

BHF Kleinwort Benson

Press Release



Regulated Information

Results for the six months ended 30 June 2015

BHF Kleinwort Benson Group posts operating profit, confirming a steady turnaround

Brussels, 27 August 2015 – BHF Kleinwort Benson Group (the “Company” or “BHF KB”) today issued its results for the six months ended 30 June 2015

Key highlights

Strong growth in operating profit demonstrates momentum has been maintained

- Assets under Management (“AuM”) up 8% (€4.2 billion) to €58.5 billion from December 2014, with strong inflows from international investors and good growth in the private banking business’ net new money
- Operating income rose by €18.3 million or 11% to €191.3 million compared to the same period last year¹, with both BHF-BANK and Kleinwort Benson² reporting strong revenue growth and including a gain of €7.9 million on the partial repurchase of BHF-BANK’s subordinated debt
- Operating expenses down 2% (€3.0 million to €172.8 million) year-on-year after excluding foreign exchange translation impact of €6.5 million and ahead of initial cost saving target of €20 million
- Operating profit of €8.0 million improved by €23.8 million, confirming steady progress in the implementation of the growth strategy across all geographies and sustained cost discipline
- Robust capital position with a Tier 1 capital ratio of 17%
- Consolidated net asset value increases to €820 million or €6.20 per share (31 December 2014: €6.03)

Strategic focus on delivering long term profitability

- The group is seeing sustained improvements across most key business lines, confirming a target of more than €60 million profit before tax in 2017
- Significant progress in streamlining businesses, delivering capital and operational efficiencies and building international investment proposition:
 - Kleinwort Benson entered into an agreement to form a strategic partnership with Samena Capital to enhance distribution of high quality investment products into key markets in Middle East and India
 - Maintained momentum in the corporate advisory businesses; Kleinwort Benson appointed sole financial adviser to London Resort Company Holdings
 - Focus on further growth opportunities for Asset Management across Group and Financial Markets & Corporate Banking at BHF-BANK
 - Disposal of Kleinwort Benson’s non-core Fund Administration business further streamlines the business and will yield a gain of €12.7 million upon completion during the second half of 2015
 - Planned transformation of KBWM’s client platform to an outsourced solution, including enhanced online and digital offerings by H1 2016, expected to commence in the second half of 2015
 - Sees huge opportunities in the strategic collaboration of its key businesses, bringing the strong international investment capabilities at Kleinwort Benson into BHF-BANK’s distribution capabilities to the fast growing German market

¹ Operational progress is presented on a pro-forma basis for comparability. Pro-forma results include the results of BHF-BANK as if it had been part of the group from 1 January 2014 and exclude purchase price adjustments. Numbers stated in this release are unaudited.

² Kleinwort Benson refers to the combination of Kleinwort Benson Bank, Kleinwort Benson Channel Islands and Kleinwort Benson Investors. KBWM refers to Kleinwort Benson Bank and Kleinwort Benson Channel Islands

Leonhard Fischer, Chief Executive Officer of BHF Kleinwort Benson, commented:

“The first half year results of 2015 underpin that we are on track to deliver on our targets for 2017. We made significant progress in streamlining our businesses with a particularly strong performance at Kleinwort Benson and we saw margins improve across all areas of the business as a result of pricing discipline and proactive portfolio management. Looking ahead we remain focused on further improving operating results, building on our international investment expertise and enhancing our client offering in all the geographies where we are present. ”

1. Key Figures BHF KB Group

Consolidated income statement - Pro-forma¹

(In EUR millions)	Period ended: 30 June 15	Period ended: 30 June 14	Change	Change in %
Net fee and commission income	140.3	122.8	17.5	14%
Net interest income	36.0	32.6	3.4	10%
Gains / losses from financial instruments at fair value	10.4	10.0	0.3	3%
Other income and expense	4.6	7.6	(3.0)	-39%
Operating income³	191.3	173.0	18.3	11%
Operating expenses ³	(179.3)	(175.8)	(3.5)	2%
Movements in loan loss provisions	(1.3)	(1.7)	0.4	-24%
Adjusted operating profit (loss)	10.7	(4.6)	15.2	334%
Non-recurring items ³	(2.6)	(11.3)	8.6	-77%
Operating profit (loss)	8.0	(15.8)	23.8	151%
Cost income ratio	94%	103%		

Client Assets

(In EUR millions)	Period ended: 30 June 15	Year ended: 31 Dec 14	Change	Change in %
Assets under Management	58,481	54,242	4,239	8%
Loans	3,922	4,091	-169	-4%
Assets under Control	62,403	58,332	4,071	7%
Net new money	3.8%	3.1%	-	-

Consolidated Balance Sheet

(In EUR millions)	Period ended: 30 June 15	Year ended: 31 Dec 14	Change	Change in %
Total assets	9,524	9,376	148	2%
Total equity	820	798	22	3%
Tier 1 capital	740	735	5	1%
Tier 1 capital ratio	17%	17%	-	-

Capital Structure

(In EUR millions)	Period ended: 30 June 15	Year ended: 31 Dec 14	Change	Change in %
Total equity (In EUR millions)	820	798	22	3%
Total number of shares	132,244,164	132,244,164	0	0%
Book value per share (€)	6.20	6.03	0.17	3%
Share price (€)	4.39	4.61	-0.22	-5%
Market capitalisation (In EUR millions)	581	610	-29	-5%

³ Operating income and operating expenses exclude items which management believe are non-recurring in nature and hence should be excluded when analysing the operating results. In 2015, non-recurring items principally include (i) costs in relation to the investment in new IT platforms and (ii) tax and VAT refunds. In 2014 non-recurring items principally included (i) acquisition related costs and (ii) tax and VAT refunds.

Strong growth in operating profit demonstrates maintained momentum

Assets under Management (“AuM”) up 8% to €58.5 billion

AuM increased during the period by €4.2 billion or 8% to €58.5 billion (December 2014: €54.2 billion) driven by net new money (€1.0 billion) and positive market and foreign exchange movements. Private banking assets in Germany continued to benefit from strong net inflows and saw its performance leadership recognised with first place in the First-FiveRanking, while strong inflows of higher margin mandates in both the US and the UK reflected the refocusing of the Kleinwort Benson Investors (“KBI”) business away from domestic low margin mandates and into quality international products.

Operating results improved by more than €23.8 million to show a profit of €8.0 million

Total operating income for the first half of 2015 increased by 11% to €191.3 million (June 2014: €173.0 million), driven by an improvement in net fees and commissions as well as net interest income. The increase also partly resulted from the foreign currency exchange impact on KBWM’s GBP denominated revenues.

Net fee and commission income increased by 14% to €140.3 million (June 2014: €122.8 million) and reflected the increase in AuM across the group. More importantly margins across all areas of the business continued to improve, reflecting our sustained focus on pricing discipline and proactive portfolio management in both investment management and banking. The group’s corporate advisory business also positively contributed to the increased operating income at BHF-BANK and Kleinwort Benson. Kleinwort Benson in particular saw a promising start to the year confirmed by its appointment as sole financial adviser to London Resort Company Holdings (‘LRCH’) which is developing the world-leading London Paramount Entertainment Resort – due to open in 2020. Kleinwort Benson will oversee debt and equity fundraising for the €3.0 billion investment on behalf of LRCH, a subsidiary of Kuwaiti European Holdings Company, an investment company founded and supported by the Al-Humaidi family which focuses on the property, leisure and healthcare sectors.

Net interest income increased by 10% to €36.0 million during the period (June 2014: €32.6 million), mainly driven by the increase in the loan book to €3,922 million (June 2014: €3,690 million) at improved margins and increased interest income from the treasury portfolio which was slightly skewed towards higher yielding investment securities. The year-on-year growth in lending volumes was achieved without increasing the portfolio’s conservative risk profile, with loan loss provisions of €1.3 million remaining at consistently low levels.

Gains and losses on financial instruments included a gain of €7.9 million realized on the partial early redemption of €61 million subordinated debt by BHF-BANK. The early redemption, coupled with the maturity of a tranche of debt, reduced BHF-BANK’s subordinated debt, which qualifies as regulatory Tier 2 capital from €204 million at 31 December 2014 to €93 million at 30 June 2015. Net gains on financial instruments for the comparable quarter of 2014 included €4.6 million from disposals of certain equity positions held by BHF-BANK prior to its acquisition by BHF KB.

Cost discipline maintained and delivering new efficiency gains

Excluding foreign exchange translation differences of €6.5 million on KBWM’s GBP denominated cost base, operating expenses decreased by €3.0 million improving the cost income ratio from 103% to 94%. On an annualized basis, operating costs have decreased by €23 million since the acquisition of BHF-BANK compared to the initial target of €20 million. All entities maintained their focus on cost discipline. Increased costs at BHF-BANK and KBI supported continued revenue growth while ongoing operating efficiencies drove costs further down at KBWM. Within total operating expenses, recurring fixed holding costs reduced by 19% to €6.5 million, in part reflecting further subletting of two entire floors in the London office building until the end of the lease period.

Non-recurring expenses included €1.1 million of expenses related to the planned re-platforming of KBWM’s operations and IT. The final decision to implement an outsourced solution will be taken during the second half of the year and will result in non-recurring restructuring costs, including the write-down of the legacy IT infrastructure of €3.4 million based on a planned implementation by the end of the first quarter of 2016. The significant benefits of the re-platforming, including a digital offering which will become available during the second quarter of 2016, are expected to pay back the investment by mid-2018.

Net asset value increases to €820 million or €6.20 per share and capital ratios remain strong

The group’s net asset value increased to €819.7 million (December 2014: €797.6 million), representing €6.20 per share (December 2014: €6.03). The capital and liquidity position remains very strong with all metrics comfortably in excess of minimum regulatory requirements. The group’s Tier 1 capital ratio at 30 June 2015 stood at 17%. The group’s total capital, including Tier 2 instruments, decreased to €826 million following the early redemption of €61 million of BHF-BANK’s subordinated debt.

While loans to customers increased by 6% year-on-year, the loan portfolio decreased by €169 million since December 2014. The slight decrease is primarily driven by maturing loans at BHF-BANK, however it did not affect the planned growth of lending volumes which have increased by 5% since the acquisition. Similarly, Kleinwort Benson continues to focus on high quality lending opportunities in its target markets and reported an increase of 6% in lending volumes

year-on-year. The loan-to-deposit ratio at 30 June 2015 decreased to 33% (December 2014: 34%), primarily as a result of an increase in customer deposits of €398 million.

Strategic focus on delivering long term profitability

During the first half of 2015, the Group continued to make significant progress in streamlining businesses, delivering capital and operational efficiencies and building out its international investment proposition.

Kleinwort Benson's client proposition includes a unique merchant banking offering for UHNWI in Europe, The Middle East and Asia. Kleinwort Benson entered into an agreement to form a strategic partnership with Samena Capital ("Samena"), the premier investment group focused on principal investments in the Subcontinent, Asia, Middle East and North Africa, (collectively known as the SAMENA region), who will acquire a stake of up to 31.2% of Kleinwort Benson Bank Ltd ("KBBL"), the group's London-based private banking and corporate advisory subsidiary, for a cash consideration of £15 million. Samena will have an option to increase its ownership to 39.9% during 3 years following completion of the transaction. The transaction brings together an unparalleled group of high net worth, entrepreneurial shareholders from Europe and across the SAMENA markets with a view to advancing their shared desire for a return to relationship-driven banking and access to differentiated investment opportunities. The transaction is expected to close by the third quarter of 2015, subject to closing conditions, including regulatory approval. Following the closing, the shareholders also intend to establish a new global merchant banking operation under KBBL in Dubai to offer advisory services for corporate activity in the region.

The Group also sees a huge opportunity to foster greater collaboration between its UK and German businesses, bringing together Kleinwort Benson's strong international investment capabilities and BHF-BANK's distribution into the "mittelstand" entrepreneurs and their families.

In July 2015 Kleinwort Benson announced the sale of its non-core Fund Administration business (Kleinwort Benson (Channel Islands) Fund Services Limited and its subsidiaries) to JTC for minimum cash consideration of £14.65 million. The transaction completed on 24 August 2015 and will yield a net gain of approximately €12.7 million (£8.9 million). The transaction further streamlines Kleinwort Benson's core wealth management operations, enabling it to focus on building its client franchise.

The group remains on track to deliver its targets for 2017 and continues to focus on assisting its clients to grow and protect their wealth. In addition to planned enhancements to its online offering, Kleinwort Benson is close to finalising a strategic partnership with a firm to launch a digital private banking platform by the second quarter of 2016. This underscores Kleinwort Benson's commitment to client service and using innovative technology to enhance the client experience with access to our services across a full range of channels. BHF-BANK's private banking is also focused on UHNWI customers and 75% of new net inflows in the first half of 2015 came from this target group.

The Group is confident that its strategy and vision for the group will deliver attractive long term returns for all of our shareholders. It is committed to increasing the momentum demonstrated in the first half and further improving operating results towards our targeted operating profit of more than €60 million in 2017.

	Pro-forma ⁴		Target
	Period ended: 30 June 14	Period ended: 30 June 15	2017
Operating profit	(€15.8 million)	€8.0 million	>€60 million
Net new money	4.6%	3.8%	4-6%
Cumulative cost savings (annualised)	€17 million	€23 million	>€20 million

⁴ Net new money includes BHF-BANK, KBI and KBWM AuM movement, excluding market impact and foreign exchange expressed as an annualised % of AuM at the start of the year.

2. Supplementary financial data

Consolidated Condensed Statutory Income Statement

(In EUR millions)	Statutory ⁵			
	Period ended: 30 June 15	Period ended: 30 June 14	Change	Change in %
Net fee and commission income	140.3	85.0	55.3	65%
Net interest income	36.0	23.0	13.0	57%
Gains / losses from financial instruments at fair value	10.4	(0.9)	11.3	1256%
Other operating income	4.6	16.4	(11.8)	-72%
Operating income	191.3	123.5	67.8	55%
Operating expenses	(187.2)	(145.5)	(41.7)	29%
Movements in loan loss provisions	(1.3)	(0.8)	(0.5)	63%
Operating profit (loss) before negative goodwill	2.8	(22.8)	25.6	112%

Segmental Operating profit

(In EUR millions)	Pro-forma			
	Period ended: 30 June 15	Period ended: 30 June 14	Change	Change in %
BHF-BANK	15.5	5.5	10.0	182%
Kleinwort Benson	3.2	(1.5)	4.7	307%
Group	(8.0)	(8.5)	0.5	-6%
Adjusted pro-forma operating profit (loss)	10.7	(4.6)	15.2	334%
Adjustments / reclassifications ⁶	(5.2)	(7.0)	1.8	-25%
Non-recurring items	(2.6)	(11.3)	8.6	-77%
Statutory operating profit	2.8	(22.8)	25.6	112%

⁵ Statutory results include the BHF-BANK results from the date of acquisition (i.e. 26 March 2014)

⁶ Also included in non-recurring items, is €4.9 million of VAT refunded to BHF-BANK which constitutes a post-closing adjustment to the purchase price as it relates to tax years prior to the acquisition of BHF-BANK. This purchase price adjustment is included in the statutory financial statements presented in section 2.

BHF-BANK key financial data

(In EUR millions)	Pro-forma			
	Period ended: 30 June 15	Period ended: 30 June 14	Change	Change in %
Net fee and commission income	81.1	73.5	7.6	10%
Net interest income	22.0	22.3	(0.4)	-2%
Gains / losses from financial instruments at fair value	16.9	11.3	5.5	49%
Other operating income	3.8	4.4	(0.6)	-15%
Operating income	123.7	111.6	12.2	11%
Operating expenses	(107.0)	(104.3)	(2.7)	3%
Movements in loan loss provisions	(1.3)	(1.8)	0.5	-26%
Adjusted operating profit / (loss)	15.5	5.5	10.0	182%
Non-recurring items ⁷	1.0	4.6	(3.6)	-77%
Operating profit (loss)	16.5	10.1	6.4	63%

Client assets

(In EUR millions)	Period ended:	Period ended:	Change	Change in %
	30 June 15	31 Dec 14		
Assets under Management	43,552	40,377	3,175	8%
Loans	3,192	3,413	-221	-6%
Assets under control	46,744	43,790	2,953	7%

Kleinwort Benson key financial data⁸

(In EUR millions)	Pro-forma			
	Period ended: 30 June 15	Period ended: 30 June 14	Change	Change in %
Net fee and commission income	59.2	49.3	9.9	20%
Net interest income	14.1	9.7	4.4	45%
Gains / losses from financial instruments at fair value	(6.0)	0.9	(6.9)	-753%
Other operating income	0.2	0.1	0.1	42%
Operating income	67.4	60.0	7.4	12%
Operating expenses	(64.2)	(61.6)	(2.6)	4%
Movements in loan loss provisions	0.0	0.1	(0.1)	-100%
Adjusted operating profit / (loss)	3.2	(1.5)	4.7	307%
Non-recurring items ⁹	(1.7)	(3.9)	2.2	-55%
Operating profit (loss)	1.4	(5.4)	6.9	127%

Client assets

(In EUR millions)	Period ended:	Period ended:	Change	Change in %
	30 June 15	31 Dec 14		
Assets under Management	14,929	13,864	1,065	8%
Loans	731	678	53	8%
Assets under control	15,660	14,542	1,118	8%

⁷ In 2015, non-recurring items primarily relate to tax refunds received during the period and the release of certain provisions made in 2014

⁸ Kleinwort Benson refers to the combination of Kleinwort Benson Bank, Kleinwort Benson Channel Islands and Kleinwort Benson Investors

⁹ Non-recurring items primarily relate to expenses incurred in relation to the planned re-platforming of KBWM's operations and IT

Consolidated statement of financial position

(In EUR millions)	Period ended: 30 June 15	Year ended: 31 Dec 14	Change	Change in %
Assets				
Cash and balances with central banks	200.4	208.8	(8.4)	-4%
Placements with, and loans and advances to other banks	1,373.7	1,483.5	(109.8)	-7%
Investment securities	4,464.5	4,175.1	289.4	7%
Derivative assets	576.2	664.9	(88.7)	-13%
Loans and advances to customers	2,575.5	2,530.9	44.6	2%
Current tax assets	8.2	8.8	(0.6)	-7%
Accrued income and other assets	146.3	129.3	17.0	13%
Investments in equity accounted investees	19.3	18.5	0.8	4%
Property, plant and equipment	62.9	65.5	(2.6)	-4%
Intangible assets	67.4	57.2	10.2	18%
Deferred tax assets	29.8	33.5	(3.7)	-11%
Total assets	9,524.2	9,376.0	148.2	2%
Liabilities and equity				
Loans and deposits due to other banks	1,288.9	1216.0	72.9	6%
Loans and deposits due to customers	6,449.9	6124.6	325.3	5%
Other financial liabilities	0.2	1.3	(1.1)	-85%
Derivative liabilities	601.5	735.9	(134.4)	-18%
Current tax liabilities	13.1	18.7	(5.6)	-30%
Accrued expenses and other liabilities	126.9	124.1	2.8	2%
Provisions	105.9	107.8	(1.9)	-2%
Deferred tax liabilities	6.9	6.9	0.0	0%
Subordinated capital	111.2	243.1	(131.9)	-54%
Total liabilities	8,704.5	8,578.4	126.1	1%
Share capital	686.4	735.7	(49.3)	-7%
Share premium	24.2	32.2	(8.0)	-25%
Reserves	71.9	(7.1)	79.0	-1113%
Retained earnings	37.2	36.8	0.4	1%
Total equity attributable to owners of the Company	819.7	797.6	22.1	3%
Total equity and liabilities	9,524.2	9,376.0	148.2	2%

Consolidated statement of cash flow

(In EUR millions)	Period ended: 30 June 15	Period ended: 30 June 14
Net cash from (used in) operating activities	26.8	(309.7)
Net cash from (used in) investing activities	(12.7)	16.4
Net cash from (used in) financing activities	(1.2)	175.8
Net variance in cash and cash equivalents	12.9	(117.5)
Cash and cash equivalents at the beginning of the period	600.6	669.9
Effect of exchange rate fluctuations	32.1	18.8
Cash and cash equivalents at the end of the period	645.6	571.2
of which cash and balances with banks	200.4	203.6
of which loans and advances due to credit institutions ¹⁰	445.4	375.6
of which loans and deposits repayable on demand	(0.2)	(8.0)
Total	645.6	571.2

¹⁰ Only loans and balances due to credit institutions with an original maturity of 3 months or less are included within cash and cash equivalents for the purposes of the cash flow statement

BHF Kleinwort Benson

About BHF Kleinwort Benson Group SA

BHF Kleinwort Benson (Euronext: BHFKB) is a limited liability company incorporated under the laws of Belgium, having its registered office at Avenue Louise 326, 1050 Brussels, Belgium. BHF Kleinwort Benson is a merchant bank with principal activities in private banking, asset management and financial markets & corporate banking.

For further information visit: www.BHFKleinwortBenson.com

Our updated Corporate Presentation is available on our corporate website
www.BHFKleinwortBenson.com.

An analyst and investor call will be held today at 09:00 (New York), 14:00 (London), 15:00 (Brussels, Frankfurt). The call will be held in English.

To take part in the call, please use one of the dial-in numbers provided below, or log onto our corporate website to listen to the live audio webcast (www.BHFKleinwortBenson.com)

**Thursday 27 August
2015**

**New York: 09:00
London: 14:00
Brussels: 15:00
Frankfurt: 15:00**

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Please connect 5 to 10 minutes before the scheduled start time to register

This press release contains certain forward-looking statements concerning the Company's operations, economic performance and financial condition. Such forward-looking statements are based on management's current expectations, estimates and projections and are subject to a number of assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Company has no obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this press release.

Numbers presented throughout this presentation may not add up precisely to the totals provided in the tables and text. Percentages, percent changes and absolute variances are calculated based on the underlying figures and not on the rounded figures which are displayed in the tables and text and may not precisely reflect the percentages, percent changes and absolute variances that would be derived based on figures that are rounded.