------------------|
| (i) Mortgage loans | Gross | 1,104,994 | 1,082,453 |
| | ECL | (524) | (1,944) |
| (ii) Lombard and other loans | Gross | 560,247 | 501,401 |
| | ECL | (1,337) | (662) |
| Total loans and advances to customers | | 1,663,380 | 1,581,248 |

(i) Mortgage Loans

The table below presents the aggregate changes in gross carrying values and loss allowances for mortgage loans:

| Mortgage loans - Gross carrying value | Stage 1 GBP '000 | Stage 2 GBP '000 | Stage 3 GBP '000 | GBP '000 |
|---|---------------------|---------------------|---------------------|------------------|
| Balance as of 1 January 2018 | 1,010,794 | 42,748 | 28,911 | 1,082,453 |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | (18,527) | 18,527 | | |
| Transfer from Stage 1 to Stage 3 | (16,891) | | 16,891 | |
| Transfer from Stage 2 to Stage 1 | 8,215 | (8,215) | | |
| Transfer from Stage 2 to Stage 3 | | (6,161) | 6,161 | |
| Financial assets derecognised during the period | (328,238) | (14,823) | (18,055) | (361,116) |
| Reclassified to Other and Lombard Loans during the period | | | (1,703) | (1,703) |
| New financial assets originated or purchased | 354,264 | 9,358 | 4,623 | 368,245 |
| FX and other movements | 16,519 | 284 | 312 | 17,115 |
| Gross carrying value as at 31 December 2018 | 1,026,136 | 41,718 | 37,140 | 1,104,994 |

| Mortgage loans - Loss allowance | Stage 1 12-month ECL GBP '000 | Stage 2 Lifetime ECL GBP '000 | Stage 3 Lifetime ECL GBP '000 | Total GBP '000 |
|---|--|--|--|-------------------|
| Loss allowance as of 1 January 2018 | 60 | 70 | 1,814 | 1,944 |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | | 12 | | 12 |
| Transfer from Stage 1 to Stage 3 | | | 169 | 169 |
| Transfer from Stage 2 to Stage 1 | 1 | (13) | | (12) |
| Transfer from Stage 2 to Stage 3 | | (10) | 62 | 52 |
| Financial assets derecognised during the period | (19) | (23) | (476) | (518) |
| Reclassified to Other and Lombard Loans during the period | | | (1,188) | (1,188) |
| New financial assets originated or purchased | 24 | 10 | 46 | 80 |
| FX and other movements | (6) | (22) | 13 | (15) |
| Loss allowance as at 31 December 2018 | 60 | 24 | 440 | 524 |

There were no purchased credit impaired balances during the reporting period, nor were the terms of any contracts modified. In addition, no amounts were written off in the period.

(ii) Other and Lombard loans

The table below presents the aggregate changes in gross carrying values and loss allowances for Other and Lombard loans:

| Other and Lombard loans - Gross carrying value | Stage 1 GBP '000 | Stage 2 GBP '000 | Stage 3 GBP '000 | GBP '000 |
|---|---------------------|---------------------|---------------------|----------------|
| Balance as of 1 January 2018 | 469,226 | 31,445 | 730 | 501,401 |
| Transfer from Stage 1 to Stage 2 | (690) | 690 | | |
| Transfer from Stage 1 to Stage 3 | (9,471) | | 9,471 | |
| Transfer from Stage 2 to Stage 1 | 12,217 | (12,217) | | |
| Financial assets derecognised during the period other than write-offs | (126,991) | (12,335) | (666) | (139,992) |
| New financial assets originated or purchased | 196,345 | 100 | 227 | 196,672 |
| Reclassified from Mortgage Loans during the period | | | 1,703 | 1,703 |
| FX and other movements | 464 | | (1) | 463 |
| Gross carrying value as at 31 December 2018 | 541,100 | 7,683 | 11,464 | 560,247 |

| Other and Lombard loans - Loss allowance | Stage 1 12-month ECL GBP '000 | Stage 2 Lifetime ECL GBP '000 | Stage 3 Lifetime ECL GBP '000 | Total GBP '000 |
|--|--|--|--|-------------------|
| Loss allowance as of 1 January 2018 | 68 | 183 | 411 | 662 |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | 1 | | | 1 |
| Transfer from Stage 1 to Stage 3 | 1 | | | 1 |
| Transfer from Stage 2 to Stage 1 | 2 | (71) | - | (69) |
| Financial assets derecognised during the period | (121) | (32) | (361) | (514) |
| New financial assets originated or purchased | 148 | (92) | - | 56 |
| Reclassified from Mortgage Loans during the period | | | 1,188 | 1,188 |
| FX and other movements | (1) | 15 | (1) | 13 |
| Loss allowance as at 31 December 2018 | 97 | 3 | 1,237 | 1,337 |

The major measurement techniques used to measure and control market risk, are outlined below.

9. Market risk

Market risk refers to fluctuations in interest rates, exchange rates, share prices and commodity prices. Market risk derives from trading in treasury and investment market products which are priced daily; as well as from more traditional banking business, such as loans.

The Company engages in the trading of securities, derivatives, foreign exchange and money market paper on behalf of its clients. The Company does not engage in proprietary trading in securities. The Company maintains small proprietary positions in foreign exchange instruments.

The Company separates exposures to market risk into either trading or non-trading portfolios. Both securities and foreign exchange exposures are strictly limited by nominal overnight and Value at Risk (VaR) limits. Foreign exchange is also subject to intraday limits, as well as to daily and monthly stop loss monitoring. Adherence to all limits is monitored independently of Treasury department who are responsible for managing Market risk.

Due to the nature of the Company's business and the absence of any meaningful proprietary trading activities, the market risk resulting from trading positions is limited compared to overall market risk.

9.1 Market risk measurement methodology

Market risk exposure is measured in several ways: nominal and "Value at Risk" (VaR) exposure, gap reports, sensitivity to risk factors and stress tests. VaR is not used for regulatory reporting of risks. It is used internally only, for control and management purposes.

The Company applies strict limits to all market risks. Limits include nominal, stop loss, rating quality and concentration types, depending upon the nature of the market risk concerned. These limits are calibrated by a VAR exposure measurement. This VAR approach focuses on assessing the potential loss impact on open risk positions measured under normal market conditions. In addition, positions are also measured in the event of extreme market movements (stress testing) and also against nominal limits.

(a) Value at Risk

Value at risk (VaR) measures the potential loss impact on open risk positions, under normal market conditions. VaR is calculated using statistically expected changes in market parameters for a given holding period at a specified level of probability. The Company's internal VaR model, takes into account relevant market risk-takers and units. The internal model is based on a variance/co-variance approach and uses a 99% one-tailed confidence level. The model assumes a 10-day holding period for purposes of group internal risk reporting, with a 201-day observation period for market variables. The VaR model is adjusted on an ongoing basis in response to developments in the financial markets and to changes in our risk management needs. Risk parameters based on the VaR methodology are calculated daily and monthly market risk reports, showing the relationship between risks calculated on the VaR basis and their related returns. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(b) Stress tests

VaR calculations are complemented by various stress tests, which identify the potential impact of extreme market scenarios on portfolio values. These stress tests simulate both exceptional movements in prices or rates; and drastic deteriorations in market correlations. In addition to nominal limits and stop losses, they are the primary tools used by internal market risk management. Stress test results are calculated daily, monitored independently and reported to management.

9.2 Market risk hedging strategies

The Company is exposed to financial risks arising from many aspects of its business. The Company implements different risk management strategies to eliminate or reduce market risk exposures. Risks being hedged through derivative financial instruments are typically changes in interest rates and foreign currency rates or effects of other risks. The Company implements fair value and cash flow hedging strategies.

(a) Fair value hedging strategies

The risk being hedged in a fair value hedging strategy is a change in the fair value of an asset or liability that is attributable to a particular risk and could affect P&L or the economic value of equity. Changes in fair value might arise through changes in interest rates, foreign exchange rates or other attributes. The company implements fair value hedges

of individual hedged items (micro fair value hedging) as well as of a portfolio of hedged items (macro fair value hedging).

(b) Cash flow hedging strategies

The risk being hedged in a cash flow hedging strategy is the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and could affect P&L or the economic value of equity. Future cash flows might relate to existing assets and liabilities, such as future interest payments or receipts on floating rate debt. Future cash flows can also relate to forecast revenues or costs deriving from a foreign currency exposure. Volatility in future cash flows might result from changes in interest rates or exchange rates.

9.3 Market risk measurement

VaR Summary

The following table presents the VaR (10-d / 99%) for interest rate risk and for currency risk (without considering interdependencies between interest rate and currency risks) considering all positions at balance sheet level:

| VaR by risk type | At 31 December | 12 months to 31 December | | |
|--------------------|----------------|--------------------------|------------------|-----------------|
| | GBP '000 | Average GBP '000 | High GBP '000 | Low GBP '000 |
| 2018 | | | | |
| Interest rate risk | 418 | 219 | 974 | 40 |
| Currency risk | 18 | 26 | 113 | 4 |
| VaR | 436 | 245 | 1,087 | 44 |
| 2017 | | | | |
| Interest rate risk | 375 | 178 | 414 | 11 |
| Currency risk | 11 | 19 | 181 | 2 |
| VaR | 386 | 197 | 595 | 13 |

The Company carries out foreign currency operations both for its clients, and for its own account. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments, and trading activities in foreign operations. From time to time, the Company may enter into currency hedging arrangements to reduce the effects of exchange rate fluctuations on its income.

The interest rate risk net sensitivities are based on banking book on- and off-balance sheet positions and consider behavioural assumptions. The interest rate risk impact on equity economic value and on net interest income for the three major currencies are shown below:

The table below summarises the repricing gap of the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

| | Up to 3 months GBP '000 | 3-12 months GBP '000 | 1-5 years GBP '000 | Over 5 years GBP '000 | Non-interest bearing GBP '000 | Total GBP '000 |
|--|-------------------------------|----------------------------|--------------------------|-----------------------------|-------------------------------------|-------------------|
| As at 31 December 2018 | | | | | | |
| Assets | | | | | | |
| Cash and balances with central banks | 242,321 | - | - | - | - | 242,322 |
| Due from other banks | 84,971 | - | - | - | 3,545 | 88,516 |
| Loans and advances to customers | 1,648,920 | 2,817 | 13,110 | 171 | (1,638) | 1,663,380 |
| Derivative financial instruments | 14,065 | - | - | 40 | - | 14,105 |
| Financial assets at fair value through other comprehensive income | 98,040 | 157,172 | 356,689 | 346,241 | 54,579 | 1,012,721 |
| Investment in subsidiary | - | - | - | - | 10,000 | 10,000 |
| Intangible assets | - | - | - | - | 1,803 | 1,803 |
| Property plant and equipment | - | - | - | - | 2,494 | 2,494 |
| Deferred income tax assets | - | - | - | - | 3,457 | 3,457 |
| Other assets | - | - | - | - | 34,438 | 34,438 |
| Total financial assets | 2,088,317 | 159,989 | 369,799 | 346,452 | 108,679 | 3,073,236 |
| Liabilities | | | | | | |
| Due to other banks | 551,928 | 1,367 | - | - | 575 | 553,870 |
| Due to customers | 1,949,845 | 9,364 | - | - | 285,527 | 2,244,736 |
| Derivative financial instruments | 8,135 | - | - | 18 | - | 8,153 |
| Subordinated loans | - | - | 66,631 | - | 281 | 66,912 |
| Current income tax liabilities | - | - | - | - | 1,935 | 1,935 |
| Provisions | - | - | - | - | 2,124 | 2,124 |
| Other liabilities | - | - | - | - | 35,590 | 35,590 |
| Total financial liabilities | 2,509,908 | 10,731 | 66,631 | 18 | 326,032 | 2,913,320 |
| On-balance-sheet interest repricing gap | (421,591) | 149,258 | 303,168 | 346,434 | (217,353) | 159,916 |
| Off-balance-sheet interest repricing gap | 610,910 | 1,994 | (512,747) | (100,157) | - | 1,045 |

| | Up to 3 months GBP '000 | 3-12 months GBP '000 | 1-5 years GBP '000 | Over 5 years GBP '000 | Non-interest bearing GBP '000 | Total GBP '000 |
|--|-------------------------------|----------------------------|--------------------------|-----------------------------|-------------------------------------|-------------------|
| As at 31 December 2017 | | | | | | |
| Assets | | | | | | |
| Cash and balances with central banks | 386,573 | | | | 2,274 | 388,847 |
| Due from other banks | 90,495 | | | | | 90,495 |
| Loans and advances to customers | 1,552,424 | 17,494 | 11,510 | | | 1,581,428 |
| Derivative financial instruments | 9,629 | | | | | 9,629 |
| Investment securities | 88,169 | 64,456 | 413,236 | 52,115 | | 617,977 |
| Investment in subsidiary | | | | | 10,000 | 10,000 |
| Intangible assets | | | | | 432 | 432 |
| Property plant and equipment | | | | | 2,267 | 2,267 |
| Deferred income tax assets | | | | | 3,290 | 3,290 |
| Other assets | | | | | 24,216 | 24,216 |
| Total financial assets | 2,127,290 | 81,951 | 424,746 | 52,115 | 42,479 | 2,728,583 |
| Liabilities | | | | | | |
| Due to other banks | 538,239 | 889 | 496 | | | 539,624 |
| Due to customers | 1,915,172 | 13,575 | | | | 1,928,747 |
| Derivative financial instruments | 13,603 | | | | | 13,603 |
| Subordinated loans | | | 66,630 | | 280 | 66,910 |
| Provisions | | | | | 1,054 | 1,054 |
| Other liabilities | 3,821 | | | | 40,380 | 44,290 |
| Total financial liabilities | 2,470,835 | 14,464 | 67,126 | | 41,803 | 2,594,228 |
| On-balance-sheet interest repricing gap | (343,544) | 67,486 | 357,620 | 52,115 | 677 | 134,355 |
| Off-balance-sheet interest repricing gap | 498,083 | (34,640) | (411,386) | (52,067) | | |

10. Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn.

The Company manages its liquidity risk in such a way as to ensure that sufficient liquidity is available to meet its commitments to customers, both in demand for loans and repayments of deposits, and to satisfy its own cash flow needs. The Company also ensures that it complies with all regulatory liquidity requirements. As part of the overall EFGI Group Treasury management process, other banks within the EFGI Group may place deposits, representing their surplus liquidity, with the Company. These deposits are then typically placed by the Company in short-term money market assets.

10.1 Liquidity risk management process

The Company attempts to avoid concentrations of its funding facilities. It observes its current liquidity situation and determines the pricing of its assets and credit business. The Company also has a liquidity management process in place that includes liquidity contingency plans. These contingency measures include liquidation of marketable securities and seeking parent company support.

The Company complies with all regulatory requirements, including overnight liquidity limits. In addition, it reports its liquidity situation to EFG International Group Risk Unit on a monthly basis, according to specific Group Risk Guidelines, and to its management on a daily basis. Stress tests are undertaken quarterly as standard. Both the Company's capital and reserves position and its conservative gapping policy when funding customer loans assist in reducing the Company's exposure to liquidity risk.

The Company's liquidity risk management process is carried out by Treasury and monitored independently. It includes :

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment as they mature or are borrowed by customers of funds - Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements , and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities, and the expected collection date of the financial assets.

Treasury also monitors unmatched medium-term assets and the usage of overdraft facilities. Sources of liquidity are regularly reviewed by Treasury with the aim of maintaining diversification by currency, geography, provider, product and term.

10.2 Concentration risk

The overall level of liquidity exposure and corresponding limits are tightly monitored by means of specific risk metrics approved by the Board of Directors and in line with the Company's overall committed level of risk appetite.

The Company's concentration risks are managed through the following mechanisms:

- Monitoring of compliance with ALM, funding concentration and risk appetite limits assigned
- Informing approval bodies when ALM, concentration and risk appetite limits are exceeded
- Proposing risk mitigation measures for ALM, concentration and risk appetite thresholds

10.3 Financial liabilities cash flows

The table below analyses the Company's financial liabilities by remaining contractual maturities, at the balance sheet

date. The amounts disclosed in the table are the contractual undiscounted cash flows.

For more detailed information on off-balance sheet exposures by maturity, refer to note 48.

| | Up to 1 month GBP '000 | 1-3 months GBP '000 | 3-12 months GBP '000 | 1-5 years GBP '000 | Over 5 years GBP '000 | Total GBP '000 |
|--|------------------------------|---------------------------|----------------------------|--------------------------|-----------------------------|-------------------|
| 31 December 2018 | | | | | | |
| Liabilities | | | | | | |
| Due to other banks | 144,059 | 408,579 | 1,980 | 1,367 | - | 555,985 |
| Due to customers | 1,900,370 | 304,943 | 56,017 | - | - | 2,261,330 |
| Subordinated loans | - | - | 5,394 | - | 66,630 | 72,024 |
| Derivative financial instruments | 2,035,765 | - | 594 | 21,832 | - | 2,058,191 |
| Other liabilities, provisions and taxation | 39,649 | - | - | - | - | 39,649 |
| Total financial liabilities | 4,119,843 | 713,522 | 63,985 | 23,199 | 66,630 | 4,987,179 |
| Total off balance-sheet | 127,602 | | | | | 127,602 |

| | Up to 1 month GBP '000 | 1-3 months GBP '000 | 3-12 months GBP '000 | 1-5 years GBP '000 | Over 5 years GBP '000 | Total GBP '000 |
|--|------------------------------|---------------------------|----------------------------|--------------------------|-----------------------------|-------------------|
| 31 December 2017 | | | | | | |
| Liabilities | | | | | | |
| Due to other banks | 160,300 | 375,590 | 4,419 | 496 | - | 540,805 |
| Due to customers | 1,710,923 | 208,459 | 13,791 | - | - | 1,933,173 |
| Subordinated loans | - | - | - | 5,394 | 66,630 | 72,024 |
| Derivative financial instruments | 940,799 | 1 | 150,031 | 3,828 | - | 1,094,659 |
| Other liabilities, provisions and taxation | 41,417 | 90 | 16 | - | - | 41,523 |
| Total financial liabilities | 2,853,439 | 584,140 | 168,257 | 9,718 | 66,630 | 3,682,184 |
| Total off balance-sheet | 145,638 | | | | | 145,638 |

11. Capital management

The Company's objectives when managing regulatory capital is to comply with the capital requirements set by the regulator and to safeguard the Company's ability to continue as a going concern. Further details of the

Company's regulatory capital position and requirements are given in the Strategic Report of the Directors.

12. Net interest income

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------------------------------|------------------------------|
| Banks and customers | 51,410 | 53,284 |
| Available for sale Investment Securities | | 10,474 |
| Financial assets at Fair Value through Other Comprehensive Income | 25,834 | |
| Total interest and discount income | 77,244 | 63,758 |
| Banks and customers | (33,163) | (23,294) |
| Other borrowed funds | | (2,446) |
| Total interest expense | (33,163) | (25,739) |
| Net interest income | 44,081 | 38,019 |

Total interest expense on banks and customers includes negative interest on EUR and CHF deposits.

The annual coupon paid on the AT1 debt is treated as a distribution from equity for IFRS purposes.

Interest expense in 2017 included GBP 2,446,000 interest on GBP 66,000,000 Tier 2 sub-ordinated loans that were converted to an additional tier 1 instrument on 12th December 2017.

13. Net fee and commission income

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------------------------------|------------------------------|
| Banking fees and commission income | 6,939 | 6,264 |
| Wealth management fees and commission income | 38,236 | 35,008 |
| Banking fee and commission income | 45,175 | 41,272 |
| Brokerage and other fees and commission expense | (2,546) | (2,534) |
| Net fee and commission income | 42,629 | 38,738 |

14. Dividend income

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|-----------------------------|------------------------------|------------------------------|
| On investment in subsidiary | 33,000 | 5,000 |
| Dividend income | 33,000 | 5,000 |

15. Net trading income and foreign exchange gains less losses

Net trading income of GBP 3,712,000 (2017: GBP 2,714,000) comprises of results from foreign exchange transactions and results on revaluation of assets and liabilities denominated in other currencies, including the mark-to-market of interest rate swaps and currency forwards and swaps.

16. Gains less losses on disposal of financial assets at fair value through Other Comprehensive Income

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Debt securities | 23 | 1,076 |
| Gains less losses on disposal financial assets at fair value through Other Comprehensive Income | 23 | 1,076 |

17. Operating expenses

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------------------------------|------------------------------|
| Staff costs | (60,675) | (56,188) |
| Administrative expenses | (20,634) | (18,537) |
| Operating lease rentals | (3,409) | (3,238) |
| Depreciation of property, plant and equipment | (1,565) | (673) |
| Amortisation of intangible assets | (131) | (79) |
| Operating expenses | (86,414) | (78,715) |

18. Staff costs

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Wages, salaries and staff bonuses | (49,031) | (43,675) |
| Social security costs | (5,633) | (6,720) |
| Pension costs | (2,288) | (2,167) |
| Share options granted to directors and employees | (3,723) | (3,626) |
| Staff costs | (60,675) | (56,188) |

As at 31 December 2018 the number of full time equivalent employees (FTE's) of the Company was 387 (2017: 338).

19. Loss allowance on financial assets at amortised cost and debt instruments measured at fair value through other comprehensive income

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Change in loss allowances | 209 | 943 |
| Loss allowance on financial assets at amortised cost and debt instruments measured at fair value through other comprehensive income | 209 | 943 |

20. Income tax

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------------------------------|------------------------------|
| Current tax credit | 81 | — |
| Foreign tax (charge) / credit | (87) | — |
| Group relief – prior year adjustment | — | (45) |
| Prior year adjustment | (2,200) | — |
| | (2,206) | (45) |
| Deferred tax – Current year | (402) | 2,099 |
| Deferred tax – Prior year adjustment | 1,088 | — |
| Total income tax (charge) / gain | (1,520) | 2,054 |

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the enacted tax rate, as follows:

| | | |
|---|----------------|--------------|
| Operating profit before tax | 37,073 | 7,659 |
| Tax at the applicable rate of 19.00% (2017: 19.25%) | (7,044) | (1,474) |
| Tax effect of: | | |
| Non-taxable income | 6,270 | 963 |
| Non-allowable expenses | (164) | (65) |
| Prior year adjustments | (2,094) | (45) |
| Rate differences | (78) | — |
| Stock options | (417) | — |
| Other items | — | 282 |
| AT1 Interest (appropriation of earnings) | 1,025 | 54 |
| Deferred tax recognised | 982 | 2,339 |
| Total income tax (charge) / gain | (1,520) | 2,054 |

The current tax charge, reported in the Income Statement, includes amounts provided for in relation to ongoing HMRC enquiries.

21. Cash and balances with central banks

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------------------------------|------------------------------|
| Cash in hand | 510 | 388 |
| Balances with central banks | 241,812 | 388,459 |
| Cash and balances with central banks | 242,322 | 388,847 |

22. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Cash and balances with central banks | 242,322 | 388,847 |
| Due from other banks | 88,516 | 90,495 |
| Cash and cash equivalents with less than 90 days maturity | 330,838 | 479,342 |

23. Due from other banks

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|-------------------------------------|------------------------------|------------------------------|
| At sight | 49,451 | 46,104 |
| At term | 39,065 | 44,391 |
| Due from other banks | 88,516 | 90,495 |
| <i>Pledged due from other banks</i> | <i>1,180</i> | |

24. Derivative financial instruments

24.1 Derivatives

The Company's credit risk represents the potential cost to replace the forward or swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities. Credit risk on index, interest rate and bond futures is negligible because futures

contracts are collateralised by cash or marketable securities, and changes in their value are settled daily. The notional amounts of financial instruments provide a basis for comparison, but do not indicate the amount of future cash flows, or the current fair value of the underlying instruments. Accordingly, they do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, credit spreads or foreign exchange rates, relative to their terms. The fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out in the following table:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|-----------------------------------|--|---|-----------------------------------|--|
| | Contract/ notional amount GBP '000 | Fair values Assets GBP '000 | Fair values Liabilities GBP '000 | Contract/ notional amount GBP '000 | Fair values Assets GBP '000 | Fair values Liabilities GBP '000 |
| Derivatives held for trading | | | | | | |
| Foreign exchange derivatives | | | | | | |
| Forward contracts | 1,333,856 | 9,029 | 5,423 | 1,174,931 | 6,215 | 10,185 |
| | 1,333,856 | 9,029 | 5,423 | 1,174,931 | 6,215 | 10,185 |
| Interest rate derivatives | | | | | | |
| Interest rate swaps and futures | 1,781 | - | 18 | 2,640 | 2 | 7 |
| | 1,781 | - | 18 | 2,640 | 2 | 7 |
| Total derivative assets/liabilities held for trading | 1,335,637 | 9,029 | 5,441 | 1,177,571 | 6,217 | 10,192 |
| Derivatives held for hedging | | | | | | |
| Derivatives designated as fair value hedges | | | | | | |
| Interest rate swaps | | | | | | |
| Derivatives designated as cash flow hedges | | | | | | |
| Interest rate swaps | 530,719 | 5,076 | 2,712 | 531,007 | 3,412 | 3,411 |
| Total derivative assets/liabilities held for hedging | 530,719 | 5,076 | 2,712 | 531,007 | 3,412 | 3,411 |
| Total derivative assets/liabilities | 1,866,356 | 14,105 | 8,153 | 1,708,578 | 9,629 | 13,603 |

24.2 Hedge accounting

The hedging practices and accounting treatment are disclosed in note 3(d).

| 31 December 2018 | | | | |
|---------------------------|--|-------------------------------------|---------------------------------------|--|
| | Notional amount of hedging item GBP '000 | Fair value of assets GBP '000 | Fair value liabilities GBP '000 | Change in fair value used for calculating hedge ineffectiveness GBP '000 |
| Fair value hedge | | | | |
| Interest rate swaps | 516,668 | 4,105 | (432) | Derivative financial instruments 2,460 |
| Total hedging item | 516,668 | 4,105 | (432) | 2,460 |

| 31 December 2018 | | | | |
|--------------------------|---|--|--|---|
| | Carrying amount of hedged item: Assets GBP '000 | Carrying amount of hedged item Liabilities GBP '000 | Accumulated amount of Fair value adjustments on the hedged item GBP '000 | Change in fair value of hedged item for ineffectiveness assessment GBP '000 |
| Fair value hedge | | | | |
| Fixed rate bonds | 568,588 | | (3,508) | Financial assets FVTOCI (2,460) |
| Total hedged item | 568,888 | | (3,508) | (2,460) |

| 31 December 2017 | | | | |
|---------------------------|--|-------------------------------------|------------------------------------|--|
| | Notional amount of hedging item GBP '000 | Fair value of assets GBP '000 | Fair value liabilities GBP '000 | Change in fair value used for calculating hedge ineffectiveness GBP '000 |
| Fair value hedge | | | | |
| Interest rate swaps | 502,805 | 2,784 | (1,508) | Derivative financial instruments 4,061 |
| Total hedging item | 502,805 | 2,784 | (1,508) | 4,061 |

| 31 December 2017 | | | | |
|--------------------------|---|--|--|---|
| | Carrying amount of hedged item: Assets GBP '000 | Carrying amount of hedged item Liabilities GBP '000 | Accumulated amount of Fair value adjustments on the hedged item GBP '000 | Change in fair value of hedged item for ineffectiveness assessment GBP '000 |
| Fair value hedge | | | | |
| Fixed rate bonds | 561,031 | | (1,217) | Financial assets FVTOCI (4,061) |
| Total hedged item | 561,031 | | (1,217) | (4,061) |

Hedge effectiveness

The Company applies hedge accounting to interest rate risk on fixed rate bonds (fair value hedge). The Company holds a portfolio of fixed rate bonds and therefore is exposed to changes in fair value due to movements in market interest rates. The Company manages the risk exposure by entering into interest rate swaps that pay fixed rates matching the coupons of the bonds and receive floating interest rates.

Only the interest rate element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Company. The interest rate risk component is determined as the change in fair value of the long-term fixed rate bond arising solely from changes of the interest rate environment. Such changes are usually the largest component of the overall changes in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the bonds attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Company enters into these transactions on a 'package basis', i.e. enters into the swap at the same time as purchasing the bond, and structures the swap so that the principal terms of the swap exactly match those of the bond. As a result the hedging ratio is 100% and there is no ineffectiveness.

25. Financial assets at fair value through Other Comprehensive Income

The following table presents the carrying amount of financial assets measured at Fair Value through Other Comprehensive Income and respective allowances for ECL as of 31 December 2018:

| | 31 December 2018 | | 31 December 2017 | |
|---------------------|-----------------------------------|----------------------------|---------------------------------|-------------------------------------|
| | Gross Carrying amount GBP '000 | Loss allowance GBP '000 | Net Carrying amount GBP '000 | AFS Net Carrying amount GBP '000 |
| Government | 285,079 | 29 | 285,050 | 231,143 |
| Other public sector | 294,481 | — | 294,481 | 187,418 |
| Banks | 420,411 | 9 | 420,402 | 187,273 |
| Other issuers | 12,788 | 1 | 12,787 | 12,143 |
| Total | 1,012,759 | 38 | 1,012,721 | 617,977 |

26. Loans and advances to customers

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Mortgages | 1,104,994 | 1,082,453 |
| Other Loans | 560,247 | 501,401 |
| Gross loans and advances | 1,665,241 | 1,583,854 |
| Less: Loss Allowance | (1,861) | (2,426) |
| Loans and advances to customers | 1,663,380 | 1,581,428 |

27. Loss allowances on loans and advances to customers

| | 2018 GBP '000 | 2017 GBP '000 |
|--|------------------|------------------|
| At 1 January | 2,426 | 3,700 |
| Opening IFRS9 measurement adjustment | 180 | — |
| Loss allowance increased (decreased) through profit and loss | (203) | (943) |
| Utilisation of provision | (542) | (331) |
| At 31 December | 1,861 | 2,426 |

28. Property, plant and equipment

| | Antiques and artwork GBP '000 | Leasehold improvements GBP '000 | Furniture and equipment GBP '000 | Computer hardware GBP '000 | Total GBP '000 |
|---|-------------------------------------|---------------------------------------|--|----------------------------------|-------------------|
| At 1 January 2017 | | | | | |
| Cost | 592 | 3,374 | 125 | 4,831 | 11,618 |
| Accumulated depreciation | (201) | (1,933) | (2,696) | (4,497) | (9,327) |
| Net book value | 391 | 1,441 | 125 | 334 | 2,291 |
| Year ended 31 December 2017 | | | | | |
| Opening net book amount | 391 | 1,441 | 125 | 334 | 2,291 |
| Additions | - | 41 | 45 | 563 | 649 |
| Depreciation charge for the year | (10) | (329) | (43) | (291) | (673) |
| Disposal and write-offs | - | - | - | - | - |
| Closing net book value | 381 | 1,153 | 127 | 606 | 2,267 |
| At 31 December 2017 | | | | | |
| Cost | 592 | 3,415 | 2,866 | 5,394 | 12,267 |
| Accumulated depreciation | (211) | (2,262) | (2,739) | (4,788) | (10,000) |
| Net book value | 381 | 1,153 | 127 | 606 | 2,267 |
| Year ended 31 December 2018 | | | | | |
| Opening net book amount | 381 | 1,153 | 127 | 606 | 2,267 |
| Additions | - | 1,474 | 8 | 310 | 1,792 |
| Depreciation charge for the year | (10) | (1,160) | (47) | (348) | (1,565) |
| Disposal and write-offs | - | (2) | (66) | - | (68) |
| Elimination of depreciation on disposal or write-off | - | 2 | 66 | - | 68 |
| Closing net book value | 371 | 1,467 | 88 | 568 | 2,494 |
| At 31 December 2018 | | | | | |
| Cost | 592 | 4,887 | 2,808 | 5,704 | 13,991 |
| Accumulated depreciation | (221) | (3,420) | (1,720) | (5,136) | (11,497) |
| Net book value | 371 | 1,467 | 88 | 568 | 2,494 |

29. Intangible assets

| | Computer software and licences GBP '000 | Total Intangible Assets GBP '000 |
|---|--|---|
| At 1 January 2017 | | |
| Cost | 267 | 267 |
| Accumulated amortisation and impairment | (192) | (192) |
| Net book value | 75 | 75 |
| Year ended 31 December 2017 | | |
| Opening net book amount | 75 | 75 |
| Acquisition of computer software and licences | 436 | 436 |
| Amortisation charge for the year – | | |
| Computer software and licences | (79) | (79) |
| Closing net book value | 432 | 432 |
| At 31 December 2017 | | |
| Cost | 703 | 703 |
| Accumulated amortisation and impairment | (271) | (271) |
| Net book value | 432 | 432 |
| Year ended 31 December 2018 | | |
| Opening net book amount | 432 | 432 |
| Acquisition of computer software and licences | 1,502 | 1,502 |
| Amortisation charge for the year – | | |
| Computer software and licences | (131) | (131) |
| Closing net book value | 1,803 | 1,803 |
| At 31 December 2018 | | |
| Cost | 2,205 | 2,205 |
| Accumulated amortisation and impairment | (402) | (402) |
| Net book value | 1,803 | 1,803 |

30. Deferred tax assets and liabilities

Deferred taxes are calculated under the liability method on all temporary differences, using the enacted UK Corporation tax rate of 17% (2017: 17.0%).
Deferred income tax assets and liabilities comprise the following:

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---------------------------------------|------------------------------|------------------------------|
| Deferred income tax assets | 3,457 | 3,290 |
| Deferred income tax liabilities | - | - |
| Net deferred income tax assets | 3,457 | 3,290 |

The movement on the net deferred income tax account is as follows:

| | | |
|----------------------------|--------------|--------------|
| At 1 January | 3,290 | 1,599 |
| Credit to Income Statement | 686 | 2,099 |
| (Charge) to equity | (519) | (408) |
| At 31 December | 3,457 | 3,290 |

Analysis of deferred taxation balance:

| | | |
|-----------------------------------|--------------|--------------|
| Fixed assets | 10 | 95 |
| Intangible assets | 1,868 | - |
| Stock options | 1,649 | - |
| Tax losses | - | 3,195 |
| Other | (70) | - |
| Deferred income tax assets | 3,457 | 3,290 |

A potential deferred asset of GBP 1,134,000 (2017: GBP 1,134,000) arising on unrelieved capital losses carried forward of GBP 6,070,000 has not been recognised in the financial statements as it uncertain whether the Company will generate sufficient capital gains in future periods to utilise the asset.

31. Other assets

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|-------------------------------------|------------------------------|------------------------------|
| Prepaid expenses and accrued income | 12,722 | 9,730 |
| Settlement balances | 2,675 | 6,796 |
| Other receivables | 19,041 | 7,690 |
| Other assets | 34,438 | 24,216 |

32. Valuation of financial assets and liabilities

32.1 Financial assets and liabilities measured at fair value

(a) Fair value hierarchy

IFRS 13 requires classification of financial instruments at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between levels in the current year.

| 31 December 2018 | | | |
|---|------------------|---------------|----------|
| | Level 1 | Level 2 | Level 3 |
| | GBP '000 | GBP '000 | GBP '000 |
| Total | | | |
| GBP '000 | | | |
| Assets: | | | |
| Derivative financial instruments | - | 14,105 | - |
| Debt instruments | 1,012,721 | - | - |
| Total assets measured at fair value | 1,012,721 | 14,105 | - |
| Liabilities: | | | |
| Derivative financial instruments | - | 8,153 | - |
| Assets less liabilities measured at fair value | 1,012,721 | 5,952 | - |

| 31 December 2017 | | | |
|---|----------------|---------------|----------|
| | Level 1 | Level 2 | Level 3 |
| | GBP '000 | GBP '000 | GBP '000 |
| Total | | | |
| GBP '000 | | | |
| Assets: | | | |
| Derivative financial instruments | - | 9,629 | - |
| Debt instruments | 589,587 | 28,390 | - |
| Total assets measured at fair value | 589,587 | 38,019 | - |
| Liabilities: | | | |
| Derivative financial instruments | - | 13,603 | - |
| Total liabilities measured at fair value | - | 13,603 | - |
| Assets less liabilities measured at fair value | 589,587 | 24,416 | - |

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of quoted bonds and equity.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the

significant inputs is not based on observable market data, the instrument is included in level 3.

(iii) Financial instruments in level 3

There are no level 3 assets or liabilities.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

33. Financial assets and liabilities measured at amortised cost

The table below summarises the carrying values and fair values of those financial assets and liabilities that were measured at amortised cost as of 31 December 2018:

| | Note | Carrying value GBP '000 | Fair Value GBP '000 | Difference GBP '000 |
|---------------------------------|-------|----------------------------|------------------------|------------------------|
| 31 December 2018 | | | | |
| Financial assets | | | | |
| Due from other banks | (i) | 88,516 | 88,536 | 20 |
| Loans and advances to customers | (ii) | 1,663,380 | 1,668,996 | 5,616 |
| | | 1,751,896 | 1,757,532 | 5,636 |
| Financial liabilities | | | | |
| Due to other banks | (iii) | 553,870 | 554,711 | 841 |
| Due to customers | (iii) | 2,244,736 | 2,244,640 | (96) |
| Subordinated loans | (iv) | 66,912 | 84,903 | 17,991 |
| | | 2,865,518 | 2,884,254 | 18,736 |

As at 31 December 2017

| | | | | |
|---------------------------------|-------|------------------|------------------|----------------|
| Financial assets | | | | |
| Due from other banks | (i) | 90,495 | 90,485 | (10) |
| Loans and advances to customers | (ii) | 1,581,428 | 1,576,399 | (5,029) |
| | | 1,671,923 | 1,666,884 | (5,039) |
| Financial liabilities | | | | |
| Due to other banks | (iii) | 539,624 | 539,682 | 58 |
| Due to customers | (iii) | 1,928,747 | 1,928,721 | (26) |
| Subordinated loans | (iv) | 66,910 | 88,828 | 21,918 |
| | | 2,535,281 | 2,557,231 | 21,950 |

(i) Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements, overnight deposits and term deposits with a maturity of less than 90 days is assumed to be their carrying amount, as the effect of discounting is not significant. The fair values are within level 2 of the fair value hierarchy.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received up to the next interest reset date. Expected cash flows are discounted at current market rates to determine fair value. Determined fair values are within level 2 of the fair value hierarchy.

(iii) Due to other banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. Expected cash flows are discounted at current market rates to determine fair value. Determined fair values are within level 2 of the fair value hierarchy.

(iv) Subordinated loans

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received up to the next interest reset date. Expected cash flows are discounted at current market rates to determine fair value. Determined fair values are within level 2 of the fair value hierarchy.

34. Business combinations (Jersey)

Jersey Branch.

On 5 November 2018 the Company completed the transfer of the private banking activities of the Jersey Branch of its Guernsey subsidiary, EFG Private Bank (Channel Islands) Limited to a new directly owned Jersey Branch.

This restructuring of the business significantly strengthens client offering and supports efficient management of capital and liquidity. The transfer was structured as a dividend in specie from EFG Private Bank (Channel Islands) Limited.

The client assets and liabilities transferred are detailed below. The fair value of the assets was equal to the carrying value.

The incremental capital required to support the lending business was transferred from EFG Private Bank (Channel Islands) Limited by way of interim dividend following the business transfer.

| | 05 November 2018 | 31 December 2018 |
|--|------------------|------------------|
| | GBP '000 | GBP '000 |
| Summarised acquired balance sheet | | |
| Assets | | |
| Cash and due from banks | 328,312 | 406,130 |
| Loans and advances to customers | 112,896 | 110,654 |
| Other assets | 592 | 635 |
| Total Assets | 441,800 | 517,419 |
| Liabilities | | |
| Due to customers | 440,076 | 515,168 |
| Other liabilities | 1,724 | 2,251 |
| Total Liabilities | 441,800 | 517,419 |

35. Shares in subsidiary undertakings

The following is a listing of the Company's main subsidiary at 31 December 2018:

| Name | Line of business | Country of incorporation | % Ownership | % Non controlling interest | Investment at cost GBP '000 |
|---------------------------------------|------------------|--------------------------|-------------|----------------------------|--------------------------------|
| Main Subsidiaries | | | | | |
| EFG Private Bank (Channel Island) Ltd | Bank | Guernsey | 100% | 0% | 10,000 |

| Name | Capital and reserves GBP '000 | 2017 Net Profit after tax GBP '000 | Registered address |
|--|----------------------------------|---------------------------------------|--|
| EFG Private Bank (Channel Islands) Limited | 111,508 | 16,983 | EFG House, St Julian's Avenue, St Peter Port, Guernsey |

The subsidiary is held directly by the Company. The principal country of business of the subsidiary is its country of incorporation. The accounting reference date for all companies is 31 December.

The percentage shareholding of the subsidiary and Investment at cost are both unchanged from 2017.

36. Due to other banks

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|-----------------------------|------------------------------|------------------------------|
| Due to other banks at sight | 80,957 | 104,425 |
| Due to other banks at term | 472,913 | 435,197 |
| Due to other banks | 553,870 | 539,624 |

37. Due to customers

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|-------------------------|------------------------------|------------------------------|
| Current accounts | 972,690 | 824,813 |
| Term deposits | 1,272,046 | 1,103,934 |
| Due to customers | 2,244,736 | 1,928,747 |

38. Financial liabilities at amortised cost

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Subordinated debt - Perpetual | 66,912 | 66,910 |
| Total financial liabilities at amortised cost | 66,912 | 66,910 |

39. Provisions

| | Provision for credit default risks | Provision for dilapidations GBP '000 | Provision for restructuring GBP '000 | Other provisions GBP '000 | Total GBP '000 |
|--|---------------------------------------|--|--|------------------------------|-------------------|
| At 1 January 2018 | | | 128 | 926 | 1,054 |
| Expected payment within 12 months | | | 128 | 926 | 1,054 |
| Expected payment thereafter | | | | | |
| At 1 January 2018 | | | 128 | 926 | 1,054 |
| Changes on initial application of IFRS 9 | 89 | | | | 89 |
| Movement through profit and loss | | 777 | 285 | 973 | 2,035 |
| Provisions utilised | | | (128) | (926) | (1,054) |
| At 31 December 2018 | 89 | 777 | 285 | 973 | 2,124 |
| Expected payment within 12 months | | | 285 | 973 | 1,347 |
| Expected payment thereafter | 89 | 777 | | | 777 |

Provision for credit default risks

This relates to the expected credit losses under IFRS 9. The Company calculates expected credit losses on off-balance sheet positions primarily related to guarantees. These losses are not expected to arise in the next 12 months.

Provision for dilapidations

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the obligation which forms part of the Company's unavoidable cost of meeting its obligations under the lease contracts.

Provision for restructuring

Certain restructuring are taking place to increase the overall efficiency of the business. The Company has provisions of

GBP 285,000 related to these. These are expected to be settled within a year.

Other provisions

Other provisions includes provisions against operational claims / losses, litigation and any other provisions not classified as credit default, dilapidations or restructuring related. It includes amounts provided for in relation to ongoing HMRC enquiries.

40. Contingent liabilities

The Company is involved in various legal and arbitration proceedings in the normal course of its business operations. The Company establishes provisions (see note 39) for current and threatened pending legal proceedings if management is of the opinion that the Company is more likely than not to face payments or losses and if the amount of such payments or losses can be reliably estimated.

41. Other liabilities

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--------------------------------------|------------------------------|------------------------------|
| Trade creditors | 1,371 | 36 |
| Deferred income and accrued expenses | 30,335 | 31,784 |
| Settlement balances | 2,281 | 10,768 |
| Short term compensated absences | 273 | 214 |
| Other liabilities | 1,330 | 1,488 |
| Total other liabilities | 35,590 | 44,290 |

42. Subordinated loans

| | Interest rate % | Due dates | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---------------------------------|-----------------|-----------|------------------------------|------------------------------|
| Subordinated loans | | | | |
| Additional Tier 1 | 8.095% p.a. | n/a | 66,912 | 66,910 |
| Total subordinated loans | | | 66,912 | 66,910 |

The Company has borrowed GBP 66,630,000 in an additional tier I qualifying subordinated loan from its immediate parent company. The subordinated loan does not have a maturity date. The loan has a fixed interest rate of 8.095% due to reset on 12 December 2022. At that date the loan will fix at the benchmark rate plus a margin of 700bps. The loan can be called by the Company after 12 December 2022. The loan contains clauses that (a) force a write down should the capital ratio of the Company fall below a specified threshold, "a write down trigger" and / or (b) upon the occurrence of a "viability event".

43. Share capital

| | Authorised Ordinary Share of GBP 0.01 each Number | Authorised Ordinary Share of GBP 0.01 each GBP '000 | Issued, allotted and fully paid Number | Issued, allotted and fully paid GBP '000 |
|---------------------|--|--|--|--|
| At 1 January 2017 | 190,000,000 | 1,900 | 159,590,544 | 1,596 |
| At 31 December 2017 | 190,000,000 | 1,900 | 159,590,544 | 1,596 |
| At 31 December 2018 | 190,000,000 | 1,900 | 159,590,544 | 1,596 |

During the year the number of ordinary shares issued was Nil (2017:Nil)

44. Share capital, share premium and capital redemption reserves

| | Ordinary Shares GBP '000 | Shares Premium GBP '000 | Capital Redemption Reserve GBP '000 | Total GBP '000 |
|---------------------|--------------------------------|-------------------------------|--|-------------------|
| At 1 January 2017 | 1,596 | 96,639 | 10,000 | 108,235 |
| Shares issued | | | | |
| At 31 December 2017 | 1,596 | 96,639 | 10,000 | 108,235 |
| Shares issued | | | | |
| At 31 December 2018 | 1,596 | 96,639 | 10,000 | 108,235 |

The Capital Redemption Reserve results from the redemption of the entire 'Class A' ordinary share in 2005 as part of a capital reorganisation.

45. Other reserves

| | Revaluation Reserve AFS GBP '000 | Revaluation Reserve FVOCI GBP '000 | Hedging Reserve GBP '000 | Employee share option plan GBP '000 | Total GBP '000 |
|---|---|---|--------------------------------|--|-------------------|
| Balance at 1 January 2017 | (1,041) | | (400) | 12,871 | 11,430 |
| Employee equity incentive plans amortisation | | | | 3,626 | 3,626 |
| Employee equity incentive plans exercised | | | | (238) | (238) |
| Transfer to retained earnings on lapse of employee equity incentive plans | | | | (9,452) | (9,452) |
| Opening balance stock option transfer IFRS2 | | | | 1,669 | 1,669 |
| Available for sale securities | | | | | |
| - Changes in fair value securities | (10,752) | | | | (10,752) |
| - Changes in fair value hedge instrument | 13,937 | | | | 13,937 |
| - Transfer to the income statement | (1,076) | | | | (1,076) |
| - Tax impact on net fair value changes | (361) | | | | (361) |
| Fair value gains on cash flow hedges | | | 382 | | 382 |
| At 31 December 2017 | 707 | | (18) | 8,477 | 9,166 |
| Reclassification on adoption of IFRS9 | (707) | 707 | | | |
| Changes on initial application of IFRS 9 | | 45 | | | 45 |
| Restated balance at 1 January 2018 | | 752 | (18) | 8,477 | 9,211 |
| Employee equity incentive plans amortisation | | | | 3,723 | 3,723 |
| Employee equity incentive plans exercised | | | | (386) | (386) |
| Fair value gains on cash flow hedges | | | (24) | | (24) |
| Net gains on investments in debt instruments measured FVOCI net of tax | | 878 | | | 878 |
| At 31 December 2018 | | 1,630 | (42) | 11,814 | 13,402 |

46. Retained earnings

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| At 1 January | 16,954 | (261) |
| Changes on initial application of IFRS 9 | (314) | - |
| Net profit for the year | 35,553 | 9,713 |
| Dividend paid on ordinary shares | (8,000) | - |
| Appropriation of retained earnings through AT1 Instrument | (5,395) | (281) |
| Opening balance stock option transfer IFRS2 | | (1,669) |
| Income tax relating to components of other comprehensive income | (519) | - |
| Transfer to retained earnings on lapse of employee incentive plans | | 9,452 |
| At 31 December | 38,279 | 16,954 |

50. Employee equity incentive plans

The Company benefits from the EFG International Employee Equity Incentive Plan (the 'Plan'). The Plan has different classes of options and restricted stock units, which have a vesting period of one, two and three years. The different classes have earliest exercise dates varying from three to five years from the grant date and ending seven years from the grant date.

The expense recorded in the Income Statement spreads the cost of the grants equally over the vesting period.

| Year granted | Type | Granted | Lapsed | Exercised | Outstanding |
|--------------|--|-----------|--------|-----------|-------------|
| 2012 | Restricted stock units with 3 year lock-up | 234,522 | 2,082 | 177,424 | 55,016 |
| 2012 | Restricted stock units with 5 year lock-up | 2,738 | - | 1,442 | 1,296 |
| 2013 | Restricted stock units with 3 year lock-up | 207,803 | 4,708 | 136,237 | 66,858 |
| 2013 | Restricted stock units with 5 year lock-up | 30,284 | - | 11,789 | 18,495 |
| 2014 | Restricted stock units with 3 year lock-up | 243,179 | 5,454 | 179,765 | 57,960 |
| 2014 | Restricted stock units with 5 year lock-up | 14,303 | - | - | 14,303 |
| 2015 | Restricted stock units with 1/3 exercisable annually | 285,311 | 18,918 | 205,462 | 60,931 |
| 2015 | Restricted stock units with 3 year lock-up | 182,011 | - | 61,268 | 120,743 |
| 2016 | Restricted stock units with 1/3 exercisable annually | 888,711 | 10,181 | 375,360 | 503,170 |
| 2016 | Restricted stock units with 3 year lock-up | 250,589 | - | - | 250,589 |
| 2017 | Restricted stock units with 1/3 exercisable annually | 671,445 | 5,969 | 126,410 | 539,066 |
| 2017 | Restricted stock units with 3 year lock-up | 257,303 | - | - | 257,303 |
| 2018 | Restricted stock units with 1/3 exercisable annually | 83,104 | - | - | 83,104 |
| 2018 | Restricted stock units with 3 year lock-up | 655,724 | 5,726 | - | 649,998 |
| | | 4,007,027 | 53,038 | 1,275,157 | 2,678,832 |

Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Total expense related to the Plan in the Income Statement for the period ended 31 December 2018 was GBP 3,723,000 (2017: GBP 3,626,000).

The following table summarises the outstanding options and restricted stock units at 31 December 2018 issued to employees of EFG Private Bank Limited which, when exercised, will each result in the issuance of one ordinary share in EFG International:

50.1 2018 incentive plan

EFG International granted 738,828 (2017: 928,748) restricted stock units in the year. There are two classes of restricted stock units as follows:

- with a 3-year lock-up restriction ('Restricted stock units with 3 year lock-up'),
- with no lock-up condition attached ('Restricted stock units with 1/3 exercisable annually').

Both of the classes vest 1/3 every year over the next three years.

The weighted average deemed value of each Restricted stock unit granted in 2018 is CHF 6.68. The values of the restricted stock units were determined using a model which takes into account the present value of the expected

dividends during the period between the grant date and the earliest exercise date. The significant inputs into the model were the arithmetic average share price (closing) of the five consecutive business days following the earnings announcement (CHF 8.11) and the discount determined by management (20%) based on the expected life of the restricted stock units (12 to 36 months).

50.2 2019 incentive plan

EFG International will grant restricted stock units in April 2019 at prices to be determined based on the relevant valuation inputs on the date of issue.

47. Dividends

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|------------------|------------------------------|------------------------------|
| Interim dividend | 8,000 | - |
| Total | 8,000 | - |

48. Off-balance sheet items

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--|------------------------------|------------------------------|
| Guarantees issued in favour of third parties | 19,724 | 39,521 |
| Irrevocable commitments | 107,878 | 106,117 |
| Operating lease commitments | 14,473 | 15,475 |
| Total | 142,075 | 161,113 |

The following table summarises the Company's off-balance sheet items by maturity:

| | Not later than 1 year GBP '000 | 1-5 years GBP '000 | Over 5 years GBP '000 | Total GBP '000 |
|--|-----------------------------------|-----------------------|--------------------------|-------------------|
| 31 December 2018 | | | | |
| Guarantees issued in favour of third parties | 13,888 | 5,836 | - | 19,724 |
| Irrevocable commitments | 35,371 | 68,525 | 3,982 | 107,878 |
| Operating lease commitments | 3,765 | 9,607 | 1,101 | 14,473 |
| Total | 53,024 | 83,968 | 5,083 | 142,075 |
| 31 December 2017 | | | | |
| Guarantees issued in favour of third parties | 39,521 | - | - | 39,521 |
| Irrevocable commitments | 13,133 | 92,984 | - | 106,117 |
| Operating lease commitments | 3,127 | 10,478 | 1,870 | 15,475 |
| Total | 55,781 | 23,611 | 1,870 | 161,113 |

The financial guarantees maturities are based on the earliest contractual maturity date. The irrevocable commitments maturities are based on the dates on which loan commitments made to customers will cease to exist. The Company leases its office space at a number of locations from which it operates. None of the leases include

contingent rentals. Future minimum payments under non-cancellable operating leases are disclosed in the table above. There are no formal subleases agreements. During the year to 31 December 2018, GBP 3,409,000 (2017: GBP 3,238,000) was recognised as an expense in the Statement of comprehensive income in respect of operating leases.

49. Fiduciary transactions

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|---|------------------------------|------------------------------|
| Fiduciary transactions with third party banks | 142,378 | 138,699 |
| Total | 142,378 | 138,699 |

The Company holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority. Such monies and the corresponding liability to clients are not shown on the face of the Balance Sheet as the Company is not beneficially entitled thereto.

51. Related party transactions

| | Fellow Subsidiaries GBP '000 | Key management personnel GBP '000 |
|-------------------------------|---------------------------------|--------------------------------------|
| 31 December 2018 | | |
| Assets | | |
| Due from other banks | 8,676 | |
| Derivatives | 2,594 | |
| Other assets | 19,343 | |
| Liabilities | | |
| Due to other banks | 538,296 | |
| Derivatives | 125 | |
| Subordinated loans | 66,912 | |
| Other liabilities | 1,331 | |
| Year ended 31 December 2018 | | |
| Interest income | 65 | |
| Interest expense | 10,351 | |
| Net fee and commission income | 4,420 | |
| | Fellow Subsidiaries GBP '000 | Key management personnel GBP '000 |
| 31 December 2017 | | |
| Assets | | |
| Due from other banks | 4,393 | |
| Derivatives | 254,987 | |
| Other assets | 9,668 | |
| Liabilities | | |
| Due to other banks | 534,492 | |
| Due to customers | 24,721 | |
| Subordinated loans | 66,910 | |
| Other liabilities | 4,535 | |
| Year ended 31 December 2017 | | |
| Interest income | 66 | |
| Interest expense | 9,263 | |
| Net fee and commission income | 8,837 | |

A number of banking transactions are entered into with related parties. These include loans, deposits, derivative transactions and provision of services. The amounts due from other banks reflect cash deposits, which like other third party amounts classified as due from other banks are unsecured. Key management personnel comprise directors, key members of the management of the company and of its parent, as well as closely linked parties.

No provisions have been recognised in respect of loans given to related parties (2017: Nil).

52. Key management compensation

| | 31 December 2018 GBP | 31 December 2017 GBP |
|---|-------------------------|-------------------------|
| Aggregate amounts paid or treated as paid to key management in respect of qualifying services | | |
| Short-term employment benefits | 3,242 | 4,067 |
| Pension contributions | 282 | 380 |
| Restricted stock units | 589 | 685 |
| Total | 4,113 | 5,132 |
| In respect of the highest paid member of key management | | |
| Short-term employment benefits | 1,106 | 1,022 |
| Pension contributions | 80 | 120 |
| Total | 1,186 | 1,142 |

53. Highest paid Director

| | | |
|--------------------------------|--------------|--------------|
| Short-term employment benefits | 1,106 | 1,022 |
| Pension contributions | 80 | 120 |
| Total | 1,186 | 1,142 |

The highest paid director did not exercise any shares option in the year. The amount reported above for year ended 31 December 2017 is as reported in the Company's 2017 Financial Statements. After adjusting for amounts that were subject to shareholder approval of the ultimate parent the final amount paid respect of 2017 was GBP 1,382,000.

54. Auditors remuneration

| | 31 December 2018 GBP | 31 December 2017 GBP |
|---|-------------------------|-------------------------|
| Fees payable for the audit of the Company pursuant to legislation | 256 | 246 |
| Other services pursuant to such legislation | 75 | 146 |
| Other services related to taxation | - | 2 |
| Other Services | 139 | 72 |
| Total | 470 | 466 |

55. Assets under management and assets under administration

| | 31 December 2018 GBP '000 | 31 December 2017 GBP '000 |
|--------------------------------------|------------------------------|------------------------------|
| Total Assets under Management | 14,901,000 | 14,640,000 |