

Company Registered Number: SC102144

ADAM & COMPANY INVESTMENT MANAGEMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017



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BOARD OF DIRECTORS AND COMPANY SECRETARY

DIRECTORS: Graham Storrie (Managing Director)
Michael Robert Regan (Director)
Mark Ivory (Director)
Susan Boyd (Director)

COMPANY SECRETARY: Kate Alexandra Ramage

REGISTERED OFFICE: 25 St Andrew Square
Edinburgh
Scotland
EH2 1AF

INDEPENDENT AUDITOR: Ernst & Young LLP
Statutory Auditor
25 Churchill Place
London
United Kingdom
E14 5EY

Registered in Scotland

STRATEGIC REPORT

The directors of Adam & Company Investment Management Limited ("the Company") present their annual report, together with audited financial statements for the year ended 31 December 2017.

ACTIVITIES AND BUSINESS REVIEW**Principal activities**

The principal activities of the Company continue to be that of discretionary investment management services and the provision of investment advice.

The Company continues to be part of the Commercial & Private Banking business within The Royal Bank of Scotland Group plc (RBS) which provides support and access to all central resources. Copies of the consolidated accounts of the ultimate holding company may be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

As part of the Private Banking Franchise within RBS, the Company's performance is measured via targets focussing on customer satisfaction, employee engagement and financial returns. The Company's key priorities are to develop the best client experience, invest in a high performing culture, deepen needs met for sustainable growth, optimise the operating model and simplify the business.

There are no significant changes expected to the performance of the Company following the changes outlined in the Ring-fencing section.

Business review

The directors are satisfied with the Company's trading performance during 2017.

Performance highlights

	2017	Restated ⁽¹⁾ 2016
	£m	£m
Total income	12	10
Operating expenses	(8)	(8)
Operating profit before tax	4	2
Profit and total comprehensive income for the year	3	2
Cost:income ratio	69.1%	76.9%

(1) For details of the restatements refer to note 14.

Financial Performance

The Company reported a £1m increase in retained profit after tax for the year to £3m (2016: £2m), driven by an increase in income, partly offset by an increase in expenses.

Total income increased by £2m following strong growth in Assets under management.

A 7.8% decrease in the cost:income ratio was delivered in 2017.

At the end of the year, total assets were £24m (2016: £21m restated), largely in intercompany receivables. Assets under management at the end of the year were £1,947m (2016: £1,725m).

Accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Company's critical accounting policies and key sources of estimation uncertainty are included in the accounting policies.

The ultimate parent of the Company has been notified and has not objected to the use of Financial Reporting Standard 101 Reduced Disclosure Framework as the basis of preparation of these financial statements.

STRATEGIC REPORT*Ring-fencing*

The UK ring-fencing legislation requiring the separation of essential banking services from investment banking services will take effect from 1 January 2019. To comply with these requirements it is RBS's intention to place the majority of the UK and Western European banking business in ring-fenced banking entities under an intermediate holding company.

The final ring-fenced legal structure and the actions to be taken to achieve it, remain subject to, amongst other factors, additional regulatory, Board and other approvals as well as employee information and consultation procedures. All such actions and their respective timings may be subject to change, or additional actions may be required, including as a result of external and internal factors including further regulatory, corporate or other developments.

The Company's activities are all falling within the ring- fence and on 1 October 2017, its parent, Adam & Company Group plc, sold its investment in the Company to Adam & Company plc.

On 21 November 2017, The Royal Bank of Scotland plc (RBS plc) applied to the Court of Session in Edinburgh (the Court) to initiate a "Ring-Fencing Transfer Scheme" (RFTS) under the Financial Services and Markets Act 2000, including:

- Transfer the UK retail & Commercial banking business to Adam & Company plc;
- Transfer the covered bonds in issue and Mentor business to NatWest; and
- Transfer branches and other properties to either NatWest or Adam & Company plc.

The RFTS is expected to take effect over the weekend of 28-29 April 2018. At the same time, RBS plc will be renamed "NatWest Markets plc", Adam & Company plc will be renamed "The Royal Bank of Scotland plc" and assume banknote-issuing responsibility.

Risk management

The principal risks associated with the Company's businesses are liquidity, conduct, regulatory, reputational and operational risk. The Company has established a comprehensive framework for managing these, which is continually evolving as the business activities change in response to market, credit, product and other developments.

The Company's policies for managing each of these risks and its exposure thereto are detailed in note 9 to the financial statements. These policies and processes are compliant with the RBS Group's framework.

Outlook

The directors do not anticipate any significant change in either the type or level of activities of the Company.

The vote to leave the EU was widely expected to have a negative impact on the economy. So far consumer spending has remained robust, and growth has continued. The UK has not yet left the EU, and the terms of its departure are not yet known and the long-term impact remains impossible to predict. The Company's prime focus through this uncertain period has been, and will continue to be, to provide high quality investment management services to its clients and to help them to understand the implications of change.

The directors remain confident that the Company is well positioned to meet the continuing challenges of the evolving regulatory environment it operates within, external pressures and changing customer needs. They consider the Company to be in a stable financial position and confirm that they have adequate resources to continue in business for the foreseeable future.

By order of the Board:



Graham Storrie
Director
Date: 25 April 2018

DIRECTORS' REPORT**Directors and Company Secretary**

The names of the current members of the Board of Directors and Company Secretary are shown on page 1.

From 1 January 2017 to date, the following changes have taken place:

	Appointed	Resigned
Director		
Alexa Henderson	-	11 July 2017
Peter Gordon Flavel	-	11 July 2017
Miller McLean	-	11 July 2017
Linda Hamilton Urquhart OBE	-	11 July 2017
Mark Ivory	08 August 2017	-
Susan Boyd	08 August 2017	-
Anna Wilson	08 August 2017	06 October 2017
Dickson Brown Anderson	08 August 2017	06 April 2018
Secretary		
Morven Gow	-	05 September 2017
Kate Alexandra Ramage	05 September 2017	-

In accordance with the Articles of Association, the directors are not required to retire by rotation.

Share capital

Analysis of share capital can be found in note 8 to the financial statements.

Directors' indemnities

In terms of Section 236 of the Companies Act 2006, all directors listed on page 1 have been granted Qualifying Third Party Indemnity Provisions by RBS.

Going concern

The directors, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

Dividends

The directors do not recommend the payment of a dividend (2016: £nil).

Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change to, or additional disclosure or amendment in the financial statements.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor.

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at the forthcoming Board of directors meeting.

By order of the Board:



Graham Storrie
Director
Date: 25 April 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare a Strategic Report, Directors' Report and financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework, and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether FRS 101 has been followed; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Strategic Report, Directors' Report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

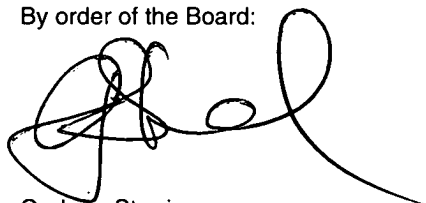
DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors at the date of approval of this report confirms that:

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

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board:

A handwritten signature in black ink, appearing to be 'Graham Storrie', written over a horizontal line.

Graham Storrie
Director
Date: 25 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ADAM & COMPANY INVESTMENT MANAGEMENT LIMITED

Opinion

We have audited the financial statements of Adam & Company Investment Management Limited (the "Company") for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ADAM & COMPANY INVESTMENT MANAGEMENT LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors


As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.


Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 April 2018

PROFIT AND LOSS ACCOUNT *for the year ended 31 December 2017*

			Restated ⁽¹⁾
		2017	2016
	Notes	£'000	£'000
Continuing operations			
Fees and commission receivable		12,127	10,320
Non-interest income		12,127	10,320
Total income		12,127	10,320
Operating expenses	3	(8,385)	(7,936)
Operating profit before tax		3,742	2,384
Tax charge	4	(758)	(522)
Profit for the financial year		2,984	1,862

(1) For details of the restatements refer to note 14.

The Company had no recognised income or expenses in the financial year or preceding financial year other than those dealt with in the Profit and Loss Account.

The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEET as at 31 December 2017

	Notes	2017 £'000	Restated ⁽¹⁾ 2016 £'000
Current assets			
Prepayments, accrued income and other assets	5	23,731	20,443
Non current assets			
Deferred tax asset	6	505	605
Total assets		24,236	21,048
Current liabilities			
Accruals, deferred income and other liabilities	7	4,906	4,702
Total liabilities		4,906	4,702
Equity			
Shareholder's equity:			
Called-up share capital	8	8,350	8,350
Retained earnings		10,980	7,996
Total equity		19,330	16,346
Total liabilities and equity		24,236	21,048

(1) For details of the restatements refer to note 14.

The accompanying accounting policies and notes form an integral part of these financial statements.

The financial statements of the Company were approved by the Board of Directors on 25 April 2018 and signed on its behalf by:


Graham Storrie
Managing Director
Date: 25 April 2018


Michael Robert Regan
Director
Date: 25 April 2018

STATEMENT OF CHANGES IN EQUITY *for the year ended 31 December 2017*

	Called-up share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2016	8,350	6,134	14,484
Profit for the year	-	1,862	1,862
At 31 December 2016 Restated⁽¹⁾	8,350	7,996	16,346
Profit for the year	-	2,984	2,984
At 31 December 2017	8,350	10,980	19,330

(1) For details of the restatements refer to note 14.

Total comprehensive profit for the year of £2,984k (2016: £1,862k) was wholly attributable to the shareholder of the Company.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2017***1. Accounting policies****a) Preparation and presentation of financial statements**

These financial statements are prepared:

- on a going concern basis;
- under Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS); and
- on the historical cost basis.

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council.

The Company is incorporated in the UK and registered in Scotland and the financial statements are presented:

- in accordance with the Companies Act 2006;
- in Sterling which is the functional currency of the Company; and
- with the benefit of the disclosure exemptions permitted by FRS 101 with regard to:
 - comparative information in respect of certain assets;
 - cash-flow statement;
 - standards not yet effective;
 - related party transactions; and
 - disclosure requirements of IFRS 7 "Financial Instruments: Disclosure" and IFRS 13 "Fair value measurement".

Where required, equivalent disclosures are given in the accounts of RBS, these accounts are available to the public and can be obtained as set out in note 12.

The few changes to IFRS that were effective from 1 January 2017 have had no material effect on the Company's financial statements for the year ended 31 December 2017.

b) Revenue recognition

Fees in respect of services are recognised as the right to consideration accrues through the provision of services to customers. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. Fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised.

c) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the Profit and Loss Account except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

d) Provisions and contingent liabilities

The Company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2017***1. Accounting policies (continued)****d) Provisions and contingent liabilities (continued)**

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

e) Employee benefits

This policy should be read in conjunction with note 3 on page 13.

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by the Company or by The Royal Bank of Scotland Group plc shares. Variable compensation that is settled in cash or debt instruments is charged to profit or loss over the period from the start of the year to which the variable compensation relates to the expected settlement date taking account of forfeiture and claw back criteria.

RBS provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees on behalf of the Company.

There is no contractual agreement or policy on the way that the cost of RBS defined benefit pension schemes and healthcare plans are allocated to the Company. It therefore accounts for the charges it incurs as payments to a defined contribution scheme.

Contributions to defined contribution pension schemes are recognised in the profit and loss account when payable.

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard of interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements.

There are no material judgements and assumptions involved in the production of the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

3. Operating expenses

	2017	Restated 2016
	£'000	£'000
Wages and salaries	3,686	3,775
Social security costs	435	126
Pension costs	453	533
Staff costs ⁽¹⁾	4,574	4,434
Other administrative expenses ⁽¹⁾	3,811	3,502
	8,385	7,936

(1) Minor classification changes have been made in the comparative figures, resulting in a reallocation of 2016 costs totalling £403k from Other Administrative Expenses to Staff Costs.

The average number of persons employed during the year was 37 (2016: 40).

Management recharge

Management charges relate to the Company's share of RBS and Adam & Company plc resources such as the use of IT platforms, staff and a share of central resources. These are recharged on a monthly basis by Adam & Company plc. The management charge of £3,002k (2016: £3,071k) is included within operating expenses above.

Staff costs, number of employees and directors' emoluments

All directors were employed by RBS. The Company does not remunerate directors. Remuneration in respect of their services is paid by Adam & Company plc and cannot be apportioned meaningfully. Total amount of remuneration of directors and other members of key management paid by Adam & Company plc is disclosed in the Adam & Company plc financial statements.

Pension costs

Eligible employees of the Company can participate in membership of RBS operated pension schemes. The principal defined benefit scheme was The Royal Bank of Scotland Group Pension Fund (the "Main scheme"). The Main scheme was closed to new entrants in October 2006 and since then employees have been offered membership of The Royal Bank of Scotland Retirement Savings Plan, a defined contribution pension scheme. Detailed disclosure of RBS's pension schemes is available in RBS's Annual Report and financial statements 2017. There is no contractual agreement or policy on the way that the cost of RBS defined benefit pension schemes and healthcare plans are allocated to the Company. It therefore accounts for the charges it incurs as payments to a defined contribution scheme.

Auditor's remuneration

Amounts paid to the Company's auditors for statutory audit and other services are set out below. All audit-related and other services are approved by the RBS Group Audit Committee and are subject to strict controls to ensure the external auditor's independence is unaffected by the provision of other services. The RBS Group Audit Committee recognises that for certain assignments the auditors are best placed to perform the work economically; for other work the Company selects the supplier best placed to meet its requirements. The Company's auditors are permitted to tender for such work in competition with other firms where the work is permissible under audit independence rules.

The auditor's remuneration for statutory audit work of £9k (2016: £9k) for the Company was borne by Adam & Company plc. Remuneration paid to the auditor for non-audit work for the Company was £7k (2016: £6k). In addition the auditor's remuneration for group reporting audit work of £5k (2016: £10k) was borne by The Royal Bank of Scotland Group plc, the ultimate parent company of the Company.

4. Tax

	2017	Restated 2016
	£'000	£'000
Current tax:		
<i>United Kingdom corporation tax at 19.25% (2016: 20%)</i>		
Charge for the year	658	474
Under/(Over) provision in respect of prior periods	-	(35)
Total current taxation	658	439
Deferred tax:		
Charge for the year	100	100
Over provision in respect of prior periods	-	(17)
Total deferred taxation	100	83
Tax charge for the year	758	522

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

4. Tax (continued)

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK Corporation tax of 19.25% (2016: standard tax rate of 20%) as follows:

	2017 £'000	Restated 2016 £'000
Operating profit before tax	3,742	2,384
Expected tax charge	720	477
Factors affecting the charge for the year:		
Non-deductible items	38	21
Reduction in deferred tax asset following change in rate of UK corporation tax	-	76
Prior period adjustments	-	(52)
Actual tax charge for the year	758	522

The effective tax rate for the year was 20.24% (2016: 21.90%).

The main rate of UK corporation tax has reduced from 20% to 19% from 1 April 2017 and will reduce further to 17% from 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates.

5. Prepayments, accrued income and other assets

	2017 £'000	Restated 2016 £'000
Receivables from related parties ⁽¹⁾	20,373	17,649
Accrued income	3,358	2,794
	23,731	20,443

(1) Balance represents unsecured long-term receivables due from Adam & Company plc.

6. Deferred taxation

Provision for deferred taxation has been made as follows:

	Intangibles £'000	Deferred bonus £'000	Total £'000
At 1 January 2016	652	36	688
Charge to income	(85)	2	(83)
At 1 January 2017 Restated	567	38	605
Charge to income	(62)	(38)	(100)
At 31 December 2017	505	-	505

	2017 £'000	Restated 2016 £'000
Deferred tax assets	505	605

The provision for UK deferred taxation has been calculated taking into account the latest enacted rates of corporation tax. A deferred tax asset of £505k has been recognised for the Company at 31 December 2017 (2016: £605k). This asset has been recognised in the financial statements following the deferral of tax relief in respect of goodwill. The directors are of the opinion, based on recent and forecasted trading, that the tax due on future profits in the current and next financial year will exceed the value of the deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

7. Accruals, deferred income and other liabilities

	2017	Restated 2016
	£'000	£'000
Corporation tax	547	437
Accruals and deferred income	4,350	4,258
Other liabilities	9	7
	4,906	4,702

8. Called-up share capital

	2017	2016
	£'000	£'000
Authorised:		
9,100,000 Ordinary Shares of £1	9,100	9,100
	9,100	9,100
Allotted, called-up and fully paid:		
Equity shares		
8,350,000 Ordinary Shares of £1	8,350	8,350
	8,350	8,350

The Company has one class of Ordinary Shares which carry no right to fixed income.

9. Risk management

The major risks associated with the Company's businesses are liquidity, conduct, regulatory, reputational and operational risk. The Company has established a comprehensive framework for managing these risks which is continually evolving as the Company's business activities change in response to market, credit and other developments.

The Company has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by the Board and the Audit and Risk Committee.

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities.

Management focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet. It is undertaken within limits and other policy parameters set by RBS ALCO.

Conduct risk

Conduct risk is the risk that the behaviour of the Company and its staff towards its customers, or in the markets in which it operates, leads to unfair or inappropriate customer outcomes and can result in reputational damage, financial loss or both. The damage or loss may be the result of breaches of regulatory rules or laws, or of failing to meet customers' or regulators' expectations.

Conduct risk exists across all stages of the Company's relationships with its customers, from the development of its business strategies, through governance arrangements, to post-sales processes. Conduct risk also exists if the Company does not take effective action to prevent fraud, bribery and money laundering.

Regulatory risk

Regulatory risk is the risk of material loss or liability, legal or regulatory sanctions, or reputational damage, resulting from the failure to comply with (or adequately plan for changes to) relevant official sector policy, laws, regulations, or major industry standards in the UK (location in which the Company operates).

The Company believes that maintaining a strong regulatory risk framework is fundamental to ensuring sustainable growth, building its reputation and maintaining stakeholder confidence. Accordingly, the Company's stated regulatory risk and compliance risk appetite is for no material or widespread breaches of rules, expectations, regulations or laws, individually or in aggregate. However, it also recognises that genuine errors occur, and so the Company accepts limited, non-material regulatory risk in line with appetite.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2017***9. Risk management (continued)**

The Company manages regulatory risk under the 'Three Lines of Defence' model in line with RBS. This model defines responsibilities and accountabilities in accordance with the following principles:

- The business units (including business areas and support functions) are the first 'Line of Defence'. They are accountable for owning and managing, within a defined risk appetite, the risks which exist in their business area;
- Independent monitoring and control functions are the second 'Line of Defence'. They are accountable for owning and developing the risk and control frameworks and tools which the business uses to discharge its responsibilities; and
- RBS Internal Audit and an independent Credit Quality Assurance function is the third 'Line of Defence' and provide independent assurance over the key risks to the organisation, which includes an assessment of the entire control framework.

The level of regulatory risk remained high during 2017, as policymakers and regulators continued to strengthen regulation and supervision.

Reputational risk

Currently the Company manages reputational risk through a number of functions principally being Risk, C&RA and Legal but also including those such as the Communications & Corporate Services division.

At an RBS level there is an RBS Sustainability management function and also an Environmental, Social and Ethical (ESE) Risk management function. This latter function is responsible for assessing ESE risks associated with business engagements and divisions. The risk is viewed as material given the key nature of the Company's market reputation in achieving its strategic risk objectives.

Anti-Money Laundering

An annual Money Laundering Reporting Officer's Report is submitted to the Board and the FCA. Covering the operation and effectiveness of the systems and controls in place to comply with Anti-Money Laundering (AML) law and regulation, it also describes the Company's AML framework. In addition, it covers the systems and controls in place to prevent the financing of terrorism and to ensure compliance with sanctions as well as embargoes and export controls imposed by the UN, governments and other supranational bodies.

Operational risk

Operational risks are inherent in the Company's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key mitigating processes and controls include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process, mandate compliance and the self certification process. The implementation of these processes and controls is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework.

10. Commitment and contingent liabilities

The Company pays an annual levy to the Financial Services Compensation Scheme (FSCS). This levy is in place to compensate investors with eligible claims in the event of the collapse of an authorised financial services firm.

11. Divisional analysis

The Company operates in the discretionary investment management sector, with 100% of business derived in the United Kingdom.

The directors consider discretionary investment management to be a single class of business.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2017***12. Related parties****UK Government**

The UK Government through HM Treasury is the ultimate controlling party of RBS. Its shareholding is managed by UK Financial Investments Limited, a company it wholly owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Company.

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of corporation tax and value added tax.

Group undertakings

The Company's immediate parent company is Adam & Company plc, a company incorporated in the UK and registered in Scotland.

As at 31 December 2017, the smallest and largest group which the Company has been consolidated into was The Royal Bank of Scotland Group plc. Copies of the consolidated financial statements of RBS may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

13. Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change to, or additional disclosure or amendment in the financial statements.

14. Restatement

In 2017 the Company identified an error in respect of the amount of other administrative expenses recharged to the company by another group entity. This error resulted in the costs recharged in respect of the 2016 financial year being understated by £527k. This error has been corrected by restating the 2016 administrative expenses. The effects of the restatement have been shown below:

PROFIT AND LOSS ACCOUNT *for the year ended 31 December 2016*

	As reported 2016 £'000	Correction 2016 £'000	Restated 2016 £'000
Continuing operations			
Fees and commission receivable	10,320	-	10,320
Operating expenses	(7,409)	(527)	(7,936)
Operating profit before tax	2,911	(527)	2,384
Tax charge	(624)	102	(522)
Profit for the financial year	2,287	(425)	1,862

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2017*

14. Restatement (continued)

BALANCE SHEET *as at 31 December 2016*

	As reported 2016 £'000	Correction 2016 £'000	Restated 2016 £'000
Current assets			
Prepayments, accrued income and other assets	20,970	(527)	20,443
Non current assets			
Deferred tax asset	566	39	605
Total assets	<u>21,536</u>	<u>(488)</u>	<u>21,048</u>
Current liabilities			
Accruals, deferred income and other liabilities	4,765	(63)	4,702
Total liabilities	<u>4,765</u>	<u>(63)</u>	<u>4,702</u>
Equity			
Shareholder's equity:			
Called-up share capital	8,350	-	8,350
Retained earnings	8,421	(425)	7,996
Total equity	<u>16,771</u>	<u>(425)</u>	<u>16,346</u>
Total liabilities and equity	<u>21,536</u>	<u>(488)</u>	<u>21,048</u>