



# **SG KLEINWORT HAMBROS BANK LIMITED PILLAR 3 DISCLOSURES**

---

**31 DECEMBER 2023**

## DISCLAIMER

*This publication reflects the views of SG Kleinwort Hambros Bank Ltd as at the date of publication. This publication is not subject to change. It is provided for information purposes only and does not constitute an investment recommendation or an investment advice within the meaning of current regulations. This publication has no contractual value. This publication is not a product of the SG Group Research Department and should not be regarded as a research report.*

*Neither the information contained in, nor the analyses expressed therein constitute in any way an offer to sell or a solicitation to offer to subscribe, purchase, sell a product or execute a transaction and shall not engage the liability of SG Kleinwort Hambros Ltd or any of its entities, in compliance with current regulations. Then, should a retail or a professional client, or eligible counterparty obtain this publication, they should not base any investment decisions solely based on this publication, and must seek independent financial advice.*

*The accuracy, completeness or relevance of information derived from external sources is not warranted, even if it comes from sources reasonably believed to be reliable. Subject to the current regulations, SG Kleinwort Hambros Bank Ltd does not accept any liability in this respect. The economic information mentioned in this document is based on data valid at a given time and may therefore change at any time.*

*SG Kleinwort Hambros Bank Ltd is 100% owned by Société Générale S.A which is a French credit institution authorized and supervised by the Autorité de Contrôle Prudentiel et de Résolution (the French Prudential Control and Resolution Authority) (“ACPR”), regulated by the Autorité des Marchés Financiers (the French financial markets regulator) (“AMF”) and under the prudential supervision of the European Central Bank (“ECB”). Société Générale Kleinwort Hambros Bank Ltd is authorised by the Prudential Regulation Authority (“PRA”) and with deemed variation of permission. SG Kleinwort Hambros Bank Ltd is also subject to regulation by the Financial Conduct Authority (“FCA”) for regulated activity permissions which are all published on the FCA register.*

# TABLE OF CONTENTS

<b>1. INTRODUCTION .....</b>	<b>4</b>
1.1. Framework for disclosures .....	4
1.2. Scope of Pillar 3 disclosures .....	4
1.2.1 Our Structure .....	5
1.3. Confidentiality .....	6
1.4. Frequency and Location .....	6
1.5. Calculation Approaches .....	6
1.6. Regulatory Developments .....	6
1.7. Pillar 3 Policy validation and approval .....	7
1.7.1 Board Attestation .....	8
<b>2. ANNEX I – DISCLOSURE OF KEY METRICS AND OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS.....</b>	<b>9</b>
2.1. Table UK OV1 - Overview of Risk-Weighted Exposure Amounts.....	9
2.2. Table UK KM1 – Key Metrics .....	10
2.3. Table UK OVC – ICAAP INFORMATION .....	11
<b>3. ANNEX III – DISCLOSURE OF RISK MANAGEMENT OBJECTIVES AND GOVERNANCE POLICIES .....</b>	<b>11</b>
3.1. Table UK OVA – Institution Risk Management Approach.....	11
3.2. Table UK OVB – Disclosure on Governance Arrangements .....	15
<b>4. ANNEX VII – REGULATORY OWN FUNDS .....</b>	<b>17</b>
4.1. Table UK CC1 – Composition of Regulatory Own Funds.....	17
4.2. Table UK CC2 – Reconciliation to Regulatory Own Funds to Balance Sheet in the Audited Financial Statements .....	19
4.3. Table UK CCA – Main Features of Regulatory Own Funds Instruments and Eligible Liabilities Instruments .....	20
<b>5. ANNEX XIX – MARKET RISK .....</b>	<b>22</b>
5.1. Table UK MRA – Qualitative Disclosure Requirements Related to Market Risk .....	22
<b>6. ANNEX XXXI – OPERATIONAL RISK.....</b>	<b>24</b>
6.1. Table UK ORA – Operational Risk .....	24
6.2. Table UK OR1 – Operational Risk Own Funds Requirements and Risk-Weighted Exposure Amounts .....	26

<b>7.</b>	<b>ANNEX XXXIII – REMUNERATION DISCLOSURES .....</b>	<b>27</b>
<b>8.</b>	<b>APPENDIX 1 – GLOSSARY TABLE.....</b>	<b>31</b>
<b>9.</b>	<b>APPENDIX 2 – ABBREVIATIONS TABLE.....</b>	<b>35</b>
<b>10.</b>	<b>APPENDIX 3 – INDEX OF DISCLOSURE REQUIREMENTS.....</b>	<b>36</b>

# 1. INTRODUCTION

## 1.1. Framework for disclosures

This Report provides Pillar 3 disclosures for SG Kleinwort Hambros Bank Ltd at a UK Consolidation level in accordance with the international regulatory framework established by the Basel Committee on Banking Supervision (BCBS), also known as Basel III. In the European Union (“EU”), the Basel framework is implemented by the Regulation (EU) 575/2013 on prudential requirements (Capital Requirements Regulation or “CRR”) and the Directive (EU) 2013/36 on access to the activity and the prudential supervision (Capital Requirements Directive or “CRD”). Articles 431 to 455 of CRR specify the requirements of the Pillar 3 framework.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as “CRR”), and are based on data as of 31<sup>st</sup> December 2023 with comparative figures for 31<sup>st</sup> December 2022 where relevant. These regulations came into force on 1 January 2022 and were implemented by the PRA via the PRA Rulebook.

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three ‘pillars’:

- Pillar 1 sets the minimum solvency, leverage and liquidity requirements and defines the rules that banks must use to measure risks and calculate the related capital requirements, according to standard or more advanced methods;
- Pillar 2 concerns the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar 1, and to calibrate additional capital requirements taking into account all the risks to which these institutions are exposed;
- Pillar 3 encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to better assess a given institution’s capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

Within this document are references to the SG Kleinwort Hambros Bank Ltd’s Annual Report which can be found at Companies House.

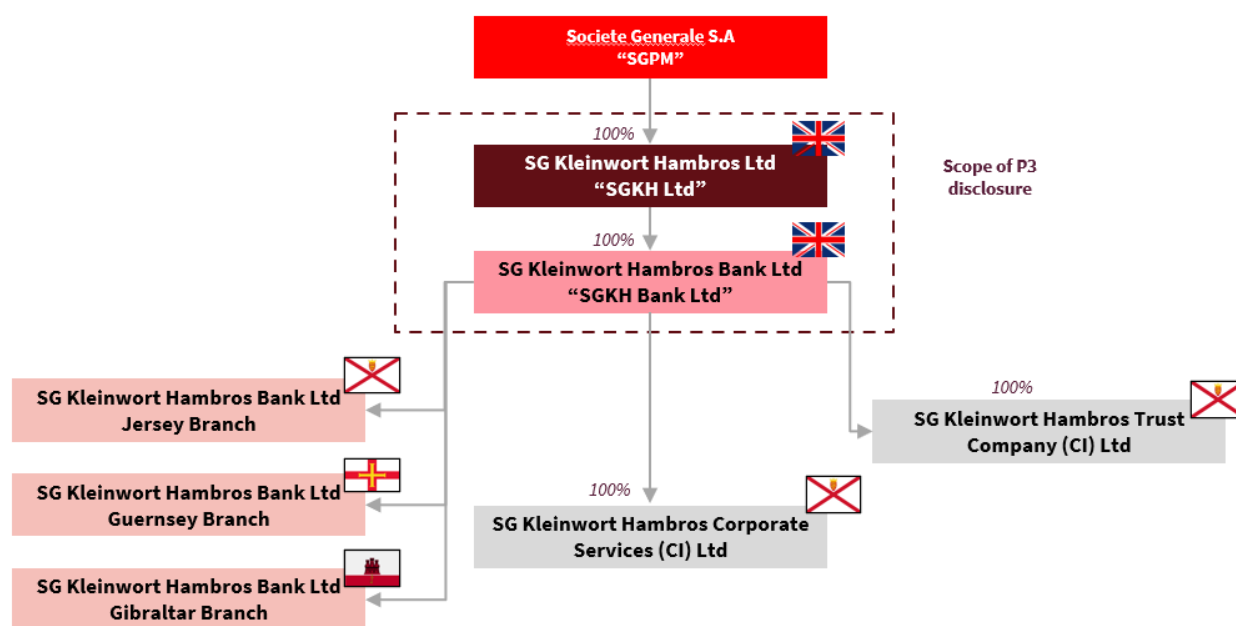
<https://find-and-update.company-information.service.gov.uk/company/00964058>

## 1.2. Scope of Pillar 3 disclosures

SG Kleinwort Hambros Bank Ltd (“SGKH Bank Ltd”) is regulated by the FCA and PRA as a UK CRR firm at the SGKH Bank Ltd level (“SGKH Bank Ltd”). SGKH Bank Ltd is a wholly owned subsidiary of SG Kleinwort Hambros Ltd (“SGKH Ltd”) which is a parent financial holding company incorporated in the UK who is 100% owned by Société Générale S.A.

Using the FCA Handbook BIPRU 8 Annex 1 decision tree identifying a UK Consolidation Group; SGKH has established it is required to prepare its Prudential disclosures at both the UK Bank solo level (SGKH Bank Ltd) and at UK Consolidation Level (SGKH Ltd). These Pillar 3 disclosures have been prepared at the UK Consolidation group level which incorporates SGKH Bank Ltd, its branches and the Trust entity which is an appointed representative of SGKH Bank Ltd. This is shown in the organisational diagram below:-

## 1.2.1 Our Structure



SGKH Bank Ltd prepares its financial statements in accordance with Financial Reporting Standards 101 Reduced Disclosure Framework (“FRS 101”) in accordance with applicable accounting standards. SGKH Ltd has taken advantage of the exemption under s400 of the Companies House Act 2006 not to prepare group accounts (Consolidated accounts) due to being a wholly owned subsidiary of Société Générale SA who fully consolidates SGKH Ltd. This means that the financial statements of SGKH Ltd will only report the investment in SGKH Bank Ltd at amortised cost however due to prudential reporting requirements the regulatory disclosures will incorporate SGKH Bank Ltd, its branches and subsidiaries fully consolidated as part of the UK Consolidation Group.

Like SGKH Bank Ltd, SGKH Ltd also takes advantage of FRS 101 and does not consolidate its subsidiary (SG Kleinwort Hambros Trust Company (CI) Ltd) in its financial statements and reposts these as “Shares in group undertakings” at amortised cost. Therefore, due to these Pillar 3 disclosures being in line with Prudential scope of regulatory reporting it consolidates the whole SGKH group which differs from the financial statements of both SGKH Ltd and SGKH Bank Ltd. This is explained further in UK CC2 template in section Annex VII where all the differences between the published financial statements (SGKH Bank Ltd) and scope of regulatory consolidation (UK consolidation group) are disclosed.

SGKH Ltd being a wholly owned subsidiary of Société Générale S.A is fully consolidated in the financial statements and Risk Report of SG Group (Pillar 3 Disclosures) which can be found at Société Générale website:

[Pillar 3 report – 31.12.2023 \(societegenerale.com\)](https://www.societegenerale.com/en/pillar3-report-31-12-2023)

Risk appetite is determined at SG Group level and attributed to the businesses and subsidiaries. Monitoring of risk appetite is performed according to the principles described in the Risk Appetite Framework governance and implementation mechanism as shown in the SG Group Risk Report.

SG Group’s risk appetite is formalised in a document (“Risk Appetite Statement”) which sets out:

- the strategic profile of the Group;
- its profile of profitability and financial soundness;
- the frameworks relating to the management of the Group’s main risks (qualitative, through risk policies, and quantitative, through indicators).

SGKH Bank Ltd follows the same governance and risk management framework outlined in the SG Group Risk report (Pillar 3 report). This Pillar 3 disclosure outlines the relevant metrics and disclosures specifically for SGKH as outlined in 1.5 Calculation Approaches and 1.6 Regulatory Developments.

### 1.3. Confidentiality

Article 432 of the PRA Rulebook on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. No disclosures have been omitted on the basis of them being regarded as proprietary or confidential.

The following templates have not been disclosed as they are deemed not applicable given SGKH business model: Annex V, IX, XI, XIII, XV, XVII, XIX, XXI, XXIII, XXV, XXVII, XXXV & XXXVII.

All rows that are not applicable have been omitted from all tables presented in this document for presentation purposes.

### 1.4. Frequency and Location

The full set of Pillar 3 disclosures is published annually on the Group's website <https://www.kleinworthambros.com/en/important-information/>, concurrently with the publication of the SGKH Bank Ltd Annual Report.

### 1.5. Calculation Approaches

The CRR determines minimum capital requirements predominantly by calculating RWAs for credit, counterparty credit, market, and operational risks. Various RWA calculation approaches are available to banks, with differing levels of sophistication.

SGKH Bank Ltd uses the following approaches to calculate RWAs:

- Credit risk: The standardised (STD) approach is used for exposures across all portfolios.
- Counterparty credit risk: The exposure amount is calculated using the mark-to-market (MTM) method for derivative transactions. The overall approach to calculate counterparty credit risk is using the Original Exposure method.
- Market risk: The standardised approach is used for market risk in the non-trading book.
- Operational risk: The standardised approach is used.

The minimum capital requirement is calculated as a percentage of RWAs depending on the capital ratio being calculated. On top of the minimum capital requirement, there are several other buffers including capital conservation, countercyclicality and systemic importance. Further details on the constituents of capital and the various buffers can be found in section 4 – Annex VII.

### 1.6. Regulatory Developments

#### Removal of the Non-Performing Exposures (NPE) Capital deduction

PS14/23 was published in November 2023 whereby the PRA removed the NPE capital deduction requirement by deleting CRR Article 36(1)(m) from Chapter 3 of the Own Funds and Eligible Liabilities (CRR) Part of the PRA Rulebook. The amount deducted for the prior year (31 December 2022) amounted to £12,366k.

#### Basel 3.1 Implementation

The PRA has published near-final rules for market risk, credit valuation adjustments (CVA), counterparty credit risk (CCR), and operational risk as part of the Basel 3.1 package in December 2023. The remaining rules concerning credit risk, output floor, and reporting and disclosure was expected to be released in Q2 2024. The aim is for full

implementation by 1 July 2025. The PRA has also proposed a reduction in the output floor transitional period to 4.5 years to ensure full compliance by 1 January 2030. These proposals are in broad alignment with the Basel Committee's final rules, with some adjustments, including the treatment of unrated corporates under the credit risk standardised approach and the discontinuation of modelled approaches for sovereign exposures.

Chapter 11 outlines the PRA's proposals for updating Pillar 3 disclosure requirements to be consistent with Basel 3.1 standards, aiming to enhance transparency and maintain international competitiveness for UK firms. The PRA recommends adjustments to existing disclosure templates and the introduction of new ones to accurately represent the Basel 3.1 standards and consultation paper suggestions. A proportionality approach is suggested, where disclosure frequency varies based on a firm's size and listing status, while the scope of application is limited to firms subject to Basel 3.1 standards, excluding those under the Transitional Capital Regime. The PRA also proposes varying disclosure frequencies for 'large' and 'other' firms to mirror the financial risks they present. Detailed within the chapter are the specific templates slated for deletion, modification, or introduction, covering risk areas such as credit risk, market risk, CVA, and operational risk, all designed to support UK firms in consistently disclosing risk profiles and adhering to Pillar 1 requirements.

### **Environmental, Social, and Governance (ESG) Risk**

In the coming year, the integration of ESG considerations into sustainable finance regulations will proceed, subsequent to the completion of IFRS and European Sustainability Reporting Standards. The UK is on track to introduce Sustainability Disclosure Standards aligning with the broader regulatory landscape. Concurrently, the EU is gearing up for the inaugural reporting period under the CSRD. Additionally, Basel's contributions include the development of a Pillar 3 disclosures framework for climate-related financial risks, slated for introduction on 1 January 2026.

### **Future Regulatory Framework**

The PRA's December 2023 consultation on policymaking aims for broad compliance with international standards, enhancing regulatory alignment.

## **1.7. Pillar 3 Policy validation and approval**

These disclosures have been prepared, verified, and approved under the SGKH Pillar 3 and regulatory reporting standards, which set out the internal processes and controls to verify that the disclosures are appropriate and in compliance with the requirements set out in CRR.

The Pillar disclosures in line with the Scope and Confidentiality sections mentioned in Section 1.2 & 1.3 respectively are issued as a minimum on an annual basis and are published on the SGKH website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion SGKH financial statements.

These Pillar 3 disclosures have been subject to senior management review as well as sign-off from each EXCO member whose area contributed to the Pillar 3 disclosures. In addition, review, and endorsement by the Executive Committee ("EXCO") was completed on the 02<sup>nd</sup> September 2024, the Board Audit Committee ("BAC") on the 10<sup>th</sup> September 2024 and approval given by the SGKH board ("the board") on 24<sup>th</sup> September 2023.



## 1.7.1 Board Attestation

### Attestation Statement

We confirm that the 2023 SGKH Pillar 3 report meets the relevant requirements for Pillar 3 disclosures and has been prepared in line with internal controls agreed by the Board.

The 2023 Pillar 3 Report was approved by the SGKH Board on 24<sup>th</sup> September 2024.

*Mouhammed Choukeir*

**Mouhammed Choukeir**  
Chief Executive Officer  
Member, Executive Committee

*TPalmer*

**Tara Palmer**  
Chief Operating Officer  
Member, Executive Committee

## 2. ANNEX I – DISCLOSURE OF KEY METRICS AND OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

### 2.1. Table UK OVI - Overview of Risk-Weighted Exposure Amounts

£'000s		a	b	c
		Risk weighted exposure amounts (RWEAs)		Total Own Funds Requirements
		31 Dec 2023	31 Dec 2022	31 Dec 2023
<b>1</b>	<b>Credit Risk (excluding CCR)</b>	<b>1,209,992</b>	<b>1,556,662</b>	<b>96,799</b>
2	Of which the standardised approach	1,209,992	1,556,662	96,799
<b>6</b>	<b>Counterparty Credit Risk – CCR</b>	<b>32,907</b>	<b>34,661</b>	<b>2,633</b>
7	Of which the standardised approach	32,907	34,661	2,633
<b>15</b>	<b>Settlement Risk</b>	<b>92</b>	<b>4</b>	<b>7</b>
<b>20</b>	<b>Position, foreign exchange and Commodities risks (Market Risk)</b>	<b>1,336</b>	<b>1,158</b>	<b>107</b>
21	Of which the standardised approach	1,336	1,158	107
<b>23</b>	<b>Operational risk</b>	<b>205,688</b>	<b>238,276</b>	<b>16,455</b>
UK 23b	Of which standardised approach	205,688	238,276	16,455
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	31,439	35,922	2,515
<b>29</b>	<b>Total</b>	<b>1,450,014</b>	<b>1,830,761</b>	<b>116,001</b>

## 2.2. Table UK KM1 – Key Metrics

£'000s		a	e
		Dec 31 2023	Dec 31 2022
<b>Available Own Funds (Amounts)</b>			
1	Common Equity Tier 1 (CET1) Capital	356,795	426,529
2	Tier 1 Capital	356,795	426,529
3	Total Capital	356,795	426,529
<b>Risk-Weighted Exposure Amounts</b>			
4	Total Risk-Weighted Exposure Amounts	1,450,014	1,830,761
<b>Capital Ratios (as a percentage of risk-weighted exposure amount)</b>			
5	Common Equity Tier 1 ratio (%)	24.6%	23.3%
6	Tier 1 ratio (%)	24.6%	23.3%
7	Total Capital ratio (%)	24.6%	23.3%
<b>Additional Own Funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>			
UK 7a	Additional CET1 SREP requirements (%)	0.8%	0.8%
UK 7b	Additional AT1 SREP requirements (%)	0.3%	0.3%
UK 7c	Additional T2 SREP requirements (%)	0.4%	0.4%
UK 7d	Total SREP own funds requirements (%)	9.5%	9.5%
<b>Combined buffer requirement (as a percentage of risk-weighted exposure amount)</b>			
8	Capital conservation buffer (%)	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	1.2%	0.6%
11	Combined buffer requirement (%)	3.7%	3.1%
UK 11a	Overall capital requirements (%)	13.2%	12.6%
12	CET1 available after meeting the total SREP own funds requirements (%)	15.1%	13.8%
<b>Leverage Ratio</b>			
13	Total exposure measure excluding claims on central banks	4,161,978	4,707,494
14	Leverage ratio excluding claims on central banks (%) <sup>2</sup>	8.6%	9.1%
<b>Liquidity Coverage Ratio</b>			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	2,191,986	2,372,431
UK 16a	Cash outflows - Total weighted value	971,156	1,029,869
UK 16b	Cash inflows - Total weighted value	103,495	208,111
16	Total net cash outflows (adjusted value)	867,661	821,759
17	Liquidity coverage ratio (%)	252.6%	288.7%
<b>Net Stable Funding Ratio</b>			
18	Total available stable funding	3,140,112	3,765,621
19	Total required stable funding	1,441,162	1,698,754
20	NSFR ratio (%)	217.9%	221.7%

<sup>1</sup> Rows 14a – 14e are not applicable as SGKH doesn't meet the threshold to be a LREQ firm (retail deposit >= £50 billion).

<sup>2</sup> On PRA supervisory statement 45/15 which was updated in May 2023, the PRA outlined that even firms who are not subject to the UK Leverage Ratio Framework (such as SGKH) should continue to monitor their leverage ratio and manage the ratio so that it does not ordinarily fall below 3.25%. Therefore, although SGKH would not be in breach should it fall below the 3.25% threshold, it is required to maintain a position above this threshold in its ordinary course of business.

**UK INS1 – Insurance Participation**

SG Kleinwort Hambros Ltd has no own funds held in insurance or reinsurance firms so this template has not been presented.

**UK INS2 – Financial Conglomerates information on Own Funds and Capital Adequacy Ratio**

SG Kleinwort Hambros Ltd does not qualify as a financial conglomerate so this template has not been presented.

**2.3. Table UK OVC – ICAAP INFORMATION****Approach to assessing the adequacy of the internal capital (Article 438(a) CRR)**

SGKH applied the Basel III regulations implemented in the European Union through a regulation and a directive (CRR and CRD4 respectively) which was adopted in the UK and implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as “CRR”).

The general framework defined by Basel III is structured around 3 pillars as mentioned in Section 1.1 – Framework for disclosures.

**Capital Management**

SGKH ensures that its solvency level is always compatible with the following objectives:

- maintaining its financial strength and respecting the risk appetite.
- preserving its financial flexibility to finance organic growth and
- the SGKH Group’s strategic objectives.
- maintaining resilience in the event of stress scenarios; and
- meeting the expectations of its various stakeholders: supervisors, shareholders, etc.

SGKH has an internal process for assessing the adequacy of its capital that measures and explains the evolution of its capital ratios over time, considering any future regulatory constraints and changes in the scope. This process is based on a selection of key metrics relevant to SGKH Group in terms of risk and capital measurement like Tier 1, CET1 and Total Capital Ratios. These regulatory indicators are supplemented by an assessment of the coverage of internal capital needs by available CET1 capital and an economic perspective, thus confirming the relevance of the targets set in the risk appetite. Besides, this assessment considers the constraints arising from the other metrics of the risk appetite.

During the preparation of the financial plan, they are also assessed on an annual basis over a 5-year horizon according to at least a baseline and adverse scenarios, to demonstrate the resilience of the SGKH Group’s business model against adverse macroeconomic and financial uncertain environments. Capital adequacy is continuously monitored by the Exco and by the Board of Directors as part of its corporate governance process and is reviewed in depth during the preparation of the financial plan.

**3. ANNEX III – DISCLOSURE OF RISK MANAGEMENT OBJECTIVES AND GOVERNANCE POLICIES****3.1. Table UK OVA – Institution Risk Management Approach**

**SGKH Risk management approach (Points (a) to (f) of Article 435(1) CRR)**

**GROUP CONCISE RISK STATEMENT**

As part of the setting its Risk Appetite, SGKH seeks a sustainable development based on its business model. SGKH aims to be a responsible bank to our clients, colleagues, the community, and the climate. The indicators of the SG Group’s risk appetite in terms of solvency, earnings, market risk, cost of risk and non-performing loans were included in the risk appetite levels defined by SGKH. Any breach of the tolerance thresholds is escalated to the Board and any follow up actions required will be determined by the Board.

## RISK MANAGEMENT ORGANISATION

### 1) Suitability of Risk Management Systems

The Pillar 3 report, published under the responsibility of SGKH senior Management, sets out, in accordance with the CRR regulation, the quantitative and qualitative information on its capital, liquidity and risk management. The information has been prepared in compliance with the internal control procedures approved by the Board of Directors during the validation of the Risk Appetite Framework and Risk Appetite Statement.

### 2) Risk Appetite

Risk appetite is defined as the level of risk that the SGKH is prepared to accept to achieve its strategic and financial goals.

The formalisation of risk appetite centred around:

- The SG Group and the SGKH strategic profile for balancing the business portfolio by geography and expertise; and
- Achieving sustainable financial solidity.

The key business risks identified in the Risk Appetite Statements are:

- **Liquidity Risk and Funding Risk**

Controlling liquidity risk is based primarily on:

- compliance with regulatory liquidity ratios, with precautionary buffers: LCR (Liquidity Coverage Ratio) ratios that reflect a stress situation and NSFR (Net Stable Funding Ratio); and
- compliance with a minimum survival horizon under combined market and idiosyncratic stress.

Controlling funding risk is based on:

- maintaining a liability structure to meet the regulatory constraints (Tier 1, Total Capital, Leverage and NSFR); and
- intraday liquidity.

- **Structural Interest Rate and FX risks**

SGKH measures and strictly controls structural risks. The mechanism whereby rate risk and foreign exchange risk is controlled is based on sensitivity or stress limits.

There are three main types of risk: rate level risk, curve risk book and basis risk, related to the impact of relative changes in interest rates indices. The SGKH Group's structural interest rate risk management primarily relies on the sensitivity of Net Present Value ("NPV") of fixed-rate residual positions (excesses or shortfalls) to interest rate changes according to several interest rate scenarios. The limits are approved by the Asset and Liability Committee ("ALCO").

- **Credit Risk**

Credit risk appetite is managed through a system of credit policies, risk limits and pricing policies. When assuming credit risk, SGKH focuses on medium- and long-term client relationships, targeting both clients with which the bank has an established relationship of trust and prospects representing profitable business development potential over the mid-term.

Acceptance of any credit commitment is based on in-depth client knowledge and a thorough understanding of the purpose of the transaction. In a credit transaction, risk acceptability is based, first, on the borrower's ability to meet its commitments, particularly the cash flows for the repayment of the debt. For medium and long-term operations, the funding duration must remain compatible with the economic life of the financed

asset and the visibility horizon of the borrower’s cash flow. SGKH seeks risk diversification by controlling concentration risk.

Counterparty ratings are a key criterion of the credit policy and serve as the basis for the credit approval authority grid used in both the commercial and risk functions. The rating framework relies on internal models.

Risk measurement for the credit portfolio is primarily based on the Basel parameters used to calibrate capital requirements. The calculation of expected losses pursuant to IFRS 9.2, used to determine the level of impairment on performing loans, is also helpful in assessing the portfolio’s risk.

In cooperation with the Risk Function, SGKH implement pricing policies which are differentiated based on counterparty and transaction risk levels. Transaction pricing is designed to ensure acceptable profitability, in line with the Return on Equity (“ROE”) goals of the Business Unit, after taking the transaction cost of risk into consideration. Transaction pricing may nevertheless be adjusted in certain cases to take the overall profitability and development potential of the client relationship into consideration. The intrinsic profitability of client segments and products is periodically analysed to take changes in the economic and competitive environment into account.

Proactive management of impaired risks is key to containing the risk of final loss in the event of default of a counterparty. In this regards, SGKH Group has implemented procedures to monitor counterparties with a worsening risk profile. Furthermore, the risk function has a dedicated bad debt specialist to assist with asset recovery management to effectively preserve the Company’s interest in the event of default.

- **Risk on equity and related transactions**

SGKH has a limited appetite for own account equity investments, in the form of transactions looking for financial valuation, and is managing its investment portfolio in a run-off mode. The allowed investment pockets are mainly to facilitate exit of client accounts and to manage any operational incidents.

- **Counterparty Credit Risk**

Counterparty credit risk is the risk that the counterparty to a transaction (derivatives or repos) could default or deteriorate in creditworthiness before the final settlement of a transaction’s cash flows. The future market value of the exposure and the counterparty’s credit quality are uncertain and may vary over time as underlying market factors change. The counterparty risk associated with the securities portfolio and interbank balances are covered with the Credit Risk section.

- **Market Risk**

Market risk means the risk of loss due to unfavourable changes in market parameters. This risk applies to all trading portfolios and certain banking book transactions. The SGKH Group has limited exposure to market risk as the FX and Interest rate risk is captured under the structural limits as noted in section 5.1.

- **Operational Risks**

Operational risk is defined as the risk of losses arising from error or default due to internal procedures, employees, and information systems or to external events. These risks include non-compliance risk, misconduct, and reputation risk.

- **Model Risk**

SGKH is committed to defining and deploying internal standards to reduce model risk on the basis of key principles, including the establishment of three independent lines of defence, a proportionality approach (i.e., modular standards depending on the inherent level of risk associated with each model), a comprehensive analysis of the model risk (end-to-end view of the model lifecycle) and the consistency of the approaches used within the SG Group

### 3) Governance of Risk Appetite – General Framework

Risk appetite is determined at SG Group level and attributed to SGKH as a subsidiary of Société Générale S.A. Monitoring of risk appetite is performed according to the principles described in the Risk Appetite Framework governance and implementation mechanism, which are summarised below.

As part of the supervision of risk appetite, SGKH relies on the following organisation:

#### **The Board of Directors**

- approves each year the Risk Appetite Statement and the Risk Appetite Framework;
- approves in particular the risk appetite indicators (Board of Directors indicators) validated beforehand by Executive Committee,
- ensures that risk appetite is relevant to SGKH’s strategic and financial objectives and its vision of the risks of the macro-economic and financial environment,
- reviews quarterly the risk appetite dashboards presented to it, and is informed of risk appetite overruns and remediation action plans,
- Oversees, the principles of the remuneration policy applicable in SGKH, especially for regulated persons whose activities may have a significant impact on the SGKH Group’s risk profile and ensures that they are in line with risk management objectives.

The Board of Directors relies primarily on the Risk Committee.

#### **Executive Committee**

- approves the document summarizing SGKH’s risk appetite Statement and its Risk Appetite Framework based on the proposal of the Chief Risk Officer and the Chief Financial Officer,
- regularly ensures that risk appetite is complied with,
- ensures the effectiveness and integrity of the risk appetite implementation system,
- ensures that the risk appetite is formalised and translated into framework consistent with the risk appetite.

In addition, the main mission of the Risk Department is to draw up the document summarizing SGKH’s risk appetite, as well as the implementation of a risk management, monitoring and control system.

The Finance Department contributes to setting this risk appetite in the framework of indicators (profitability, solvency, liquidity, and structural risks).

The Compliance Department is also responsible for instructing the risk appetite setting for indicators falling within its scope.

### 4) Governance of Risk Management

Two main high-level bodies govern SGKH risk management: the Board of Directors and Executive Committee (ExCo). ExCo presents the main aspects of, and notable changes to, the SGKH Group’s risk management strategy to the Board of Directors at least once a year.

As part of the Board of Directors, the Risk Committee advises the Board on overall strategy and appetite regarding all kinds of risks, both current and future, and assists the Board when the latter reviews and challenges that the strategy is being rolled out.

The Board of Directors’ Audit Committee ensures that the risk control systems operate effectively. The specialized Committees responsible for central oversight of internal control and risk management are as follows:

- The Risk Committee which meets at least every quarter.
- The Asset and Liability Committee (ALCO) which meets monthly.
- Group Executive Risk Committee (GERC) which meets monthly.
- Compliance Committee which meets quarterly.
- Financial Crime Committee which meets quarterly.

## 5) Risk Reporting and assessment System

The risk measurement systems serve as the basis for producing internal Management Reports allowing the monitoring of SGKH Group’s main risks (credit risk, counterparty, market, operational, liquidity, structural, settlement/delivery) as well as the monitoring of compliance with the regulatory requirements. The architecture principles for the systems revolve around the below to guarantee the consistency of the data and indicators used for internal management and regulatory production:

- Risk and Finance uses are subjected to an organised system of “golden sources” with collection cycle adapted to the uses.
- Common management rules and language to ensure interoperability; and
- Consistency of Finance and Risk usage data via strict alignment between accounting data and management data.

SGKH produces many risk metrics constituting a measure of the risks monitored.

A set of major metrics are selected provide a summary of the Group’s risk profile. These metrics concern both the SGKH Group’s financial rating, its solvency, its profitability, and the main risks (credit, market, operational, liquidity and financing, structural, model) and are included in the reports intended for internal management bodies.

The main Risk reports for management bodies are:

- quarterly reporting to the Risk Committee aims to provide an overview of changes in the risk profile; and
- monthly reporting to the GERC aims to provide details around focus areas within the risk appetite (trends of breaches) to facilitate committee review.

This reporting is complemented by a dashboard for monitoring the SGKH Risk Appetite Statement indicators is also sent quarterly to the Board of Directors. These indicators are framed and presented using a “traffic light” approach (with distinction between thresholds and limits) to visually present monitoring of compliance with risk appetite.

## 3.2. Table UK OVB – Disclosure on Governance Arrangements

### *The number of directorships held by members of the management body - Point (a) of Article 435(2) CRR*

A list of declared external directorships of board members of SG Kleinwort Hambros Bank Limited (“SGKH Bank Ltd”) is maintained and presented to each quarterly board meeting of SGKHL. In addition, all the Independent Non-executive Directors must complete an annual attestation in relation to all directorships held. Directorships in organisations which do not pursue predominantly commercial objectives have not been included in accordance with SYSC (Senior Management Arrangements, Systems and Controls) 4.3A.7 and entities within the same group are counted as one directorship.

Name	Description	SMF	No. External of Directorships
Konstantin Graf von Schweinitz	Independent Non-Executive Director & Chair	SMF9, SMF12	3
Michael Newman	Independent Non-Executive Director	SMF11	2
Anne Ewing	Independent Non-Executive Director	SMF10	5*
Joanna Hall	Independent Non-Executive Director	PRA Notified	1
Valerie Menu	Non-Executive Director	PRA Notified	0
Thierry D’Argent	Non-Executive Director	PRA Notified	0
Bertrand Cozzarolo	Non-Executive Director	SMF7	0
Mo Choukeir	Executive Director	SMF1, SMF3	0



Emma Perez	Executive Director	SMF3	0
Tara Palmer	Executive Director	SMF3, SMF24	0

\*Includes one fund which is in the process of being wound up.

**Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise - Point (b) of Article 435(2) CRR**

A Board Suitability Policy sets out key principles which should be considered when assessing the individual and collective suitability of the Board.

Principle 1: Effective and prudent management is in place for all assessments for individual and collective suitability of the Board and this is aligned to the overall corporate governance structures, the culture and risk appetite and the processes that operate under this Policy; this ensures an initial and ongoing assessment.

Principle 2: The Policy and all underlying or associated policies, processes and procedures will ensure that Board members demonstrate sufficient repute, sufficient knowledge, skills and experience to perform the duties that they are able to act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the Board and other relevant management decisions where necessary and to effectively oversee and monitor management decision-making. Board members need to be able to commit sufficient time to perform their functions for SG Kleinwort Hambros Bank Limited.

Principle 3: the Diversity statement is a key part of the assessment of individual and collective arrangements for the Board and considered when recruiting new members.

Principle 4: A consistent approach is used between the initial and ongoing assessments of the suitability, including a wide definition of knowledge, skills and experience as aligned to the core criteria. Skills assessment aligned to the business model, key risks, emerging strategy and product areas and general director requirements. Experience overview which highlights length of service in previous roles including considerations of diversity, sufficient time commitment; honesty, integrity and independence of mind of a member of the board; conflicts, and adequate human and financial resources devoted to the induction and training.

**Information on the diversity policy with regard of the members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved – Point (c) of Article 435(2) CRR**

The Board Suitability Policy reference diversity applicable to the board of SGKH Bank Ltd. There is a target that a minimum of 40% of board members of SGKH Bank Ltd must be women. SGKH Bank Ltd has reached that target.

**Information whether or not the institution has set up a separate risk committee and the frequency of the meetings – Point (d) of Article 435(2) CRR**

The Board of SGKH Bank Ltd has established a separate Risk Committee. The Chair of the Committee and two members are NEDs (Non-Executive Directors) who are also directors of SGKH Bank Ltd, currently Anne Ewing (Chair), Michael Newman (member) and Valerie Menu (Member). The Committee meets on a quarterly basis and considers all risk related matters pertinent to SGKH Bank Ltd. It escalates any items to the Board of SGKH Bank Ltd.

**Description on the information flow on risk to the management body – Point (e) of Article 435(2) CRR**

The Executive Committee (“Exco”) considers risk items at an executive level and can escalate any items to the Risk Committee or to the Board of SGKH Bank Ltd. Its members comprise of senior staff of SGKH Bank Ltd, including the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer and the Chief Operating Officer. All these senior staff attend the Risk Committee and the Board. There are also other executive level risk committees (e.g. the Group Enterprise Risk Committee and IT Risk Committee) which will consider their respective Risk Registers and Risk Reports in greater detail and escalate items of concern to the Exco.

## 4. ANNEX VII – REGULATORY OWN FUNDS

### 4.1. Table UK CC1 – Composition of Regulatory Own Funds

£'000s		a	b
		Amounts	Reference to UK CC2
<b>Common Equity Tier 1 (CET1) Capital: Instruments and Reserves</b>			
1	Capital instruments and the related share premium accounts	466,651	(a)
	of which: Share Capital	466,651	(a)
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	-67,072	(b) <sup>1</sup>
3	Accumulated other comprehensive income (and other reserves)	-26,960	(c) <sup>2</sup>
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>372,619</b>	
<b>Common Equity Tier 1 (CET1) Capital: Regulatory Adjustments</b>			
7	Additional value adjustments (negative amount)	-2,011	
8	Intangible assets (net of related tax liability) (negative amount)	-13,644	(e) <sup>3</sup>
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value		
12	Negative amounts resulting from the calculation of expected loss amounts		
15	Defined-benefit pension fund assets (negative amount)	-169	(d)
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-15,824</b>	
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>356,795</b>	
<b>Additional Tier 1 (AT1) Capital: Regulatory Adjustments</b>			
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>0</b>	
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>0</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>356,795</b>	
<b>Tier 2 (T2) Capital: Instruments</b>			
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>0</b>	
<b>Tier 2 (T2) Capital: Regulatory Adjustments</b>			
<b>57</b>	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>0</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>356,795</b>	
<b>60</b>	<b>Total Risk Exposure Amount</b>	<b>1,450,014</b>	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	24.61%	
62	Tier 1 (as a percentage of total risk exposure amount)	24.61%	
63	Total capital (as a percentage of total risk exposure amount)	24.61%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.02%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	1.193%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	15.59%	

£'000s		a	b
		Amounts	Reference to UK CC2
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)		
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	12,525	
<b>1</b>	Comprises Consolidated Reserves – group share, Unappropriated earnings less goodwill write off and excludes £35.2m YTD unaudited profits which are excluded from regulatory capital		
<b>2</b>	OCI above includes £1,291k (Translation adjustment) + -£9,180k (Other Reserves) which are included as part of Retained Earnings in the Financial Statements		
<b>3</b>	Intangible assets include an amount of £10,577k which relates to goodwill associated with entities which are not consolidated in the in the published financial accounts but are consolidated in the regulatory scope of consolidation.		

## 4.2. Table UK CC2 – Reconciliation to Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

£'000s		a	b	c
		<b>Balance Sheet as in Published Financial Statements<sup>1</sup></b>	<b>Under Regulatory Scope of Consolidation</b>	<b>Reference to UK CC1</b>
		As at Period End	As at Period End	
<b>Assets - Breakdown by asset class according to the balance sheet in the published financial statements</b>				
1	Cash and Balances at Central Banks	502,104	502,104	
2	Derivative Assets	6,993	6,940	
3	Loans and Advances to Banks	124,270	126,539	
4	Loans and Advances to Customers	1,923,638	1,923,638	
5	Revaluation Differences on Portfolios Hedged Against Interest Rate Risk	634	688	
6	Debt and Investment Securities	1,902,435	1,902,441	
7	Shares in Group Undertakings <sup>2</sup>	22,415	0	
8	Intangible Assets <sup>3</sup>	3,067	13,644	(e)
9	Tangible Assets	6,180	6,854	
10	Current Income Tax Assets	0	27	
11	Deferred Income Tax Assets	12,847	12,576	
12	Pension Asset	169	169	(d)
13	Trade and Other Receivables	25,347	38,936	
	<b>Total Assets</b>	<b>4,530,099</b>	<b>4,534,556</b>	
<b>Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements</b>				
1	Deposits by Banks <sup>4</sup>	68,185	48,176	
2	Customers' Accounts	3,970,768	3,970,768	
3	Revaluation Differences on Portfolios Hedged Against Interest Rate Risk	2,908	3,154	
4	Derivative Liabilities	6,365	6,119	
5	Current Income Tax Liabilities	2,712	6,311	
6	Deferred Income Tax Liabilities	69	51	
7	Other Liabilities	72,669	83,060	
8	Provisions for Liabilities	1,026	1,277	
	<b>Total Liabilities</b>	<b>4,124,702</b>	<b>4,118,916</b>	
<b>Shareholders' Equity</b>				
1	Share Capital	328,266 <sup>5</sup>	466,651 <sup>5</sup>	(a)
2	Share Premium	45,500	0	
3	Share-Based Payment Reserves	5,082	0	
4	Undistributable Reserves	0	0	
5	OCI Reserves	-19,227	-19,071	(c)
6	Retained Earnings	45,776 <sup>7</sup>	-31,940 <sup>6</sup>	(b)
	<b>Equity Attributable to Owners of the Company</b>	<b>405,397</b>	<b>415,640</b>	
<b>Total Equity and Liabilities</b>		<b>4,530,099</b>	<b>4,534,556</b>	

<sup>1</sup> As explained in section 1.2 Scope of these disclosures, the published financial statements for SGKH Bank Ltd & SGKH Ltd are not consolidated due to FRS 101 accounting exemption however regulatory scope of consolidation requires all entities with SGKH Ltd to be consolidated as part of the UK Consolidation Group.

- 2** As explained in section 1.2 Scope of these disclosures SGKH Bank Ltd does not consolidate its subsidiaries in the published financial statements and reports these at amortised cost while under regulatory scope of consolidation these are fully consolidated.
- 3** Difference in intangible assets relates to goodwill associated with entities which are not consolidated in the in the published financial accounts but are consolidated in the regulatory scope of consolidation.
- 4** Deposits by banks relates to deposits from entities not consolidated in the published financial statements but are consolidated in the regulatory scope of consolidation and are balances which get eliminated on consolidation.
- 5** Under regulatory scope of consolidation, the share capital of the UK holding company (SGKH Ltd) is reported. This consists of retained earnings (£-67,072k), P&L (unaudited profits for the year 2023 - £43,021k) and other reserves (-£7,889k).
- 6** Retained earnings in the published financial statements (column a) include YTD Profits that have been audited during 2023 while the regulatory scope of consolidation which reports the prudential reporting at the end of 2023 would not report profits until they are audited which creates timing difference of when these profits are included in regulatory capital vs the financial statements.

\*The references (a) to (e) identify balance sheet components in table CC2 that are used in the calculation of regulatory capital table CC1. Amounts between the CC2 and CC1 are not always directly comparable due to differences in definition and application of CRD IV for the calculation of regulatory capital.

### 4.3. Table UK CCA – Main Features of Regulatory Own Funds Instruments and Eligible Liabilities Instruments

		a
		Qualitative or quantitative information - Free format
1	Issuer	SG Kleinwort Hambros Ltd
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	549300KR3CB1AXT4LT74
2a	Public or private placement	Private
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A
<i>Regulatory treatment</i>		
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£466m
9	Nominal amount of instrument	£466m
UK-9a	Issue price	Par
UK-9b	Redemption price	Par
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A

UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination (only for eligible liabilities)	N/A
UK-34b	Ranking of the instrument in normal insolvency proceedings	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A

## 5. ANNEX XIX – MARKET RISK

### 5.1. Table UK MRA – Qualitative Disclosure Requirements Related to Market Risk

#### ***SGKH strategies and processes to manage Market Risk (Points (a) and (d) of Article 435(1) CRR)***

SGKH Group has limited exposure to market risk as the Group does not have a trading book. Interest rate risk and foreign exchange risk attributed to market movements in the banking book are deemed as structural risk in the Group's Risk Appetite Statement. The disclosure below relates to the managing of these interest rate risk and foreign exchange risk in the banking book. The general principle for managing these risks is to ensure that adverse movements in interest rates and foreign exchange risk do not significantly threaten the Group's financial base or its future earnings.

#### ***The structure and organisation of the market risk management (Points (b) of Article 435(1) CRR)***

##### **1) Organisation of the management of the risks**

The principles and standards for managing these risks are defined at the SG Group level with inputs from SGKH Group. SGKH Group's Treasury Department are responsible for managing these risks and are required to adhere to the Treasury Rules and Investment mandate which is agreed with the ALM (Asset and Liability Management) Department within the Finance Division who leads the control framework of the first line of defence. The Risk Department assumes the role of second line of defence supervision.

Both the ALM and Risk departments report to the Asset and Liability Committee (ALCO) who is responsible for:

- Validate and ensure that adequacy of the system for monitoring, managing and supervising structural risks.
- Review, validate and approve models used in the management of these risks; and
- Review and validate measures proposed.

##### **2) Limits**

The choice and calibration of the limits used ensure the operational transposition of the SGKH's risk appetite through its organisation.

The desk mandates and SGKH policies stipulate that the Treasury dealers must have a sound and prudent management of positions and must respect the defined frameworks. The allowed transactions, as well as risk hedging strategies, are also described in the desk mandates. The limits set for each activity are monitored daily by the Risk Department. This continuous monitoring of the risk profile is the object of regular discussions between the risk and business teams, further to which various risk hedging or mitigation initiatives may be taken to remain within the defined limits. In the event of a breach of the risk framework, and in compliance with the limits follow-up procedure, the Treasury department must detail the reasons, and take the necessary measures to return within the defined framework, or otherwise request a temporary or permanent increase of limit if there is justification of such a course of action.

#### ***Scope and nature of risk reporting and measurement systems (Points (c) of Article 435(1) CRR)***

### 3) Measuring and monitoring

#### a) Structural Interest Rate Risk

SGKH Group uses the sensitivity of the net present value (NPV) to the risk of interest rate mismatch. It is measured as the sensitivity of the net present value of the static balance sheet to a change in interest rates. This measure is calculated for all currencies to which the SGKH Group is exposed. Limits are set for shocks at +/-0.1% and for stressed shocks (+/-1% for value sensitivity and +/-2% for income sensitivity) without floor application.

Maturities of outstanding amounts are determined by considering the contractual characteristics of the transactions, adjusted for the results of customer behaviour modelling (for demand deposits), possibly differentiated according to the rate scenario considered.

SGKH Group uses interest rate swaps to micro hedge its securities portfolio (individual hedging of transactions and hedging instruments) in accordance with IAS39. These accounting hedges are monitored monthly to ensure that the hedge effectiveness remain between the 80-125% range by the Finance department. The remaining interest rate risks are hedged at a macro level using derivatives. These are monitored via limits set. A report generated daily from the in-house Treasury system is used to monitor the overall risk against the limits set.

#### b) Structural Exchange rate Risk

SGKH Group uses a set limit developed by the ALM department with approval at the ALCO level at an overall currency exposure level and individual currency level. These limits are monitored daily using the report generated by in-house Treasury system against the limits set.

### UK MR1 – Market Risk under the Standardised Approach

As per Article 433c, SGKH does not need to present this template.

### UK MRB – Qualitative Disclosure Requirements for Institutions using the Internal Market Risk Models

SGKH does not use any models for any Market Risk calculations.

### UK MR2-A – Market Risk under the Internal Model Approach (IMA)

SGKH does not use any models for any Market Risk calculations.

### UK MR2-B – RWA Flow Statements of Market Risk Exposures under the IMA

SGKH does not use any models for any Market Risk calculations.

### UK MR3 – IMA Values for Trading Portfolios

SGKH does not use any models for any Market Risk calculations.

### UK MR4 – Comparison of VaR Estimates with Gains / Losses

SGKH does not use any models for any Market Risk calculations.



## 6. ANNEX XXXI – OPERATIONAL RISK

### 6.1. Table UK ORA – Operational Risk

*Risk management objectives and policies (Points (a), (b), (c) and (d) of Article 435(1) CRR)*

#### 1) Overview

Operational risk is one of the non-financial risks monitored by SGKH. Operational risk is the risk of losses resulting from inadequacies or failures in processes, personnel, or information systems, or from external events.

The operational risk classification is divided into eight event categories:

- Commercial litigation.
- Disputes with authorities.
- Errors in pricing or risk evaluation including model risk.
- Execution errors.
- Fraud and other criminal activities.
- Rogue trading.
- Loss of operating resources.
- IT System interruptions.

This classification ensures consistency throughout the system and allow for analysis on the following risks:

- risks related to information and communication technologies and security (cybercrime, IT systems failures, etc.);
- risks related to outsourcing of services and business continuity.
- risks related to the launch of new products/services/activities for customers.
- non-compliance risk (including legal and tax risks) represents the risk of legal, administrative, or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with national or European laws, regulations, rules, related self-regulatory organisation standards, and Codes of conduct applicable to its banking activities.
- reputational risk arises from a negative perception on the part of customers, counterparties, shareholders, investors, or regulators that could negatively impact SGKH's ability to maintain or engage in business relationships and to sustain access to sources of financing; and
- misconduct risk: risk resulting from actions (or inactions) or behaviour of SGKH or its employees inconsistent with the SG Group's Code of Conduct, which may lead to adverse consequences for our stakeholders, or place SGKH's sustainability or reputation at risk.

#### 2) Governance of Operational Risk Management

SGKH operational risk management framework is structured around a three-level system and is part of the internal control framework:

- a first line of defence (1LOD) in each department, responsible for applying the framework and putting in place controls (including managerial supervision and operational controls) that ensure risks are identified, analysed, measured, monitored, managed, reported and contained within the limits set by SGKH-defined risk appetite. This permanent control framework is supervised by SG Group's Normative Controls Library (NCL), which brings together, for the entire SG Group, the control objectives defined by the expertise functions, the business lines, in connection with the second lines of defence;
- a second line of defence (2LOD): the Operational Risk Department within the Risk Division. The Operational Risk Department:
  - conducts a critical examination of the department's management of operational risks (including fraud risk, risks related to information systems and information security, and risks related to business continuity and crisis management),

- implement regulations and procedures for operational risk systems of SG Group and produces risk and oversight indicators for operational risk frameworks.
- a third line of defence (3LOD) in charge of the periodic controls, carried out by the General Inspection and Audit Division of SG Group.

### 3) Monitoring process

The main frameworks for controlling operational risks are:

- *Collection of internal operational losses and significant incidents without any financial impact:* This monitors the cost of operational risks as they have materialised and establishes a historical data base for modelling the calculation of capital to be allocated to operational risk. It also allows for learning from past events to minimize future losses.
- *Analysis of external losses:* These are operational losses data shared within the banking sector. These external data include information on the amounts of actual losses, the importance of the activity at the origin of these losses, the causes and circumstances and any additional information that could be used by other establishments to assess the relevance of the event as far as they are concerned and enrich the identification and assessment of SGKH’s operational risk.
- *Risk and Control Self-assessment (RCSA):* Each manager assesses the exposure to operational risks of its activities within its scope of responsibility to improve their management. The method defined by the SG Group consists of taking a homogeneous approach to identifying and evaluating operational risks and frameworks to control these risks. It is based notably on

SG Group repositories of activities and risks. The objectives are:

- identifying and assessing the major operational risks (in average amount and frequency of potential loss) to which each activity is exposed (the intrinsic risks, i.e. those inherent in the nature of an activity, while disregarding prevention and control systems). Where necessary, risk mapping established by the functions (e.g. Compliance, Information Systems Security, etc.) contributes to this assessment of intrinsic risks;
- assessing the quality of major risk prevention and mitigation measures;
- assessing the risk exposure of each activity that remains once the risk prevention and mitigation measures are taken into account (the “residual risk”), while disregarding insurance coverage;
- remedying any shortcomings in the prevention and control systems, by implementing corrective action plans and defining key risk indicators; if necessary, in the absence of an action plan, risk acceptance will be formally validated by the appropriate hierarchical level.
- *Key Risk Indicators (KRIs):* This supplements the overall operational risk management system. The follow up provides a regular measure of improvement or deteriorations in the risk and the environment of prevention and control of activities within their scope of responsibility. This will also help the Senior Management proactively and prospectively manage their risks, factoring in their tolerance and risk appetite.
- *Analysis of Scenarios:* This informs SGKH of potential significant areas of risk and contributing to the calculation of the capital required to cover operational risks. Analysis allows for SGKH to build an expert opinion on a distribution of losses for each operational risk category and thus to measure the exposure to potential losses in scenarios of very severe severity, which can be included in the calculation of the prudential capital requirements.
- *New Product Committee (NPC):* Any plans for a new or change in product and services need to be approved by the NPC to ensure that all types of induced risks (among them, credit, market, liquidity and refinancing, country, operational, legal, accounting, tax, financial, information systems risks as well as the risks of non-compliance, reputation, protection of personal data, corporate social and environmental responsibility risks, etc.) have been identified, assessed and, if necessary, subjected to mitigation measures allowing the acceptance of residual risks.
- *Management of outsourced services:* Operational Risk associated are monitored and controlled.
- *Crisis Management and Business Continuity:* The aim is to minimize the impact of potential disasters on customers, staff, activities or infrastructures, and thus to preserve SGKH’s reputation and image as well as its financial strength.

#### 4) Measurement

##### **Approaches for the assessment of minimum own funds requirements (Article 446)**

SGKH uses the standardised approach in the calculation of RWA for Operational Risk in accordance with the Basel III regulations. In this approach, activities are divided into 8 business lines, as defined in detail in OPE25. The capital charge for each business line is calculated by multiplying gross income by a factor (denoted beta) assigned to that business line. Beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

### **6.2. Table UK ORI – Operational Risk Own Funds Requirements and Risk-Weighted Exposure Amounts**

£'000s Banking Activities	a	b	c	d	e
	Relevant Indicator			Own Funds Requirements	Risk Weighted Exposure Amount
	Year-3	Year-2	Last year		
1 Banking activities subject to basic indicator approach (BIA)					
2 Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	150,421	141,124	109,174	16,455	205,688
3 Subject to TSA:	150,421	141,124	109,174		
4 Subject to ASA:					
5 Banking activities subject to advanced measurement approaches AMA					

1. This template represents relevant indicator amounts from the years 2020 – 2022 formed basis of calculation for operational risk weighted exposure amounts also reported in template UK OV1. 2023 will be incorporated once the audited profits are included.

## 7. ANNEX XXXIII – REMUNERATION DISCLOSURES

The below disclosures are made in accordance with the PRA Rulebook Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD V) and the PRA and FCA rules for disclosure by Level 3 firms.

In line with the above regulations, the disclosures below provide information regarding the remuneration policies and practices for those staff whose professional activities have a material impact on the Bank’s risk profile. As well as those employed by SG Kleinwort Hambros Bank Limited (“SGKH”), these disclosures also cover employees of SG Kleinwort Hambros Bank (Channel Islands) Ltd (Jersey and Guernsey) and SG Kleinwort Hambros Bank (Gibraltar) Ltd.

The Bank has been confirmed by the PRA/FCA to be a proportionality Level 3 Remuneration Code firm.

### Article 450 (1)(a) CRR:

**Information concerning the decision-making process used for determining the remuneration policy including if applicable, information about the composition and the mandate of the remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders.**

#### Composition and the mandate of the ‘remuneration committee’

The Remuneration & Nomination Committee (the “Committee”) is appointed by the Board of SGKH and consists of Independent Non-Executive Directors chaired by the Chairman of the Board. This independence enables the Committee to exercise competent judgement on remuneration policies and incentives for managing risk and creation of value in line with the shareholder’s and other stakeholders’ expectations.

The Remuneration & Nomination Committee is responsible for determining the framework and broad remuneration policy for the Bank (taking into consideration the wider Société Generale Group (“SG Group”) remuneration policy, financial services industry standards, and PRA/FCA requirements.

The Remuneration Policy of the Bank is reviewed at least annually by the Remuneration & Nomination Committee to ensure it remains consistent with the FCA Remuneration Code (“Remuneration Code”) and the objectives of the Bank. In 2023, the Remuneration & Nomination Committee met 3 times.

The Remuneration Code applies to Remuneration Code Staff (“Code Staff”), also known as “Material Risk Takers” (“MRTs”). Using the definition of Material Risk Takers laid down by the European Banking Authority in the Technical Delegated Regulations (EU) for the Identification of MRTs issued under Article 94(2) of Directive 2013/36/EU (and updated in a supplement No 604/2014 and then further in June 2020), SGKH’s Code Staff are defined as Non-Executive Directors, Senior Management, SG Kleinwort Hambros Group Heads of significant functions (including control functions such as Risk, Operational Risk, Legal, Compliance and AML), Senior Managers of Private Banking and Trust teams and any employees receiving total remuneration that takes them into the same remuneration bracket as Senior Management, whose professional activities have a material impact on the Bank’s risk profile.

#### External consultant

The Committee has not sought to use external consultants to determine remuneration policy, but the Bank has sought advice from Linklaters LLP on certain regulatory issues.

#### Role of the relevant stakeholders

Material relevant stakeholders are considered to be the Regulators, Shareholders, customers, and employees. The Remuneration & Nomination Committee and attendees represent members of each of these stakeholder groups and the Remuneration & Nomination Committee considers the short and long term interests of stakeholders in the decision making process.

In addition, SGKH Risk, and Compliance departments were also involved in determining the Remuneration Policy for SGKH as follows:

- the Risk and Compliance departments reviewed the proposed Remuneration Policy before submitting it for approval of the Remuneration Committee;
- the Risk and Compliance departments reviewed the methodology and the result of the identification of KH MRTs on an annual basis; and
- SG Group Risk, Compliance and Audit departments independently assess risk management and compliance for each Business Unit and specific populations, feeding into the Annual Compensation Review process. In addition, they are involved in the selection of financial indicators used to determine collective remuneration pools. Where Risk, Compliance or Audit departments have concerns about the behaviour of specific groups or individuals concerned or the riskiness of the business undertaken, this is taken into account when setting individual remuneration. As such, these departments may raise an alert relative to risk taking, conflict of interest, treatment of clients or any other behavioural issue.

### **Article 450 (1)(b) CRR: Information on the link between pay and performance.**

#### **Main performance metrics for Firm, business line and individuals (not a detailed description of application)<sup>1</sup> in a combination of financial and non-financial criteria<sup>2</sup>**

Variable compensation structures across SG Group are designed to support sustainable and risk adjusted performance as well as individual job requirements.

SGKH operates a robust and effective performance management system that takes into account individual performance, behaviour and conduct against both financial and non-financial performance at an individual, Business Unit and Branch-wide level.

Individual performance objectives set are in accordance with the SMART method (the objectives are Specific, Measurable, Accessible, and Realistic and fixed within a Timeframe). This means that the objectives are clearly identified and can be assessed by indicators that are known to the employee.

All permanent employees are eligible for an annual discretionary bonus based on their performance, that of the department or Business Unit in which they work (with the exception of control functions), the overall performance of Group and the way in which these results were achieved. The award also takes into consideration the economic and competitive context. In order to avoid any conflicts of interest, variable remuneration is not directly or solely linked to the amount of revenues generated.

The calculation of bonus awards for individuals is undertaken annually and is linked to the following key factors:

- the employee's achievement if quantitative and qualitative objectives set at the beginning of the year. This is measured within 3 core objectives – behavioural, operational and job performance;
- the assessment of the employee's conduct, risk management behaviour, respect of internal procedures and compliance, and adherence to the Group Leadership Model values;
- input from control functions or other specific body; and
- Compensation practices and internal consistency.

The Bank does not have any executive Long-Term Incentive Plans however, employees are eligible for consideration for a discretionary grant under the Performance Shares Plan, subject to caps on the total amount granted. The Performance Shares granted are subject to a vesting period during which the performance shares are not vested and remain conditional to the achievement of specific conditions. During this period, the beneficiary only has conditional rights to the shares.

<sup>1</sup> CEBS Guidelines paragraphe 152

<sup>2</sup> Code Principles 12

## **Article 450 (1)(c) CRR: Design characteristics of the remuneration system**

Compensation for the majority of employees is made up of 3 key elements;

- Fixed compensation which may include the following components: fixed salary, permanent role-based allowances linked to position and allowances related to international mobility
- Benefits; and
- Variable compensation.

SGKH has in place a discretionary bonus plan for the benefit of its employees. The awards in this plan are linked to the employee's annual objectives with performance measured against specific financial and non-financial performance metrics, such as risk management and compliance. Bonus awards are variable remuneration as defined in the FCA Remuneration Code. Individual awards are split between amounts payable in March following the year to which the reward relates, and amounts deferred (in a mixture of cash and quasi-shares) for three years. For all staff, including Code Staff, deferral applies over a threshold amount; for 2023 this was GBP 85,000. The deferred amounts, and the final amounts paid out, are then subject to further conditions linked to the performance of the applicable business of SG Group.

Employees in Control Functions are paid independently of the performance of the business Units that they oversee and are assessed against objectives linked to the functions within which they work. Their remuneration is predominantly fixed and the decision-making process regarding their remuneration is independent and is designed to avoid conflicts of interest with the other business functions.

Guaranteed compensation awards made by SGKH will only be granted or paid in exceptional circumstances, in the context of hiring new employees and limited to the first year of service. They are approved in line with the Group delegation rules.

Discretionary payments linked to the early termination of an employment contract are under no circumstances set out contractually in advance. They are determined at the time the employee leaves the Bank taking into account legal constraints.

The ratio between fixed and variable remuneration for Material Risk Takers identified by SG Group, present in SGKH has been set at 2:1. Approval for this was obtained from the SG General Shareholders' Meeting of 20 May 2014.

For UK only regulated SGKH MRTs, the maximum ratio between fixed and variable was set based on the activities of the business and the wider Group rules.

### **Performance Measurement and Risk Adjustment**

For all staff whose variable remuneration is partially deferred, the vesting of the deferred variable remuneration component depends entirely on both (i) the fulfilment of financial performance conditions and (ii) appropriate risk management and compliance.

Financial performance conditions are based on SG Group's Core Tier One ratio and the profitability of the Group and the core business or activity. If performance conditions are not met each year, deferred variable compensation is partially or fully forfeited (malus principle).

Long-term incentive plans for Management are subject to TSR (Total Shareholder Return) relative performance conditions.

In addition, any excessive risk-taking or behaviour deemed unacceptable by Senior Management may lead to a reduction or non-payment of deferred variable compensation, or clawback.

**Description of how the firm will ensure total variable remuneration is generally contracted when firm performance is subdued or negative<sup>3</sup>**

The Bank's remuneration practices, policies and procedures aim to ensure that the remuneration arrangements properly take into account all types of risks, liquidity, and capital levels and that the remuneration is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, culture and values and the long-term interest of the Bank and the shareholders. As stated in the Bank's Remuneration Policy, the variable remuneration pool for SG Kleinwort Hambros Limited is generated based on performance indicators which take into account all costs and risks inherent to the activities (liquidity, credit, market, operational risks as well as capital requirements) of Global Banking & Investor Solutions ("GBIS"), the Wealth & Asset Management Business Unit and the specific business lines within SG Kleinwort Hambros Group. Market practices and trends, as well as the market environment and relative performance, are also taken into account. If the performance indicators of SG Group or the applicable Business Units, contracts, the allocation to SG Kleinwort Hambros Limited will be decreased accordingly.

<b>Article 450 (1)(g) CRR: Aggregate quantitative information on remuneration, broken down by business area.</b>	
<b>Business Area</b>	<b>Total Remuneration</b>
Management, Support and Control	£22,132,375
Business Lines	£52,834,116

*Note: The information above reflects actual paid in 2023 to employees (for joiners and leavers in 2023, the amounts included reflect the period employed in 2023 only).*

<b>Article 450 1(h) CRR: Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm.</b>				
	<b>Senior management - Supervisory</b>	<b>Senior management - Management</b>	<b>Other members of Code Staff</b>	<b>Totals</b>
Fixed remuneration	£396,000	£2,195,584	£4,292,293	£6,883,877
Variable remuneration	-	£1,490,000	£1,496,000	£2,986,000
Number of Staff	9	9	25	43

*Note: The information above include remuneration for SGKH Material Risk Takers performing executive roles related to SGKH but employed by SG London Branch. Figures in this table reflect annualised fixed compensation as at the end of 2023 (including for new joiners in 2023). For leavers in 2023, annualised fixed compensation as at the leave date is included.*

*Please note that, consistent with prior years, the figures above are inclusive of all SG Kleinwort Hambros Group entities including employees in the UK, Channel Islands, Gibraltar, and Ireland.*

SGKH does not have any identified staff earning greater than EUR 1M as set out in Article 450(i) CRR.

As per the proportionality levels set out in the PRA's supervisory statement on Remuneration (SS2/17) dated December 2021 and updated further in February 2023, SGKH is only required to disclose Articles 450(1)(a), 450(1)(b), 450(1)(g) and the first part of 450(1)(h) of the CRR. Therefore, templates for UK REM1, UK REM2 and UK REM3 have not been included as well as some additional components of UK REMA.

<sup>3</sup> Code Principle 8



## 8. APPENDIX 1 – GLOSSARY TABLE

Term	Definition
Additional Tier 1 Capital (AT1)	AT1 capital instruments are non-cumulative perpetual securities that contain a specific provision to write down the security or convert it to equity, should the CET1 ratio fall below a specified trigger limit.
Available Stable Funding (ASF)	An input to the calculation of NSFR. ASF is the bank's liabilities, weighted according to their expected stability, based on: <ul style="list-style-type: none"> <li>(a) Funding tenor – longer term liabilities are assumed to be more stable than short-term liabilities</li> <li>(b) Funding type and counterparty – short-term deposits provided by retail customers and funding provided by small business customers are behaviourally more stable than wholesale funding of the same maturity from other counterparties</li> </ul>
Basel II	The capital adequacy framework issued by the BCBS in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revisions.
Capital Buffers	<p><b>Capital conservation buffer</b> – A buffer set for all banks that can be used to absorb losses while avoiding breaching minimum requirements. It is designed to ensure that banks build up capital outside periods of stress which can be drawn down as losses are incurred.</p> <p><b>Countercyclical capital buffer</b> – A capital buffer to ensure eligible firms have a sufficient capital base to absorb losses in stressed periods. The CCyB aims to ensure that banking sector capital requirements take account of the macroeconomic financial environment in which banks operate. It enables the Bank of England's Financial Policy Committee to adjust the resilience of the banking system to the changing scale of risk the system faces over time.</p> <p><b>Systemic risk buffer</b> – A buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress. It is commensurate with the greater cost that their failure or distress would have for the UK economy. Firms with total assets less than £175bn are subject to a 0% SRB.</p> <p><b>PRA buffer</b> – A buffer set using supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources and taking account, where appropriate, of other factors including leverage, systemic importance and weaknesses in firms' risk management and governance.</p> <p>This is set on a firm-specific basis. Firms are not permitted to disclose if a PRA buffer has been applied.</p>
Capital Conservation Buffer (CCB)	See definition within 'Capital Buffers'
Central Counterparties (CCP)	CCPs place themselves between the buyer and seller of an original trade, leading to a less complex web of exposures. CCPs effectively guarantee the obligations under the contract agreed between the two counterparties, both of which would be participants of the CCP.



<b>Term</b>	<b>Definition</b>
Capital Requirements Directive IV (CRD IV)	European legislation to implement Basel III. It replaces earlier European capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III.'
Collateral	An item of value pledged to secure a loan. Collateral reduces the risk for lenders and if borrower defaults on the loan, the lender can seize the collateral and sell it to recoup losses.
Common Equity Tier 1 (CET1) Capital	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Common Equity Tier 1 (CET1) Ratio	CET1 Capital divided by Risk Weighted Exposure Amount (RWEA) on given reporting date.
Countercyclical Capital Buffer (CCyB)	See definition within 'Capital Buffers'
Counterparty Credit Risk (CCR)	Counterparty credit risk is the risk that a counterparty to a transaction may default before the final settlement of the transaction's cash flow. This risk concerns financial instruments, including derivatives and repurchase agreements.
Credit Conversion Factor (CCF)	Credit conversion factors are used in determining the exposure at default in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.
Credit Risk Mitigation (CRM)	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
Default	A customer is in default when either they are more than 90 DPD on a credit obligation to the Group or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
Derivative	A financial instrument that is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at Default	An estimate of the amount expected to be owed on a credit risk exposure at the time of default.
External Credit Assessment Institutions (ECAI)	ECAI include external credit rating agencies such as Moody's, Fitch, and S&P.
Fair Value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.
Financial Conduct Authority (FCA)	Conduct regulator for all financial services firms and financial markets in the UK and the prudential regulator for a minority of those firms.
Financial Policy Committee (FPC)	A committee established by the Bank of England to identify, monitor and take action to remove or reduce systemic risks and protect or enhance the resilience of the UK financial system.

<b>Term</b>	<b>Definition</b>
Group	SG Kleinwort Hambros Ltd and all its controlled entities.
Global-Systemically Important Banks (G-SII)	Global financial institutions whose size, complexity and systemic interconnectedness, mean that their distress or failure would cause significant disruption to the wider financial system and economic activity.
High-Quality Liquid Assets (HQLA)	Assets that are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value.
IFRS 9	The new financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
Liquidity Coverage Ratio (LCR)	The proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations. Calculated by dividing HQLA's by total net cash flows.
Leverage Ratio	This is a regulatory standard ratio proposed by Basel III as a supplementary measure to the risk-based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items plus derivatives.
Liquidity Risk	Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost.
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	MREL is a minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that when an institution fails, the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business. The BoE set out its approach to setting banks' MREL in November 2016.
Net Stable Funding Ratio (NSFR)	A liquidity standard requiring banks to hold enough stable funding to cover the duration of their long-term assets.
Other Systemically Important Institutions (O-SII)	Other systemically important institutions are institutions that are deemed to create risk to financial stability due to their systemic importance.
Pillar 1	The quantitative elements of the Basel III framework including the minimum regulatory capital requirements for credit, operational and market risks.
Pillar 2	The qualitative expectations of the Basel III framework to be met through the supervisory review process. This includes the ICAAP, governance process and the supervisory review and evaluation process.
Pillar 3	The final pillar of the Basel III framework which aims to encourage market discipline by improving the information made available to the market. This pillar sets out disclosure requirements for banks on their capital, risk exposures and risk assessment processes.
Prudential Regulation Authority (PRA)	Entity of the BoE responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
PRA Buffer	See definition within 'Capital Buffers'
Regulatory Capital	The capital which banks hold, determined in accordance with rules established by the relevant regulatory bodies.
Required Stable Funding (RSF)	An input to the calculation of NSFR. It is the amount of available stable funding required to match with assets that would have to be funded, either because they will be rolled over, or because they could not be monetised rapidly without a significant change in value.

<b>Term</b>	<b>Definition</b>
Risk-Weighted Exposure Amount (RWEA)	On and off-balance sheet assets of the Group are allocated a risk-weighting based on the amount of capital required to support the asset.
Securities Financing Transaction (SFT)	Repurchase transactions, securities or commodities lending or borrowing transactions or other capital market driven transactions.
Standardised Approach (SA)	In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Systemic Risk Buffer (SRB)	See definition within 'Capital Buffers'
Supervisory Review and Evaluation Process (SREP)	Supervisors assess the risks banks face and check that banks are equipped to manage those risks properly. It allows banks' risk profiles to be assessed consistently and decisions about necessary supervisory measures to be taken.
Tier 1 Capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 Capital Ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 Capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment provisions and other Tier 2 securities as defined by CRD IV.

## 9. APPENDIX 2 – ABBREVIATIONS TABLE

Abbreviation	Meaning
1 LOD	First Line of Defence
2 LOD	Second Line of Defence
3 LOD	Third Line of Defence
ABS	Asset-Backed Securities
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
BAC	Board Audit Committee
BCBS	Basel Committee on Banking Supervision
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
BOE	Bank of England
CCF	Credit Conversion Factor
CCyB	Countercyclical Capital Buffer
CEM	Current Exposure Method
CRD	Capital Requirement Directive
CRM (Credit Risk)	Credit Risk Mitigation
CRM (Market Risk)	Comprehensive Risk Measure
CRR	Capital Requirement Regulation
EAD	Exposure at Default
ECB	European Central Bank
EL	Expected Loss
EU	European Union
EXCO	Executive Committee
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FX	Foreign Exchange
GBIS	Global Banking & Investor Solutions
GERC	Group Risk Executive Committee
G-SII	Global Systemically Important Institution
HQLA	High Quality Liquid Assets
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LREQ	LREQ firm means a firm or CRR consolidation entity to which the minimum requirements of the Leverage Ratio – Capital Requirements and Buffers Part of the PRA Rulebook applies.
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRT	Material Risk Takers
MTM	Mark-to-Market
NCL	Normative Controls Library
NPC	New Product Committee
NPE	Non-Performing Exposures
NPV	Net Present Value
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
OSII	Other Systemically Important Institutions
PRA	Prudential Regulation Authority
PS	Policy Statement
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
ROE	Return on Equity
RW	Risk Weight
RWA	Risk-Weighted Assets
SA-CCR	Standardised Approach for Counterparty Credit Risk

Abbreviation	Meaning
SG	Société Générale
SGKH	Société Générale Kleinwort Hambros Bank Ltd
RWEA	Risk-Weighted Exposure Amount
SREP	Supervisory Review and Evaluation Process
SYSC	Senior Management Arrangements, Systems and Controls
YTD	Year to Date

## 10. APPENDIX 3 – INDEX OF DISCLOSURE REQUIREMENTS

The table below shows the relevant CRR articles that have been compiled with in respect to the preparation of this Pillar 3 Disclosure report.

CRR Article	Theme	Pillar 3 Report Reference	Page in Pillar 3 Report
Art.438 (d)	Overview of RWEA	Section 2.1	Page 9
Art.447 (a) to (g) & Art.438 (b)	Key Metrics	Section 2.2	Page 10
Art. 438 (a)	ICAAP Information	Section 2.3	Page 11
Art. 435(1) (a) to (f)	Risk Management Approach	Section 3.1	Page 11 – 15
Art. 435(2) (a) to (e)	Governance Arrangements	Section 3.2	Page 15 – 16
Art. 437 (a), (d), (e) & (f)	Regulatory Own Funds	Section 4.1	Page 17 – 18
Art. 437 (a), (d), (e) & (f)	Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements	Section 4.2	Page 19 – 20
Art. 437 (b) & (c)	Main Features of Regulatory Own Funds Instruments	Section 4.3	Page 20 – 21
Art. 435(1) (a) to (d)	Disclosures related to Market Risk	Section 5.1	Page 22 – 23
Art. 435(1) (a) to (d) & Art. 446	Information on Operational Risk	Section 6.1	Page 24 – 26
Art. 435, 438 (d), 446 & 454	Operational Risk Own Funds Requirement and RWEA	Section 6.2	Page 26
Art. 450(1) (a)	Decision Making Process used for determining Remuneration Policy	Section 7	Page 27 – 28
Art. 450(1) (b)	Link between Pay and Performance	Section 7	Page 28
Art. 450(1) (c)	Design characteristics of the Remuneration system	Section 7	Page 29 – 30
Art. 450(1) (g)	Information on remuneration, broken down by business area	Section 7	Page 30
Art. 450(1) (h)	Information on Remuneration broken down by Senior Management & Other staff	Section 7	Page 30