Schroder & Co Bank AG | **Annual Report 2016**

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Schroders

Content

Management report

2016 was a year full of surprises. Protectionism and populism gained considerable ground, underlining people's discontent with perceived political elites. Both the Brexit vote in June and the election of Donald Trump as President of the United States in November were clear expressions of this. At the same time, it appears that we are witnessing the end of the biggest global monetary policy experiment in history which may be shown to have resulted in not only the misallocation of capital but also in destabilising the political structure. Time will tell the extent to which it benefitted the underlying economies.

In this challenging environment, Schroder & Co Bank AG continued to develop its capabilities in terms of results-oriented investment and IT solutions to better serve the shifting needs of its clients and business partners.

In 2016, the bank's assets under management remained practically unchanged at CHF 6 billion, down from CHF 6.1 billion in the previous year. This was due to net outflows which were not quite offset by positive portfolio performance and foreign exchange effects. Income from the Bank's insourcing activities continued to develop positively and grew from CHF 33.7 million in the previous year to CHF 34.5 million.

Profit for the year was CHF 7.8 million, down from CHF 15.5 million in 2015, which had included the release of the part of the provision related to the U.S. Department of Justice's Program for Swiss banks that was no longer needed. Excluding the impact of that release, operating profit increased by 50 % in 2016 mainly due to the increase in net interest and commission income. Operating expenses increased by 3.3 % year-on-year while the number of employees increased to an average of 226.5 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 4 million. It also proposes the allocation of CHF 0.1 million to the "Statutory retained earnings reserve", CHF 3.7 million to "Voluntary retained earnings reserves" and that the profit remaining of CHF 63.914 be carried forward. As a result, the Bank's reported equity capital after payment of the dividend will rise to CHF 142 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 13 – 15).

As a result of our focus on core markets, our long-term business approach and our financial stability, we are well positioned to further grow our business in 2017.

On behalf of the Board of Directors, I would like to thank our clients for the trust they continue to place in us as well as our employees for their hard work and personal commitment.

Andrew Ross
Chairman of the Board of Directors

1 Balance sheet

as at 31 December 2016

CHF	Note	2016	2015
Assets			
Liquid assets		590 127 721	691 077 806
Amounts due from banks		597 810 803	439 574 231
Amounts due from securities financing transactions	4.8.1	240 934 415	329 233 275
Amounts due from customers	4.8.2	251 371 834	159 649 863
Positive replacement values of derivative financial instruments	4.8.3	9 601 353	14 314 605
Financial investments	4.8.4, 4.8.8	23 707 038	36 494 621
Accrued income and prepaid expenses		13 184 871	12 170 305
Participations	4.8.5	756 235	1 100 000
Tangible fixed assets	4.8.6	1	1
Intangible assets		1	1
Other assets	4.8.7	368 066	395 472
Total assets		**1 727 862 338**	**1 684 010 180**
Liabilities			
Amounts due to banks		27 030 315	12 377 728
Amounts due to customers		1 522 979 120	1 498 627 979
Negative replacement values of derivative financial instruments	4.8.3	7 709 026	4 896 821
Accrued expenses and deferred income		18 051 776	18 290 412
Other liabilities	4.8.7	1 143 674	1 318 221
Provisions	4.8.11	4 984 513	5 332 862
Share capital	3, 4.8.12	60 000 000	60 000 000
Statutory retained earnings reserve	3	29 300 000	29 100 000
Voluntary retained earnings reserves	3	48 800 000	38 600 000
Profit carried forward	3	66 157	10 290
Profit		7 797 757	15 455 867
Total liabilities		**1 727 862 338**	**1 684 010 180**
Off-balance-sheet transactions			
Contingent liabilities	4.8.2, 4.9.1	10 735 960	12 632 706
Irrevocable commitments	4.8.2	2 220 000	2 546 000

2 Income statement

for the period from 1 January to 31 December 2016

CHF	Note	2016	2015
Result from interest operations			
Interest and discount income	4.10.2	9 037 861	4 924 616
Interest and dividend income from financial investments		73 958	843 466
Interest expense	4.10.2	(535 919)	(1 175 440)
Gross result from interest operations		**8 575 900**	**4 592 642**
Changes in value adjustments for default risks and losses from interest operations	4.8.11	(2 800)	0
Subtotal net result from interest operations		**8 573 100**	**4 592 642**
Result from commission business and services			
Commission income from securities trading and investment activities		41 793 985	39 598 882
Commission income from lending activities		176 432	236 041
Commission income from other services		728 895	883 331
Commission expense		(11 785 513)	(12 280 138)
Subtotal result from commission business and services		**30 913 799**	**28 438 116**
Result from trading activities and the fair value option	4.10.1	4 783 486	5 936 731
Other result from ordinary activities			
Result from the disposal of financial investments		615 733	0
Income from participations		810 880	0
Result from the Bank's insourcing activities		34 534 743	33 707 758
Other ordinary expenses		(4 061)	(7 580)
Subtotal other result from ordinary activities		**35 957 295**	**33 700 178**
Operating expenses			
Personnel expenses	4.10.3	(48 296 311)	(48 889 770)
General and administrative expenses	4.10.4	(19 621 749)	(16 878 492)
Subtotal operating expenses		**(67 918 060)**	**(65 768 262)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	4.8.5, 4.8.6	(343 765)	(17 043)
Changes to provisions and other value adjustments, and losses	4.8.11	(1 920 820)	10 431 699
Operating result		**10 045 035**	**17 314 061**
Extraordinary income	4.10.5	59 940	17 302
Taxes	4.10.6	(2 307 218)	(1 875 496)
Profit (result of the period)		**7 797 757**	**15 455 867**
Appropriation of profit			
Profit		7 797 757	15 455 867
Profit carried forward		66 157	10 290
Distributable profit at the disposal of the General Meeting	**3**	**7 863 914**	**15 466 157**
Appropriation of profit			
Allocation to statutory retained earnings reserve		(100 000)	(200 000)
Allocation to voluntary retained earnings reserves		(3 700 000)	(10 200 000)
Distributions from distributable profit		(4 000 000)	(5 000 000)
New amount carried forward		**63 914**	**66 157**

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 2016	**60 000**	**29 100**	**38 610**	**15 456**	**143 166**
Allocations to the voluntary retained earnings reserves	0	0	10 256	(10 256)	0
Allocations to the statutory retained earnings reserve	0	200	0	(200)	0
Dividends	0	0	0	(5 000)	(5 000)
Profit 2016	0	0	0	7 798	7 798
Equity at the end of 2016	**60 000**	**29 300**	**48 866**	**7 798**	**145 964**

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 and Schroder Investment Management (Switzerland) AG, Zurich). These services are charged at market rates.

Outsourcing

The Bank has an outsourcing agreement with the company D+H Financial Technologies (D+H) for running the interbank applications SIC, EuroSIC, Swift and Secom. D+H'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 207 full-time and 24 part-time employees, plus 8 trainees/interns, for a total of 239 (or 232.1 full-time equivalent positions; prior year 226.6 full-time equivalent employees; on average 226.5 full-time 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 adjust-

ments 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:

	2016	2015
EUR	1.0723	1.0879
GBP	1.2535	1.4772
USD	1.0162	1.0019
JPY	0.8700	0.8331

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 Schroder 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 Schroder 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 2016.

4.8 Information on the balance sheet

4.8.1 Securities financing transactions (assets and liabilities)

CHF 1000	2016	2015
Book value of receivables from cash collateral delivered in connection with reverse repurchase transactions	240 934	329 233
Fair value of securities received and serving as collateral in connection with reverse repurchase agreements with an unrestricted right to resell or re-pledge	241 141	329 378
– *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	170 639	80 943	251 582
Total loans (before netting with value adjustments)	**31.12.16**	**0**	**170 639**	**80 943**	**251 582**
	31.12.15	0	158 788	1 070	159 858
Total loans (after netting with value adjustments)	**31.12.16**	**0**	**170 639**	**80 733**	**251 372**
	31.12.15	0	158 788	862	159 650

In 2016 Schroder & Co Bank AG started lending to Swiss top-rated Cantons on an unsecured basis (currently CHF 80m).

Off-balance sheet					
Contingent liabilities		0	10 715	21	10 736
Irrevocable commitments		0	0	2 220	2 220
Total	**31.12.16**	**0**	**10 715**	**2 241**	**12 956**
	31.12.15	0	12 625	2 554	15 179

CHF 1000		Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Impaired loans	**31.12.16**	**210**	**0**	**210**	**210**
	31.12.15	208	0	208	208

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	9 400	7 508	1 194 163
Options (OTC)	201	201	84 065
Total 31.12.16	**9 601**	**7 709**	**1 278 228**
31.12.15	14 315	4 897	886 254

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	6 613	2 988	**9 601**

4.8.4 Financial investments

Breakdown of financial investments

CHF 1000	Book value 2016	Book value 2015	Fair Value 2016	Fair Value 2015
Debt securities	0	15 077	0	15 093
– of which, intended to be held to maturity	*0*	*15 077*	*0*	*15 093*
Precious metals	23 707	21 418	23 707	21 418
Total	**23 707**	**36 495**	**23 707**	**36 511**
of which, securities eligible for repo transactions in accordance with liquidity requirements			*0*	*15 093*

4.8.5 Participations

CHF 1000	Acquisition cost	Accumulated value adjustments	31.12.15 Book value	Additions	Disposals	Value adjustments	31.12.16 Book value
Participations without market value	1 100	0	1 100	0	0	(344)	756
Total	**1 100**	**0**	**1 100**	**0**	**0**	**(344)**	**756**

Additional information on significant participations

Company Name	Business activities	Share capital	Share of capital	Share of votes
Schroder Trust AG, Geneva	Trust and offshore company administration	CHF 100 000	100%	100%
Schroder Cayman Bank and Trust Company Ltd., Cayman Islands	Banking services, trust and offshore company administration	USD 633 714	100%	100%

Both companies are being liquidated and are therefore not consolidated based on Art. 35 Bank Ordinance. Both are directly held subsidiaries. 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 sheets. The equity of Schroder Cayman Bank and Trust Company Ltd. is denominated in USD. Due to the status of the company the book value has been adjusted to the company's net asset value as per 31 December 2016 translated to CHF.

4.8.6 Tangible fixed assets

CHF 1000	Acquisition cost	Accumulated depreciation	31.12.15 Book value	Additions	Disposals	Depreciation	31.12.16 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
31.12.16	0	5 425	5 572	0	10 997
of which, may be terminated within one year	*0*	*0*	*0*	*0*	*0*
31.12.15	0	274	7 750	6 727	14 751

4.8.7 Other assets and other liabilities

CHF 1000	Other assets 2016	Other assets 2015	Other liabilities 2016	Other liabilities 2015
Indirect taxes and stock exchange fees	154	179	989	1 255
Other assets and liabilities	214	216	155	63
Total	**368**	**395**	**1 144**	**1 318**

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

Assets pledged or ceded		2016		2015
CHF 1000	Assets pledged (Book value)	Effective liability	Assets pledged (Book value)	Effective liability
Liquid assets	39 139	2 161	21 238	2 030
Financial investments	0	0	12 910	0

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	2016	2015
Amounts due to customers	7 560	5 235
Negative replacement values of derivative financial instruments	401	79
Total liabilities relating to own pension schemes	**7 961**	**5 315**

The Bank's pension funds did not hold any shares of the Bank in 2016 or 2015.

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 RS FINMA circ. 15/1 margin 496, has neither an economic benefit nor an obligation towards the pension funds or their members.

CHF 1000	Contributions paid 2016	Pension expenses in personnel expenses 2016	Pension expenses in personnel expenses 2015
Pension plans without over-/underfunding	5 458	7 771	7 425

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	31.12.15 Balance	Use in conformity with designated purpose	Recoveries, overdue interest	New creations charged to income	Releases to income	31.12.16 Balance
Other provisions	5 333	(1 926)	0	1 638	(60)	4 985
Total provisions	**5 333**	**(1 926)**	**0**	**1 638**	**(60)**	**4 985**
Value adj. for default and country risks	**208**	**(12)**	**11**	**10**	**(7)**	**210**

CHF 1.2 m of the DoJ legal provision in connection with the US programme as at 31 December 2015 was used in 2016 and the provision was increased by CHF 680 k during the year. Three matters related to provisions totalling CHF 0.7 m as at 31 December 2015 were resolved during 2016 and CHF 60 k released to the income statement.

4.8.12 Capital structure and shareholders

The share capital amounts to CHF 60 m 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 7,863,914 is available for distribution by the shareholders, subject to legal requirements. The non-distributable "Statutory retained earnings reserve" amounts to CHF 29 300 000; distributable "Voluntary retained earnings reserves" amount to CHF 48 800 000, 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 2 March 2016, Schroders plc had received notifications, in accordance with rule 5.1.2 R of the Disclosure and Transparency Rules, of interests in three per cent. 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.

	Schroder shares	02.03.16 Percent	Schroder shares	04.03.15 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	40 188 706	17.78 %	40 188 706	17.78 %
Harris Associates L.P.	11 260 552	4.98 %	15 969 200	7.07 %

Vincitas Limited and Veritas Limited 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	Amounts due from 2016	Amounts due from 2015	Amounts due to 2016	Amounts due to 2015
Holders of qualified participations	0	0	8 081	12 844
Group companies	0	0	1 305	2 362
Linked companies	3 396	8 961	15 681	2 663
Transactions with members of governing bodies	20	1	1 808	1 597
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 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 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	590 127	0	0	0	0	590 127
Amounts due from banks	150 096	0	160 811	286 904	0	597 811
Amounts due from securities financing transactions	0	0	190 127	50 808	0	240 935
Amounts due from customers	8	56 826	162 688	29 778	2 072	251 372
Positive replacement values of derivative financial instruments	0	0	6 071	3 530	0	9 601
Financial investments	23 707	0	0	0	0	23 707
Total 31.12.16	**763 938**	**56 826**	**519 697**	**371 020**	**2 072**	**1 713 553**
31.12.15	799 617	31 494	631 029	207 204	1 000	1 670 344
Debt capital / financial instruments						
Amounts due to banks	24 420	0	2 610	0	0	27 030
Amounts due to customers	1 522 883	0	96	0	0	1 522 979
Negative replacement values of derivative financial instruments	0	0	5 845	1 864	0	7 709
Total 31.12.16	**1 547 303**	**0**	**8 551**	**1 864**	**0**	**1 557 718**
31.12.15	1 510 911	0	3 407	1 585	0	1 515 903