Schroder & Co Bank AG
Annual Report 2017

2017

Wealth Management

Content

Management report

Looking back over 2017, it has been a truly remarkable year for geopolitical and economic developments. Nevertheless, markets have remained sanguine, generating reasonable investment returns while volatility in 2017 was at its lowest in over 25 years. We have also witnessed a globally synchronised economic recovery with generally lower unemployment rates, low inflation and low interest rates.

Against this backdrop, the Bank's assets under management rose from CHF 6 billion in the previous year to CHF 6.25 billion. This was due not only to stock markets returns but also to the Bank's strong investment performance, ahead of both benchmarks and peer groups. Interest income increased by CHF 0.9 m in 2017, reflecting the higher level of interest rates. Income from the Bank's insourcing activities continued to develop positively and grew from CHF 34.5 million in the previous year to CHF 36.5 million.

Profit for the year was CHF 6.5 million, down from CHF 7.8 million in 2016 which benefitted from a high level of private equity related performance fees. Operating expenses increased as a result of further investment in the Bank's Service Centre. We have also embarked on a substantial programme of investment to enhance our digital presence over the next few years. The most obvious manifestation is the changes we are making to our client portal, "eServices". These investments will support further growth in the division in the future. The number of employees has remained stable at an average of 225.7 full-time equivalent employees (including trainees, interns and temporary employees).

The Board of Directors proposes to the General Meeting the distribution of an ordinary dividend of CHF 3 million. It also proposes the allocation of CHF 3.5 million to "Voluntary retained earnings reserves" and that the profit remaining of CHF 77 thousand be carried forward. As a result, the Bank's reported equity capital after payment of the dividend will rise to CHF 145.5 million.

The Board of Directors of Schroder & Co Bank AG has the ultimate responsibility for the Bank's risk framework, risk assessment and internal controls. It approves the risk policy and is responsible for supervising its implementation. The duty to implement the risk policy sits with the Executive Board. The independent risk control function monitors the risk profile of the Bank. Further detailed information on the risk management of the Bank is available in the section "Risk Management" (pages 11 – 13).

In 2018 we will continue to focus on investment performance levels and on delivering sustainable high quality services to our clients. This includes a newly introduced more sophisticated advisory service which has proved popular with our clients in Switzerland and which we now expect to expand to clients in other jurisdictions. Our long-term business approach and financial stability are the pillars upon which we will carry on growing our business.

On behalf of the Board of Directors, I would like to thank our clients for their continued trust as well as our employees for their hard work and dedication.

Andrew Ross
Chairman of the Board of Directors

1 Balance sheet

as at 31 December 2017

CHF	Note	2017	2016
Assets			
Liquid assets		612 714 777	590 127 721
Amounts due from banks		452 440 009	597 810 803
Amounts due from securities financing transactions	4.8.1	152 563 250	240 934 415
Amounts due from customers	4.8.2	292 893 223	251 371 834
Positive replacement values of derivative financial instruments	4.8.3	6 195 000	9 601 353
Financial investments	4.8.4, 4.8.8	35 299 812	23 707 038
Accrued income and prepaid expenses		12 049 932	13 184 871
Participations	4.8.5	100 000	756 235
Tangible fixed assets	4.8.6	1	1
Intangible assets		1	1
Other assets	4.8.7	345 133	368 066
Total assets		**1 564 601 138**	**1 727 862 338**
Liabilities			
Amounts due to banks		4 294 821	27 030 315
Amounts due to customers		1 382 885 518	1 522 979 120
Negative replacement values of derivative financial instruments	4.8.3	5 807 784	7 709 026
Accrued expenses and deferred income		18 187 995	18 051 776
Other liabilities	4.8.7	823 561	1 143 674
Provisions	4.8.11	4 124 866	4 984 513
Share capital	3, 4.8.12	60 000 000	60 000 000
Statutory retained earnings reserve	3	29 400 000	29 300 000
Voluntary retained earnings reserves	3	52 500 000	48 800 000
Profit carried forward	3	63 914	66 157
Profit		6 512 679	7 797 757
Total liabilities		**1 564 601 138**	**1 727 862 338**
Off-balance-sheet transactions			
Contingent liabilities	4.8.2, 4.9.1	8 383 503	10 735 960
Irrevocable commitments	4.8.2	2 010 000	2 220 000

2 Income statement

for the period from 1 January to 31 December 2017

CHF	Note	2017	2016
Result from interest operations			
Interest and discount income	4.10.2	9 913 069	9 037 861
Interest and dividend income from financial investments		45 538	73 958
Interest expense	4.10.2	(319 189)	(535 919)
Gross result from interest operations		**9 639 418**	**8 575 900**
Changes in value adjustments for default risks and losses from interest operations	4.8.11	(208 335)	(2 800)
Subtotal net result from interest operations		**9 431 083**	**8 573 100**
Result from commission business and services			
Commission income from securities trading and investment activities		39 471 638	41 793 985
Commission income from lending activities		155 118	176 432
Commission income from other services		581 461	728 895
Commission expense		(11 353 645)	(11 785 513)
Subtotal result from commission business and services		**28 854 572**	**30 913 799**
Result from trading activities and the fair value option	**4.10.1**	**3 932 307**	**4 783 486**
Other result from ordinary activities			
Result from the disposal of financial investments		86 463	615 733
Income from participations		510 636	810 880
Result from the Bank's insourcing activities		36 506 457	34 534 743
Other ordinary expenses		(5 478)	(4 061)
Subtotal other result from ordinary activities		**37 098 078**	**35 957 295**
Operating expenses			
Personnel expenses	4.10.3	(50 113 178)	(48 296 311)
General and administrative expenses	4.10.4	(19 037 052)	(19 621 749)
Subtotal operating expenses		(69 150 230)	(67 918 060)
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	4.8.5, 4.8.6	(19 332)	(343 765)
Changes to provisions and other value adjustments, and losses	4.8.11	(1 620 453)	(1 920 820)
Operating result		**8 526 025**	**10 045 035**
Extraordinary income	4.10.5	0	59 940
Taxes	4.10.6	(2 013 346)	(2 307 218)
Profit (result of the period)		**6 512 679**	**7 797 757**

Appropriation of profit

Profit		6 512 679	7 797 757
Profit carried forward		63 914	66 157
Distributable profit at the disposal of the General Meeting	**3**	**6 576 593**	**7 863 914**
Appropriation of profit			
Allocation to statutory retained earnings reserve		0	(100 000)
Allocation to voluntary retained earnings reserves		(3 500 000)	(3 700 000)
Distributions from distributable profit		(3 000 000)	(4 000 000)
New amount carried forward		**76 593**	**63 914**

3 Statement of changes in equity

CHF 1000

	Share capital	Statutory retained earnings reserve	Voluntary retained earnings reserves and profit carried forward	Result of the period	Total
Equity at the beginning of 2017	**60 000**	**29 300**	**48 866**	**7 798**	**145 964**
Allocations to the voluntary retained earnings reserves	0	0	3 698	(3 698)	0
Allocations to the statutory retained earnings reserve	0	100	0	(100)	0
Dividends	0	0	0	(4 000)	(4 000)
Profit 2017	0	0	0	6 513	6 513
Equity at the end of 2017	**60 000**	**29 400**	**52 564**	**6 513**	**148 477**

4 Notes

4.1 General

Schroder & Co Bank AG is a wholly-owned subsidiary of Schroder Wealth Holdings Limited, London, whose parent company is a wholly-owned subsidiary of Schroders plc, London. In addition to the head office in Zurich, the Bank has a branch office in Geneva.

The business activities of the Bank are described below. There are no further business activities that would significantly impact the Bank's risk and income situation.

Fee and commission business

The Bank's principal line of business is investment management for both domestic and foreign clients.

Asset management, trustee, custodian and credit operations are the main contributors to commission and service fee revenues.

Banking activities

The Bank's main balance-sheet activities are the client-lending business and interbank operations.

Loans to clients are mainly granted on the basis of Lombard coverage.

Trading activities

Trading comprises mainly trading for the accounts of clients in interest rate products, securities and foreign exchange, and to a limited extent proprietary trading.

Insourcing business

The Bank renders securities administration, funds transfer, accounting and IT services centrally. These services are being offered to other Schroder Group companies (currently Schroder & Co. Limited, London, Schroders (C.I.) Limited, Guernsey, Schroder & Co. (Asia) Limited, Singapore, Schroder Wealth Management (US) Ltd). To Schroder Investment Management (Switzerland) AG, Zurich and Secquaero Advisors AG the bank renders HR, IT and selected internal services. These services are charged at market rates.

Outsourcing

The Bank has an outsourcing agreement with the company Finastra Switzerland GmbH for running the interbank applications SIC, EuroSIC, Swift and Secom. Finastra's role is limited to providing electronic access to the above-mentioned interbank services.

Staff

At the end of the business year, the Bank had 198 full-time and 38 part-time employees, plus 7 trainees/interns, for a total of 243 (or 232.0 full-time equivalent positions; prior year 229.6 full-time equivalent employees; on average 225.7 fulltime equivalent employees).

4.2 Accounting and valuation policies

General principles

The accounting and valuation principles are based on the Code of Obligations, the Banking Act and its related Ordinance, as well as the accounting rules for banks, securities dealers, financial groups and conglomerates according to FINMA circular 2015/1. The accompanying reliable assessment statutory single-entity financial statements present the economic situation of the Bank such that a third party can form a reliable opinion. The financial statements are allowed to include hidden reserves.

In the notes, individual figures are rounded for publication, but the calculations are based on precise figures, thus small differences can arise.

As per Article 35 of the Swiss Banking Ordinance, consolidated financial statements have not been prepared.

Accounting and valuation policies

The financial statements are prepared on the assumption of an ongoing concern. The accounting is, therefore, based on going-concern values.

The disclosed balance-sheet items are valued individually. The transitional provision, which requires the individual valuation of equity participations, tangible fixed assets and intangible assets as of 1 January 2020, is not applied.

There has not been any offsetting or netting of assets and liabilities or income and expenses, with the exception of the deduction of value adjustments from the corresponding asset item.

Business risks are covered by adequate provisions.

Recording of transactions

All business transactions concluded up to the balance-sheet date are recorded as of their trade date (trade date accounting) and valued according to the above-mentioned principles. Any money market, foreign exchange spot transactions and foreign exchange forwards entered into but not yet fulfilled are recorded in accordance with the settlement date accounting method. Between the trade date and the settlement date, these transactions are disclosed at replacement value via the item “Positive replacement values of derivative financial instruments” or “Negative replacement values of derivative financial instruments”.

Valuation principles

The most important accounting policies and valuation principles are shown below.

a) Liquid assets
Liquid assets are recognised at their nominal value.

b) Securities financing transactions
Repurchase transactions (repos) are recorded as cash deposits with own securities as collateral. Reverse-repurchase transactions (reverse repos) are treated as receivables against collateral in the form of securities. The exchanged cash amounts are recorded at nominal value on the balance sheet.

Securities received and delivered are not recognised or derecognised in the balance sheet until the economic control of the contractual rights comprised in the securities is transferred. Interest amounts collected or paid are recorded in the corresponding lines of the income statement.

c) Amounts due from banks and due from customers
Amounts due from banks and amounts due from customers are recognised at their nominal value less any necessary value adjustments.

Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

Doubtful receivables, i.e. obligations entered into with clients for whom the debtor is unlikely to meet its future obligations, are valued individually and depreciated by means of individual value adjustments. The depreciation of doubtful receivables is determined by the difference between the book value of the receivable and the anticipated recoverable amount.The anticipated recoverable amount is the liquidation value (estimated net realisable value minus the costs of retention and liquidation).

Impaired loans, i.e. loans that are unlikely to be repaid by the debtor, are valued individually. A specific value adjustment is made for the estimated shortfall against nominal value in capital and interest. Loans are considered impaired at the latest when the contractual payments for capital and/or interest have been overdue for more than 90 days. Interest accrual is suspended if recovering interest is so unlikely that an accrual no longer makes sense.

If a receivable is classed as entirely or partially irrecoverable, or a receivable is waived, the receivable is derecognised by booking it against the corresponding value adjustment. If recovered amounts from receivables written off in earlier periods cannot be used immediately for other value adjustments of the same type, they are recognised in “Change in value adjustments for default risk and losses from interest operations” in the income statement.

Doubtful receivables are reclassified as performing if the outstanding amount of capital and interest are paid again on time according to the contractual agreements and other creditworthiness criteria. Value adjustments are released with an effect on income via the item “Change in value adjustments for default risk and losses from interest operations”.

d) Financial investments
Debt securities to be held until maturity are valued at amortised cost. Any premium or discount is amortised over the life of the security. The valuation is based on the acquisition cost principle with the agio/disagio (premium/discount) accrued/deferred over the residual term to maturity (accrual method) via the position “Financial Investments”. Value adjustments for default risk are recorded immediately under “Changes in value adjustments for default risk and losses from interest operations”.

If held-to-maturity financial investments are sold or reimbursed early, the realised gains and losses, which correspond to the interest component, are accrued/deferred over the residual term to maturity of the transaction.

Own physical stocks of precious metals that serve as collateral for liabilities from precious metals trading accounts are valued at fair value. The value adjustments arising from a subsequent valuation are recorded for each balance via the item “Other ordinary expenses” or “Other ordinary income”.

e) Participations
Participations are valued at historical cost less any impairment. Realised gains from the sale of participations are recorded via the item “Extraordinary income” and realised losses are recorded via the item “Extraordinary expense”.

f) Tangible fixed assets
Tangible fixed assets are recognised at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the useful life.

Each tangible fixed asset is tested for impairment as of the balance-sheet date. This test is based on indicators reflecting a possible impairment of individual assets impaired. If any such indicators exist, the recoverable amount is calculated for each individual asset. An asset is impaired if its carrying amount exceeds its recoverable amount.

If the asset is impaired, the book value is reduced to match the recoverable value and the impairment is charged via the item “Value adjustments on participations and amortisation of tangible fixed assets and intangible assets”.

If the impairment test shows that the operating life of an intangible asset has changed, the residual carrying amount should be depreciated systematically over the newly estimated useful life.

Realised gains from the sale of tangible fixed assets are recorded via the item “Extraordinary income” and realised losses are recorded via the item “Extraordinary expense”.

Useful life of the various fixed assets:
Information technology (hardware and software): three years
Cars: four years

g) Amounts due to banks and amounts due to customers
Amounts due to banks are valued at their nominal value. Precious metals customer accounts are valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

h) Foreign currencies
Transactions in foreign currencies are converted at the mid exchange rates ruling at the daily balance-sheet date. Foreign exchange positions in the balance sheet are translated at the closing exchange rates at the balance-sheet date and revalued against the income statement. Forward foreign exchange transactions are valued at the forward market rates prevailing at the balance-sheet date. The result of the revaluation is taken to the income statement.

The main conversion rates applied are listed below:

	2017	2016
EUR	1.1709	1.0723
GBP	1.3175	1.2535
USD	0.9739	1.0162
JPY	0.8642	0.8700

i) Provisions

Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a corresponding provision must be created.

Existing provisions are reassessed at each balance-sheet date. Based on this reassessment, the provisions are increased, left unchanged or released. Positions are recorded via the account "Changes to provisions and other value adjustments, and losses".

Based on the principle of prudence, the Bank establishes provisions within liabilities for contingent risks. The provisions may contain hidden reserves.

j) Taxes

Current income taxes are recurring, usually annual, taxes on profits and capital. Transaction-related taxes are not included in current taxes.

Liabilities from current income and capital tax are disclosed via the item "Accrued liabilities and deferred income".

k) Derivative financial instruments

Derivative financial instruments are used by the Bank for asset and liability management and for securities and foreign exchange dealing. They are used both for proprietary trading and for trading for the accounts of clients. Valuation is in accordance with the purposes for which they were originally acquired.

Derivatives for trading purposes

These derivatives are valued at fair value. Positive and negative replacement values are included within "Positive / Negative replacement values of derivative financial instruments". Gains / losses are included within "Result from trading activities and the fair value option".

Derivatives for hedging purposes

The Bank may use derivatives for hedging purposes in the Asset & Liability Management process in order to protect itself against interest and foreign exchange risks. Hedging transactions are valued in the same way as the hedged item. The gain/loss of the hedging transaction is booked in the same income statement account as the hedged item's result. The result of the hedging transaction is booked against the compensation account, in case that the hedged item should not be revalued during the lifetime, of the hedging contract. The net balance of the compensation account is included in "Other assets / liabilities".

Hedges and the goals and strategies of hedging operations are documented by the Bank at the conclusion of a derivative hedging transaction. The effectiveness of the hedge is regularly reviewed. If the hedge is no longer or only partially effective, the part of the hedging transaction that is no longer effective is treated like a trading operation.

l) Pension benefit obligations

The employees of Schroder & Co Bank AG benefit from two pension plans. The BVG pension fund provides the minimum benefits mandated by law. The Pension Plan Foundation (Vorsorgestiftung) of Schroder & Co Bank AG grants benefits for that part of the salary above the requirements set out in the BVG law.

The pension fund liabilities and the assets serving as coverage are separated out into legally independent foundations. The organisation, management and financing of the pension funds comply with the legal requirements, the deeds of foundation and the current pension fund regulations. The Bank's pension funds are defined contribution plans.

The employer contributions arising from the pension funds are included in “Personnel expenses” on an accrual basis. The Bank assesses whether there is an economic benefit or economic obligation arising from the pension funds as of the balance-sheet date. The assessment is based on the contracts and the most recent financial statements of the pension funds (established under Swiss GAAP FER 26) as well as the actual over- or underfunding for each pension fund.

Should a pension plan be underfunded, an economic obligation would arise where the conditions exist for the creation of a provision. The Bank refers to a pension fund expert to assess whether a benefit or an obligation exists for each pension fund.

The BVG pension fund of Schroder & Co Bank AG has insurance to cover the longevity risk of its members. Furthermore, the BVG pension fund of Schroder & Co Bank AG has received a guarantee from the Pension Plan Foundation (Vorsorgestiftung) of Schroder & Co Bank AG in order to protect itself against any possible underfunding.

m) Equity-based compensation schemes

The Equity Compensation Plan (ECP) is the Group’s main deferral arrangement for annual bonus awards. ECP awards relate to the past year’s performance and are not subject to any further performance conditions. In order to provide an incentive to stay at Schroders, ECP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the third anniversary of grant in order to vest in full.

The Equity Incentive Plan (EIP) is an additional deferred remuneration plan, used to recognise exceptional performance and potential. EIP awards do not give rise to any immediate entitlement and require the participant to be employed continuously by the Group until the fifth anniversary of grant. Malus and clawback terms apply in a similar way to ECP and EIP.

These deferred remuneration plans are centrally administered and settled by the Schroders Group. These liabilities are valued at their fair value at the grant date. Schroder & Co Bank AG then records them in the items “Personnel expenses” and “Accrued expenses and deferred income” over the vesting period. As the market risk is borne by the employee and the total amount is known and hedged, the Bank does not revalue the liability. Any adjustments (termination of employment etc.) are recorded through income. Comprehensive details of the design of the equity-based compensation scheme can be found in the Schroders Group’s Financial Statement.

4.3 Risk management

Risk assessment

The Board of Directors reassesses the Bank’s risks each year (in particular with respect to credit, market, liquidity and operational risks). The effectiveness of the limit system and the controls are also evaluated. The Organisation and Management Regulations ensure that the Board of Directors is always adequately informed of the risk situation and that the authority for decisions in this area remains within the Board of Directors’ responsibility.

Details on risk management

The risk management procedures and the ongoing monitoring are delegated to committees. The Asset & Liability Management Committee is responsible for monitoring market risk, interest rate risk and liquidity risk. This includes the selection and monitoring of banks, brokers and custodians. In addition it monitors the adherence to the capital and large exposure regulations.

The interest rate risk arising out of the balance sheet and off-balance-sheet positions is monitored and managed centrally. It is managed using calculations of the net present value effect on shareholders equity and the net income effect under various interest rate assumptions. The ability to meet obligations is monitored and ensured within the framework defined in the bank law and by the Group. Internal audit regularly audits internal controls and issues reports to the Board of Directors.

Credit risks are subject to specific monitoring by the Credit Committee and the Credit Department. Loan collateral is valued at fair value. The collateral rates are set forth in predefined procedures.

Operational risk

Operational risks are defined as the risks of losses due to the inadequacy or failure of internal policies, people and systems or due to external events. The Bank identifies, measures and manages the following categories of operational risk: Internal/External Fraud; Clients, Products and Business Practice; Execution, Delivery and Process Management; Business Disruption and System Failures; Employment Practices and Workplace Safety.

The Bank employs a "three lines of defence model" to direct its internal control framework, ensure its effective operation and facilitate appropriate escalation.

As the first line of defence, the Executive Board and all levels of management take the lead role with respect to implementing appropriate controls across the business to maintain the quality standards expected by clients and regulators. Line management is supplemented by internal or Group-internal oversight functions (i. e. Risk, Financial Control, Compliance and Legal both at local and Group level) that provide a second line of defence. Finally, Group Internal Audit has a dedicated audit team for the Wealth Management Division as a third line of defence.

In connection with the local capital adequacy calculation and reporting, the Bank applies the Basis Indicator Approach and holds relevant capital to cover operational risks closely linked to the revenues generated by the Bank. The Bank uses a variety of instruments for identification, measurement and management with the following being the main instruments: Internal Capital Adequacy Process (ICAAP), Risk Control Assessments (RCA), Fraud Risk Assessments, Risk Event Policy, Business Continuity Concept, International Standards on Assurance Engagement 3402 reporting (ISAE 3402 Type II).

The Bank has defined procedures, responsibilities and implementation in the policy "Operational Risk Management Framework".

Liquidity risk

Liquidity risk is the risk that the Bank might not be able to meet its present and future payment obligations on a timely basis under either normal or stressed conditions or fails to meet the liquidity requirements imposed by banking regulations.

The Bank and its subsidiaries take a prudent approach to cash management by choosing first-class counterparties. Our emphasis is on safeguarding our commitments to clients, in normal and stress situations alike. We moreover seek to match resources to their use, in terms of both duration and maturities.

The Bank has a "Treasury Liquidity and Dealing Policy" as well as a "Business & Risk Policy" which define the risk governance principles, the calculation methodology and the respective limits which take account of the qualitative and quantitative requirements of Basel III and FINMA. Management conducts a yearly Individual Liquidity Adequacy Assessment (ILAA) which covers different aspects of qualitative and quantitative liquidity risk.

The Bank also calculates the standardised Liquidity Coverage Ratio (LCR) on a daily basis and additionally runs a set of liquidity stress test scenarios. The results of these tests are reported regularly to the Asset Liability Management Committee (ALMC).

4.4 Methods used for measuring counterparty risks and assessment of required loan value adjustments

Lombard loans

Credit exposures and the value of related collaterals are monitored daily. Should any loan value fall below its collateral value, further collateral or a reduction of the loan is required. Should net exposure increase or market conditions in collateral markets deteriorate significantly, collaterals will be realised and the loan will be recovered.

Process for determining value adjustments

Loans deemed to be non-performing are valued individually and specific loan value adjustments are established based on the above mentioned procedures. Existing value adjustments are subjected to a reassessment on each balance-sheet date. Based on this assessment, they are increased, remain unchanged or released. The Credit Committee assesses and approves the value adjustments. In accordance with the approval hierarchy, value adjustments are approved by the Executive Directors or the Board of Directors.

4.5 Valuation of collateral of Lombard loans

Primarily, transferable financial instruments that are liquid and actively traded are used for Lombard loans. Transferable structured products, for which there is regular market information and a market maker, are also accepted.

The Bank applies a discount to the market value in order to cover the market risk relating to marketable liquid securities and to calculate the value of the collateral. For structured products and products with long residual terms to maturity, the closing out period can be significantly longer, hence, higher discounts are applied to them than those applied to liquid instruments.

4.6 Business policy regarding the use of derivative financial instruments

Derivative financial instruments are used for trading and are traded exclusively by specially trained traders. The Bank does not have any market-making activities. Standardised and OTC instruments are traded on behalf of clients, especially interest-, currency- and equity / index-based instruments and, to a limited extent, those based on commodities. There is no trading in credit derivatives.

Derivative financial instruments can be used by the Bank for risk management purposes, mainly to hedge against interest rate and foreign currency risks. Hedging transactions are concluded exclusively with external counterparties.

4.7 Material events after the balance-sheet date

No events occurred after the balance-sheet date that could have a material impact on the financial position of the Bank as of 31 December 2017.

4.8 Information on the balance sheet

4.8.1 Securities financing transactions (assets and liabilities)

CHF 1000	2017	2016
Book value of receivables from cash collateral delivered in connection with reverse repurchase transactions	152 563	240 934
Fair value of securities received and serving as collateral in connection with reverse repurchase agreements with an unrestricted right to resell or re-pledge	152 984	241 141
– *of which, re-pledged securities*	*0*	*0*
– *of which, resold securities*	*0*	*0*

4.8.2 Collateral for loans and off-balance-sheet transactions, as well as impaired loans

Collateral for loans and off-balance-sheet transactions

CHF 1000		Type of collateral			
		Secured by mortage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		0	168 394	124 713	293 107
Total loans (before netting with value adjustments)	**31.12.17**	**0**	**168 394**	**124 713**	**293 107**
	31.12.16	0	170 639	80 943	251 582
Total loans (after netting with value adjustments)	**31.12.17**	**0**	**168 394**	**124 499**	**292 893**
	31.12.16	0	170 639	80 733	251 372

In 2016 Schroder & Co Bank AG started lending to Swiss top-rated Cantons on an unsecured basis (currently CHF 100m). SIX SIS AG changed its license status at the end of 2017 resulting in additional CHF 23.7m unsecured exposures in "Amounts due from customers" posted mainly as collateral.

Off-balance sheet

		Secured by mortage	Other collateral	Unsecured	Total
Contingent liabilities		0	8 363	21	8 384
Irrevocable commitments		0	0	2 010	2 010
Total	**31.12.17**	**0**	**8 363**	**2 031**	**10 394**
	31.12.16	0	10 715	2 241	12 956

CHF 1000		Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Impaired loans	**31.12.17**	**214**	**0**	**214**	**214**
	31.12.16	210	0	210	210

4.8.3 Derivative financial instruments (assets and liabilities)

CHF 1000

		Positive replacement values	Negative replacement values	Contract volume
Foreign exchange/precious metals				
Forward contracts		5 945	5 558	889 137
Options (OTC)		250	250	40 922
Total	**31.12.17**	**6 195**	**5 808**	**930 059**
	31.12.16	9 601	7 709	1 278 228

The above outstanding derivative instruments are held for trading purposes. Market/counterparties' prices are used for valuation purposes. External OTC derivative financial instruments' valuations are periodically checked against own valuations. No netting agreements are in place.

Breakdown by counterparty

CHF 1000

	Banks and securities dealers	Other customers	**Total**
Positive replacement values	4 941	1 254	**6 195**

4.8.4 Financial investments

Breakdown of financial investments

CHF 1000	2017 Book value	2016 Book value	2017 Fair Value	2016 Fair Value
Debt securities	9 705	0	9 676	0
– *of which, intended to be held to maturity*	*9 705*	*0*	*9 676*	*0*
Precious metals	25 595	23 707	25 595	23 707
Total	**35 300**	**23 707**	**35 271**	**23 707**
of which, securities eligible for repo transactions in accordance with liquidity requirements			0	0

4.8.5 Participations

1000 CHF	Acquisition cost	Accumulated value adjustments	31.12.16 Book value	Additions	Disposals	Value adjustments	31.12.17 Book value
Participations without market value	1 100	(344)	756	0	(636)	(20)	100
Total	**1 100**	**(344)**	**756**	**0**	**(636)**	**(20)**	**100**

Additional information on significant participations

Company Name	Business activities	Share capital	Share of capital	Share of votes
Schroder Trust SA, Geneva	Trust and offshore company administration	CHF 100 000	100%	100%

Schroder Trust SA, Geneva, is being liquidated and is therefore not consolidated based on Art. 35 Bank Ordinance. Schroder Trust SA is a directly held subsidiary. Recognition on Schroder & Co Bank AG's balance sheet is based on liquidation value. Unwinding costs have been charged and adequate provisions have been created in the individual balance sheet.

4.8.6 Tangible fixed assets

CHF 1000	Acquisition cost	Accumulated depreciation	31.12.16 Book value	Additions	Disposals	Depreciation	31.12.17 Book value
Other tangible fixed assets	2 680	(2 680)	0	0	0	0	0
Total	**2 680**	**(2 680)**	**0**	**0**	**0**	**0**	**0**

The depreciation method applied and the range used for the expected useful lives are explained in the accounting and valuation policies. The Bank currently does not have any intangible assets.

Operating lease contracts maturities

CHF 1000	3 to 12 months	12 months up to 3 years	3 years to 5 years	over 5 years	Total
31.12.17	71	2 838	4 281	0	7 190
of which, may be terminated within one year	*71*	*0*	*0*	*0*	*71*
31.12.16	0	5 425	5 572	0	10 997

4.8.7 Other assets and other liabilities

CHF 1000	2017 Other assets	2016 Other assets	2017 Other liabilities	2016 Other liabilities
Indirect taxes and stock exchange fees	28	154	794	989
Other assets and liabilities	317	214	30	155
Total	**345**	**368**	**824**	**1 144**

4.8.8 Assets pledged or ceded to secure own liabilities and assets subject to ownership reservation

CHF 1000		2017		2016
Assets pledged or ceded	Assets pledged (Book value)	Effective liability	Assets pledged (Book value)	Effective liability
Liquid assets	30 078	1 414	39 139	2 161

4.8.9 Liabilities relating to own pension schemes, and number and nature of equity instruments of the Bank held by own pension schemes

CHF 1000	2017	2016
Amounts due to customers	8 889	7 560
Negative replacement values of derivative financial instruments	504	401
Total liabilities relating to own pension schemes	**9 393**	**7 961**

The Bank's pension funds did not hold any shares of the Bank in 2017 or 2016.

4.8.10 Economic situation of own pension schemes

Employer contribution reserves (ECR)

Schroder & Co Bank AG's employees participate in two defined contribution pension funds. The BVG pension fund provides the minimum benefits required by the law. The Pension Plan Foundation (Vorsorgestiftung) provides benefits on that portion of the salaries that exceed the BVG legal minimum. Due to the external insurance and the guarantee from the Pension Plan Foundation (Vorsorgestiftung) there are neither employer contribution reserves nor fluctuation reserves nor an under- or overfunding.

Economic benefit / obligation and pension expenses

As neither under- nor overfunding exist, the Bank, according to FINMA circ. 15/1 margin 496, has neither an economic benefit nor an obligation towards the pension funds or their members.

CHF 1000	2017	2017	2016
	Contributions paid	Pension expenses in personnel expenses	Pension expenses in personnel expenses
Pension plans without over-/underfunding	4 832	7 230	7 771

According to the pension fund regulations, the employer pays total contributions and benefits equivalent to 15% of the relevant salary whereas the employees contribute 5% of that salary. The column "Contributions paid" includes the Bank's total contributions to both pension plans for the year.

The columns "Pension expenses in personnel expenses" include the Bank's total pension and related benefit expenses (including old age and survivors' insurance, disability insurance, unemployment insurance and other mandatory contributions).

4.8.11 Valuation adjustments, provisions and reserves for general banking risks

CHF 1000	31.12.16					31.12.17
	Balance	Use in conformity with designated purpose	Recoveries, overdue interest	New creations charged to income	Releases to income	Balance
Other provisions	4 985	(1 920)	0	1 433	(373)	4 125
Total provisions	**4 985**	**(1 920)**	**0**	**1 433**	**(373)**	**4 125**
Value adjustments for default and country risks	**210**	**(48)**	**13**	**195**	**0**	**370**

CHF 1.6 m of the DoJ legal provision in connection with the US programme as at 31 December 2016 was used in 2017 and the provision was increased by CHF 1330 k during the year. One matter for which the provision as at 31 December 2016 was CHF 105k was resolved. One new matter for CHF 73k arose during 2017 and was still not resolved at year end. In one case a change in methodology lead to a partial release of the provision in 2017 of CHF 373k to the income statement.

4.8.12 Capital structure and shareholders

The share capital amounts to CHF 60m and is split into 60 000 registered shares of CHF 1000 nominal value each. The company's share capital is fully paid in. No special rights are conferred by the share capital.

The distributable profit of CHF 6 576 593 is available for distribution by the shareholders, subject to legal requirements. The non-distributable "Statutory retained earnings reserve" amounts to CHF 29 400 000; distributable "Voluntary retained earnings reserves" amount to CHF 52 500 000, subject to legal requirements.

All shares of Schroder & Co Bank AG are held by Schroder Wealth Holdings Limited, London, which is a 100% subsidiary of Schroders plc.

As at 1 March 2017, Schroders plc had received notifications, in accordance with rule 5.1.2 R of the Disclosure and Transparency Rules, of interests in 3% or more of the voting rights attaching to the Company's issued share capital, as set out in the table below.

There had been no changes to these notifications as at the date of this report.

		01.03.17		02.03.16
	Schroder shares	Percent	Schroder shares	Percent
Vincitas Limited	60 724 609	26.87%	60 724 609	26.87%
Veritas Limited	36 795 041	16.28%	36 795 041	16.28%
Flavida Limited	60 951 886	26.97%	60 951 886	26.97%
Fervida Limited	39 225 379	17.37%	40 188 706	17.78%
Harris Associates L.P.	11 443 978	5.06%	11 260 552	4.98%
Lindsell Train Limited	11 312 070	5.01%		

Vincitas Limited and Veritas Limited are trustee companies which act as trustees of certain settlements made by members of the Schroder family. The interests of Flavida Limited and Fervida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited and Veritas Limited are interested as trustees.

4.8.13 Amounts due from / to related parties

CHF 1000	2017	2016	2017	2016
	Amounts due from	Amounts due from	Amounts due to	Amounts due to
Holders of qualified participations	0	0	7 171	8 081
Group companies	0	0	175	1 305
Linked companies	18 329	3 396	916	15 681
Transactions with members of governing bodies	19	20	1 434	1 808
Other related parties	0	0	0	0

With related parties, the Bank engages in securities and money market transactions and applies interest rates at conditions applicable to third parties. Members of the Executive Board and of the Board of Directors generally are granted the conditions and tariffs applicable to staff members of the Bank.

4.8.14 Employee participation schemes

Equity Compensation Plan (ECP)

The ECP is the Group's main deferral arrangement for annual bonus awards. Comprehensive details of the design of the ECP scheme can be found in the Schroders plc Group's Financial Statements.

Equity Incentive Plan (EIP)

The EIP is an additional deferred remuneration plan used to recognise exceptional performance and potential. Comprehensive details of the design of the EIP scheme can be found in the Schroders plc Group's Financial Statements.

Please refer to the notes (accounting and valuation policies) for further details.

4.8.15 Maturity structure of financial instruments

CHF 1000

		At sight	Cancellable	Due within 3 months	Due within 3 to 12 months	Due within 12 months to 5 years	Total
Assets / financial instruments							
Liquid assets		612 715	0	0	0	0	612 715
Amounts due from banks		87 599	0	136 883	227 958	0	452 440
Amounts due from securities financing transactions		0	0	97 959	54 604	0	152 563
Amounts due from customers		23 765	69 114	147 782	50 147	2 085	292 893
Positive replacement values of derivative financial instruments		0	0	4 217	1 977	1	6 195
Financial investments		25 595	0	4 862	4 843	0	35 300
Total	**31.12.17**	**749 674**	**69 114**	**391 703**	**339 529**	**2 086**	**1 552 106**
	31.12.16	763 938	56 826	519 697	371 020	2 072	1 713 553
Debt capital / financial instruments							
Amounts due to banks		3 990	0	304	0	0	4 294
Amounts due to customers		1 382 886	0	0	0	0	1 382 886
Negative replacement values of derivative financial instruments		0	0	5 264	544	0	5 808
Total	**31.12.17**	**1 386 876**	**0**	**5 568**	**544**	**0**	**1 392 988**
	31.12.16	1 547 303	0	8 551	1 864	0	1 557 718

4.8.16 Assets and liabilities by domestic and foreign origin in accordance with the domicile principle

CHF 1000	2017		2016	
	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	612 715	0	590 128	0
Amounts due from banks	273 774	178 666	333 230	264 580
Amounts due from securities financing transactions	147 694	4 870	137 634	103 300
Amounts due from customers	137 937	154 956	97 320	154 052
Positive replacement values of derivative financial instruments	2 296	3 899	2 626	6 975
Financial investments	25 595	9 705	23 707	0
Accrued income and prepaid expenses	8 541	3 509	12 196	989
Participations	100	0	100	656
Other assets	344	0	369	0
Total	**1 208 996**	**355 605**	**1 197 310**	**530 552**
Liabilities				
Amounts due to banks	1 358	2 937	3 044	23 986
Amounts due to customers	255 863	1 127 021	293 032	1 229 946
Negative replacement values of derivative financial instruments	1 728	4 080	2 282	5 427
Accrued expenses and deferred income	18 183	5	18 044	8
Other liabilities	824	0	1 144	0
Provisions	4 125	0	4 985	0
Share capital	60 000	0	60 000	0
Statutory retained earnings reserve	29 400	0	29 300	0
Voluntary retained earnings reserves	52 500	0	48 800	0
Profit carried forward / loss carried forward	64	0	66	0
Profit / loss (result of the period)	6 513	0	7 798	0
Total	**430 558**	**1 134 043**	**468 495**	**1 259 367**

4.8.17 Assets by country / country groups

	2017 CHF 1000	2017 in %	2016 CHF 1000	2016 in %
Assets				
Europe				
Germany	50 641	3.2%	83 152	4.8%
United Kingdom	102 175	6.5%	106 520	6.2%
Switzerland	1 208 997	77.3%	1 196 966	69.3%
Rest of Europe	107 829	6.9%	242 916	14.1%
Total Europe	1 469 642	93.9%	1 629 554	94.3%
North America	13 773	0.9%	8 257	0.5%
Asia	25 109	1.6%	23 521	1.4%
Other countries	56 077	3.6%	66 530	3.9%
Total	**1 564 601**	**100.0%**	**1 727 862**	**100.0%**

4.8.18 Assets by credit rating of country groups

The breakdown of assets by credit rating of country groups is based on the risk relating to the underlying asset and not the domicile of the debtor. For secured assets, the risk domicile is determined by taking into consideration the respective collateral (due from customers, reverse repos) .

The Bank applies a combination of three major rating companies' ratings and displays them using the Standard & Poor's nomenclature.

Standard & Poor's	31.12.2017 Net foreign exposure CHF 1000	31.12.2017 Net foreign exposure Share as %	31.12.2016 Net foreign exposure CHF 1000	31.12.2016 Net foreign exposure Share as %
AAA to AA–	420 612	99.7%	589 818	99.2%
A+ to A–	342	0.1%	849	0.1%
BBB+ to BBB–	175	0.0%	394	0.1%
BB+ to B–	221	0.0%	129	0.0%
Lower than B–	440	0.1%	3	0.0%
No Rating available	283	0.1%	3 458	0.6%
Total	**422 073**	**100.0%**	**594 651**	**100.0%**

4.8.19 Assets and liabilities by the most significant currencies

CHF 1000	CHF	EUR	USD	Precious metals	Other	2017 Total
Assets						
Liquid assets	612 002	562	83	0	67	612 714
Amounts due from banks	154 574	111 964	113 273	9 649	62 980	452 440
Amounts due from securities financing transactions	0	35 126	77 912	0	39 525	152 563
Amounts due from customers	150 904	65 928	28 254	0	47 808	292 894
Positive replacement values of derivative financial instruments	5 960	0	235	0	0	6 195
Financial investments	0	0	9 705	25 595	0	35 300
Accrued income and prepaid expenses	10 303	134	1 245	0	368	12 050
Participations	100	0	0	0	0	100
Other assets	339	6	0	0	0	345
Total assets shown in balance sheet	**934 182**	**213 720**	**230 707**	**35 244**	**150 748**	**1 564 601**
Delivery entitlements from spot exchange, forward forex and forex options transactions	139 545	221 806	372 110	0	196 598	930 059
Total assets	**1 073 727**	**435 526**	**602 817**	**35 244**	**347 346**	**2 494 660**
Liabilities and shareholders' equity						
Amounts due to banks	1 350	1 685	521	0	737	4 293
Amounts due to customers	227 680	363 347	487 337	35 244	269 278	1 382 886
Negative replacement values of derivative financial instruments	5 573	0	235	0	0	5 808
Accrued expenses and deferred income	18 086	0	0	0	102	18 188
Other liabilities	812	4	5	0	3	824
Provisions	4 125	0	0	0	0	4 125
Share capital	60 000	0	0	0	0	60 000
Statutory retained earnings reserve	29 400	0	0	0	0	29 400
Voluntary retained earnings reserves	52 500	0	0	0	0	52 500
Profit carried forward	64	0	0	0	0	64
Profit	6 513	0	0	0	0	6 513
Total liabilities shown in balance sheet	**406 103**	**365 036**	**488 098**	**35 244**	**270 120**	**1 564 601**
Delivery obligations from spot exchange, forward forex and forex options transactions	666 529	70 481	114 703	0	77 251	928 964
Total liabilities	**1 072 632**	**435 517**	**602 801**	**35 244**	**347 371**	**2 493 565**
Net position per currency	**1 095**	**9**	**16**	**0**	**(25)**	**1 095**

4.9 Information on the off-balance-sheet business

4.9.1 Contingent liabilities and assets

CHF 1000	2017	2016
Credit guarantees	7 410	9 720
Irrevocable commitments arising from documentary letters of credit	974	1 016
Total	**8 384**	**10 736**

4.9.2 Fiduciary transactions

CHF 1000	2017	2016
Fiduciary placements with third–parties	167 268	107 786
Total	**167 268**	**107 786**

4.9.3 Assets Under Management

Wealth Management

CHF 1000	2017	2016
Assets in collective investment schemes managed by the Bank	4 024	5 273
Assets under discretionary asset management agreements	1 347 283	1 352 826
Other managed assets	4 894 230	4 653 618
Total Wealth Management Assets Under Management (including double counting)	**6 245 537**	**6 011 717**
of which double counting	4 024	5 273

CHF 1000	2017	2016
Total managed assets (including double counting) at beginning	6 011 717	6 093 702
+/– Net new money inflow or net new money outflow	(315 617)	(111 128)
+/– Price gains/losses, interest, dividends and currency gains/losses	549 437	29 143
Total managed assets (including double counting) at end	**6 245 537**	**6 011 717**

Debit interest on current account overdrafts is treated as negative performance, while interest charged on fixed-term Lombard loans is a cash outflow. The Bank calculates performance according to the direct method.

4.9.4 Assets administered by the Bank

CHF 1000	2017	2016
Assets administered banking activities (see 4.9.3)	6 241 513	6 006 444
Assets administered Institutional Business	183 606	447 445
Assets administered in connection with the insourcing for Schroders Group companies	47 325 671	38 130 157
Total assets administered by the Bank	**53 750 790**	**44 584 046**

The Bank renders administrative services to other Schroders Group companies in the areas of custody, operations and finance. For this insourcing business, the Bank charges fees which are reflected in the profit and loss account under the position "Other ordinary income" (see explanation in 4.1 General – Insourcing business).

4.10 Information on the income statement

4.10.1 Result from trading operations and the fair value option

CHF 1000	2017	2016
Foreign exchange trading operations with clients	3 932	4 783
Total	**3 932**	**4 783**

4.10.2 Refinancing income and income from negative interest

Negative interest on credit operations are disclosed as a reduction in interest and discount income.
Negative interest on deposits are disclosed as a reduction in interest expense.

CHF 1000	2017	2016
Negative interest on credit operations (reduction in interest and discount income)	(5 398)	(5 321)
Negative interest on deposits (reduction in interest expense)	183	88

4.10.3 Personnel expenses

CHF 1000	2017	2016
Salaries (meeting attendance fees and fixed compensation to members of the Bank's governing bodies, salaries and benefits)	42 058	39 721
– *of which, expenses relating to share–based compensation and alternative forms of variable compensation*	*514*	*440*
Social insurance benefits	7 230	7 771
Other personnel expenses	825	804
Total	**50 113**	**48 296**

Salaries include expenses related to share-based and alternative forms of variable compensation (as explained in Note 4.8.14). In 2017, 14 090 shares were granted (6260 shares for governing bodies, 7830 for employees) for a total value of CHF 570k.

4.10.4 General and administrative expenses

CHF 1000	2017	2016
Office space expenses	3 934	4 473
Expenses for information and communications technology	5 088	3 648
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	345	290
Fees of audit firm	553	561
– *of which, for financial and regulatory audits*	*456*	*429*
– *of which, for other services*	*97*	*132*
Other operating expenses Telephone, telex, postage, electronic information systems, legal and other consulting fees, stationery and printing, courier services, property insurance, travel and entertainment, publication and advertising, other costs	9 117	10 650
Total	**19 037**	**19 622**

4.10.5 Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

Please refer to note 4.8.11. The extraordinary income of CHF 60k in the previous year was the result of the resolution of a legal dispute.

4.10.6 Current taxes, deferred taxes, and disclosure of tax rate

CHF 1000	2017	2016
Expenses for current taxes	(2 013)	(2 307)
Average tax rate weighted on the basis of the operating result	23.6%	23.0%

Corporate Governance Disclosure 2017

(FINMA Circular 16-1)

The description of governance, controls and risk management is covered in other sections of the annual report. The disclosure below provides details on the Board of Directors and the Executive Board.

Board of Directors

Andrew Ross
Chairman

Dr. Stefan Mäder*
Vice-Chairman

Dr. Martin Eckert*

Jean-Claude Marchand*

The Board of Directors has not constituted any specific committees. The Vice-Chairman has been designated by the Board of Directors to act as the primary contact of the Board of Directors for Internal and External Audit.

Andrew Ross

Andrew Ross is Global Head of Wealth Management for the Schroders Group and sits on the Group Management Committee. He was previously Chief Executive of Cazenove Capital Management, which was acquired by Schroders in 2013. Prior to that he was Chief Executive of HSBC Asset Management (Europe) Limited (between 1998 and 2001) and Managing Director of James Capel Investment Management which he joined in 1985. After graduating from Southampton University with a First Class degree in Roman and Hellenic Studies, Andrew served a short commission in the Royal Green Jackets.

Dr. Stefan Mäder

Dr. Stefan Mäder currently serves as Non-Executive Director on different Boards of Directors. He was the Group CFO and member of the Group Executive Board of Six Group from 2010–2017. Prior to that he held various functions while with Zurich Insurance (Chief Investment Officer, Switzerland 2002–2004, CFO Switzerland 2004–2007, CFO Europe 2007–2010). Dr. Stefan Mäder holds a Ph.D. in economics from the University of Zurich.

Dr. Martin K. Eckert

Dr. Martin K. Eckert is one of the three founding partners of MME Law in Zurich. His areas of expertise are IT, IP and technology law. He has been appointed as an expert lawyer in negotiating many complex IT-Outsourcing, Cyber Security and Data Protection (GDPR) projects, mainly for banks and insurance companies. He acts as a litigator in complex commercial law cases before arbitral tribunals and commercial state courts. Dr. Martin K. Eckert holds a Ph.D. in law from the University of Zurich and is admitted to the bar.

Jean-Claude Marchand

Jean-Claude Marchand currently serves as Non-Executive Director on different Boards of Directors. From 2002 to 2007, he held the position of Chief Executive at Edipress Group. Prior to that he held various functions at Thompson Reuters Plc in Europe and Asia, culminating in being Executive Board member and CEO of Reuters Information from 1996 to 2001. Jean-Claude Marchand trained as an Engineer at the Technical Neuchatelois in Switzerland and at Harvard Business School in Advanced Management Programme in 1996.

* independent member of the Board of Directors

Executive Board

Adrian Nösberger
Chairman, Chief Executive Officer

Jonathan Brander
Member, Head of Operations & IT

Marc Brodard
Member, Head of Private Clients Geneva

David Dowse
Member, Chief Financial Officer

Dr. Ariel Sergio Goekmen
Member, Head of Private Clients Zurich

Oliver Oexl
Member, Head of Legal, Compliance and Risk

Adrian Nösberger (50)

Adrian Nösberger joined Schroders in 2013 in his current function. Prior to joining Schroders, he was Head of Private Banking Switzerland and member of the Executive Board of Bank Leu / Clariden Leu from 2003 to 2011. He started his career at Bank Julius Baer, where he was a member of the Private Banking Executive Board from 2001 – 2003. Adrian Nösberger holds a Master Degree in Manufacturing and Process Engineering from the Swiss Federal Institute of Technology (ETH), Zurich.

Jonathan Brander (37)

Jonathan Brander was appointed as Head of Operations & IT and member of the Executive Board in 2016. He joined Schroders in 2011 as Financial Analyst in the Service Centre. In 2012 he became responsible for Treasury & Cash Operations. Prior to joining Schroders, he worked for SunGard as a Senior Consultant. Jonathan Brander holds a Master's degree in Banking and Finance from the University of St. Gallen.

Marc Brodard (52)

Marc Brodard joined Schroders in 2014 in his current function. Prior to joining Schroders, he was CEO of Hyposwiss Private Bank in Geneva from 2011 to 2014. Before that he spent 23 years at Credit Suisse where his last position was Head of International French-speaking clients HNWI in Geneva. Marc Brodard holds a BA in business administration from the College of Business Administration in Lausanne. He also attended the Stanford Executive Program, at Stanford University in Palo Alto, California.

David Dowse (59)

David Dowse was appointed as Head of Finance and member of the Executive Board in 2015. He joined Schroders as a member of the Finance department in 2004. Prior to joining Schroders, he was a FINMA-recognized bank law auditor who audited and advised domestic and international banks throughout Switzerland as Senior Manager at Ernst & Young Zurich. Before that he held various positions in Finance over a ten-year career at the Roche Group. David Dowse holds a Master's Degree in Business from the University of South Carolina and a Bachelor's Degree in Business Administration from the University of Wisconsin-Parkside, Kenosha, Wisconsin, U.S. and is a Certified Public Accountant.

Dr. Ariel Sergio Goekmen (51)

Dr. Ariel Sergio Goekmen joined Schroders in his current function in 2015. Prior to joining Schroders, he was Chief Executive of Kaiser Partner Privatbank in Vaduz from 2011 – 2015. Before that he held various managerial positions at several banks, including Credit Suisse's Private Banking division, Cantrade Private Bank Ltd. (UBS) and Bank Leu Ltd. (Credit Suisse) in Zurich. Ariel Sergio Goekmen holds an LL.M. degree in International Business Law from the University of Zurich, having previously graduated as a Doctor of Business Administration from the University of South Australia (Unisa).

Oliver Oexl (51)

Oliver Oexl joined Schroders as Head of Legal and Compliance and member of the Executive Board in 2014. In 2015 he also became responsible for Risk. Prior to joining Schroders, he was Head of Legal and Compliance at Metropol Partners AG, an independent asset manager in Zurich. Before that, he was Head of Compliance at Clariden Leu, holding various Head of Compliance functions within the Credit Suisse Group. He started his career as a lawyer in the Legal Department of Credit Suisse in 1997. Oliver Oexl holds a master of law degree from the University of St. Gallen and is admitted to the bar.

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Schroder & Co Bank AG, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 4–27), for the year ended 31 December 2017.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of profit complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG
Stefan Keller Wyss
Audit expert, Auditor in charge
Daniel Müller
Audit expert

Zurich, 15 March 2018

Schroders

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