

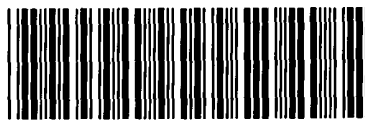
Company Registered Number: SC102144

ADAM & COMPANY INVESTMENT MANAGEMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

THURSDAY



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30/05/2019
COMPANIES HOUSE

**COMPANIES HOUSE
EDINBURGH**

30 MAY 2019

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BOARD OF DIRECTORS AND SECRETARY

Directors

Graham Storrie
Managing Director

Mark Ivory
Director

Susan Boyd
Director

Stuart Martin Balfour Dickson
Director

Andrew Richard Kyle
Director

Company Secretary

Kate Alexandra Ramage

Appointments & Resignations

Stuart Martin Balfour Dickson (Director) appointed on 13 September 2018

Michael Robert Regan (Director) resigned on 31 January 2019

Andrew Richard Kyle (Director) appointed on 18 April 2019

Auditors

Ernst & Young
Statutory Auditor
25 Churchill Place
London
United Kingdom
E14 5EY

Registered office

24/25 St Andrew Square
Edinburgh
Scotland
United Kingdom
EH2 1AF

Adam & Company Investment Management Limited

Registered in Scotland No. SC102144

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 2018. The financial statements are prepared in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework, as adopted by the European Union (EU).

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.

Business review

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

Performance highlights

	2018	2017
	£m	£m
Total income	10.6	12.1
Operating expenses	(6.8)	(8.4)
Operating profit before tax	3.8	3.7
Profit and total comprehensive income for the year	2.9	3.0
Assets under management (AUM)	1,778	1,947
Cost: income ratio	64.4%	69.1%

Financial Performance

Operating profit has remained consistent over the year.

From 1 January 2018 and in line with MIFID II requirements, the Company updated its pricing tariff and invoicing approach, bringing more clarity to clients for the rates being charged for specific services. The directors have assessed that this change is in line with the existing contractual arrangements.

The Company has taken this opportunity to simplify its activities, reporting income and AUMs for discretionary investment management in the company, serviced by its directly employed staff. The Company's parent The Royal Bank of Scotland plc (RBS plc) (under the Adam brand) reports platform fees and execution only AUMs for managing the infrastructure and operations elements of the service.

Total income has reduced by £1.5 million; £2.1 million due to the changes above offset by an underlying £0.6 million increase due to higher average AUMs during the year.

Operating expenses have reduced by £1.6 million due to changes in methodology of group recharge calculation from RBS plc to the Company resulting from simplification of business activities as described above.

At the end of the year, total assets were £27.1 million (2017 - £24.2 million), largely comprising intercompany receivables.

AUMs at the end of the year were £1,778 million, this includes £0.33 million of execution only assets (2017 - £1,947 million).

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, generating investment returns, investing in a high performing culture, deepen needs met for sustainable growth, optimise the operating model and simplify the business.

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

The reduction is driven by negative market movements towards the end of the year.

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.

Ring-fencing

UK ring-fencing legislation requires the separation of essential banking services from investment banking services from 1 January 2019. The Company forms part of NatWest Holdings Limited (NWH) ring-fenced banking group and has taken the necessary operational steps to comply with the legislation. Ring-fencing has not had a material impact on the Company's operations or financial performance.

STRATEGIC REPORT

Risk management

The principal risks associated with the Company's businesses are compliance and conduct, operational, financial crime and capital adequacy. 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's policies for managing each of these risks and its exposure thereto are detailed in note 6 to the financial statements. These policies and processes are compliant with the RBS Group's framework.

Outlook

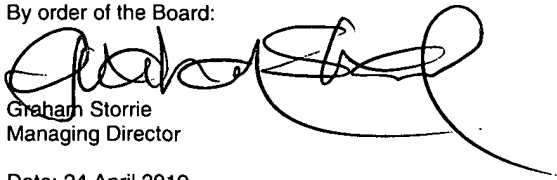
The directors do not anticipate any significant change in either the type or level of activities of the Company.

The Company continues to deliver a premium service to clients, satisfying additional client needs and engaging with clients in new and innovative ways.

The Company provides investment management services to clients in the UK. The Company is undertaking preparations to seek to ensure that any potential business and customer disruption as a result of Brexit is minimised.

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
Managing Director

Date: 24 April 2019

Adam & Company Investment Management Limited registered
in Scotland No. SC102144

REPORT OF THE DIRECTORS

The directors present their report together with the audited accounts for the year ended 31 December 2018. It should be read in conjunction with the Strategic Report.

Directors and secretaries

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

From 1 January 2018 to date, changes that have taken place are shown under 'Appointments and Resignations' on page 1.

Share capital

Analysis of share capital can be found in note 5 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.

The Company's business activities and future developments, together with the factors likely to affect its development, performance and position, including principal risks, are set out in the Strategic Report on pages 2 & 3.

Dividends

The directors do not recommend the payment of a dividend (2017 - 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.

Directors' disclosure to auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

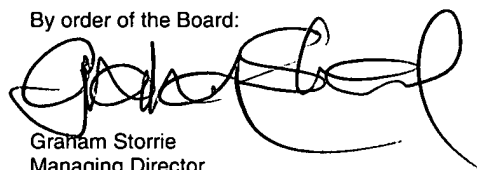
This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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
Managing Director
Date: 24 April 2019

Adam & Company Investment Management Limited registered in Scotland No. SC102144

STATEMENT OF DIRECTORS' RESPONSIBILITIES

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 6.

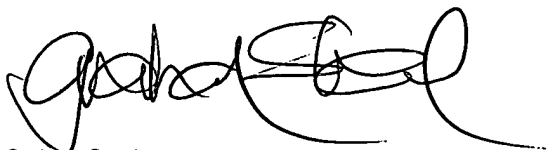
The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare a Strategic report, Report of the Directors and accounts for each financial year. Under that law, the directors have elected to prepare the accounts in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework, and must not approve the accounts 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 accounts, 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, Report of the Directors and accounts 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.

By order of the Board:



Graham Storrie
Managing Director
Date: 24 April 2019

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 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 11, 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 2018 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.

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.

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.



Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 18 April 2019

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Fees and commission receivable		10,560	12,127
Total income		10,560	12,127
Operating expenses	1	(6,805)	(8,385)
Operating profit before tax		3,755	3,742
Tax charge	2	(844)	(758)
Profit and total comprehensive income for the year		2,911	2,984

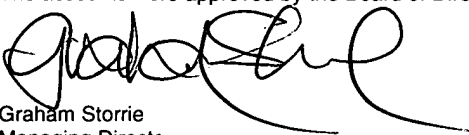
The accompanying notes, on pages 13 to 17, and the accounting policies, on pages 11 to 12, form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Current assets			
Amounts due from holding companies and fellow subsidiaries		23,849	20,373
Other assets	3	2,822	3,358
Total current assets		26,671	23,731
Non current assets			
Deferred tax asset	2	444	505
Total assets		<u>27,115</u>	<u>24,236</u>
Current liabilities			
Other liabilities	4	4,874	4,906
Total liabilities		<u>4,874</u>	<u>4,906</u>
Owner's equity		22,241	19,330
Total equity		22,241	19,330
Total liabilities and equity		<u>27,115</u>	<u>24,236</u>

The accompanying notes, on pages 13 to 17, and the accounting policies, on pages 11 to 12, form an integral part of these financial statements.

The accounts were approved by the Board of Directors on 24 April 2019 and signed on its behalf by:


Graham Storrie
Managing Director


Andrew Richard Kyle
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Called-up share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2017	8,350	7,996	16,346
Profit for the year	-	2,984	2,984
At 31 December 2017	8,350	10,980	19,330
Profit for the year	-	2,911	2,911
At 31 December 2018	8,350	13,891	22,241

The accompanying notes, on pages 13 to 17, and the accounting policies, on pages 11 to 12, form an integral part of these financial statements.

ACCOUNTING POLICIES

1. 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 as adopted by the EU; and
- on the historical cost basis.

The Company has adopted all of the amendments to FRS 101 as a result of the Triennial review 2017 amendments with effect from 1 January 2018.

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 plc, these accounts are available to the public and can be obtained as set out in note 9.

The few changes to IFRS that were effective from 1 January 2018 have had no material effect on the Company's financial statements for the year ended 31 December 2018.

The Company improved presentation of a number of disclosures and comparative figures have been adjusted to be consistent with new preparation (refer note 10).

2. Income 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.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at inception of the contract. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

3. Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the Statement of Comprehensive Income except income tax on items recognised outside Statement of Comprehensive Income 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.

4. Financial instruments

On initial recognition, financial instruments are measured at fair value. Subsequently they are measured as follows:

- amortised cost; or
- financial assets may be designated as at fair value through other comprehensive income; or
- fair value through profit or loss.

Amortised cost assets - have to meet both the following criteria:

- the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

5. Impairment of financial assets

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses (ECL) where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and ECL are rebased from 12 month to lifetime expectations.

On restructuring a financial asset without causing derecognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset. Derecognition could be caused by materially altering the nature of contractual cash flows of the financial instrument, for example from debt to equity.

Where, in the course of the orderly realisation of a loan, it is exchanged for property, the exchange is accounted for as the sale of the loan and the acquisition of investment property.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented in administrative expenses. Financial assets are presented gross of allowances except where the asset has been wholly or partially written off.

ACCOUNTING POLICIES

6. 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.

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.

7. Employee benefits

This policy should be read in conjunction with note 1 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.

Contributions to defined contribution pension schemes and defined benefit pension schemes are recognised in the Statement of Comprehensive Income when payable.

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.

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 2018

1. Operating expenses

	2018 £'000	2017 £'000
Wages and salaries	3,534	3,686
Social security costs	441	435
Pension costs	501	453
Staff costs	4,476	4,574
Other administrative expenses	2,329	3,811
	6,805	8,385

The average number of persons employed during the year was 36 (2017 - 37).

Management recharge

Management charges relate to the Company's share of RBS resources such as the use of IT platforms, staff and a share of central resources. These are recognised on accrual basis as and when services are received and are recharged on a monthly basis by RBS plc. The management charge of £1,299k (2017 - £3,002k) is included within other administrative expenses above.

As a result of an amendment to prior year management recharges the related tax effect is recognised through current year income statement.

Staff costs, number of employees and directors' emoluments

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

Pension costs

Eligible employees of the Company can participate in membership of RBS operated pension schemes. The principal defined benefit scheme is The Royal Bank of Scotland Group Pension Fund (the "Main section"). The Main section was closed to new entrants in October 2006 and since then employees have been offered membership to The Royal Bank of Scotland Retirements Savings Plan, a defined contribution pension scheme. The RBS pension schemes are further disclosed in the Annual Report and Accounts of RBS.

Auditor's remuneration

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 Company's Audit Committee review the amounts of audit and non audit services provided by the Group's auditor.

The auditor's remuneration for statutory audit work of £19k (2017 - £9k) for the Company was borne by RBS plc. Remuneration paid to the auditor for non-audit work for the Company was £9k (2017 - £7k). In addition the auditor's remuneration for group reporting audit work of £6k (2017 - £5k) was borne by The Royal Bank of Scotland Group plc, the ultimate parent company of the Company.

2. Tax

	2018 £'000	2017 £'000
Current tax		
Charge for the year	691	658
Under provision in respect of prior periods	92	-
	783	658
Deferred tax		
Origination and reversal of timing differences	61	100
	61	100
Tax charge for the year	844	758

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Tax continued

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK Corporation tax of 19% (2017 - 19.25%) as follows:

	2018 £'000	2017 £'000
Expected tax charge	714	720
Non-deductible items	38	38
Prior period adjustments	92	-
Actual tax charge	<u>844</u>	<u>758</u>

The effective tax rate for the year was 22.48% (2017: 20.24%).

In recent years, the UK government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted at the balance sheet date standing at 19% from 1 April 2017 and 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.

Deferred tax

	2018 £'000	2017 £'000
Deferred tax assets	444	505

Net deferred tax asset comprised:

	Intangibles £'000	Deferred bonus £'000	Total £'000
At 1 January 2017	567	38	605
Charge to income statement	(62)	(38)	(100)
At 31 December 2017	505	-	505
Charge to income statement	(61)	-	(61)
At 31 December 2018	<u>444</u>	<u>-</u>	<u>444</u>

The provision for UK deferred taxation has been calculated taking into account the latest enacted rates of corporation tax. A deferred tax asset of £444k has been recognised for the Company at 31 December 2018 (2017 - £505k). This asset has been recognised in the financial statements following the deferral of tax relief in respect of goodwill that was recognised in the prior periods. 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.

3. Other assets

	2018 £'000	2017 £'000
Due within 12 months:		
Accrued income	2,822	3,358
	<u>2,822</u>	<u>3,358</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. Other liabilities

	2018 £'000	2017 £'000
Due within 12 months:		
Corporation tax	612	547
Accruals	4,247	4,350
Other liabilities	15	9
	4,874	4,906

5. Called-up share capital

	Allotted, called-up and fully paid		Authorised	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<i>Equity shares</i>				
Ordinary Shares of £1	8,350	8,350	9,100	9,100
Total share capital	8,350	8,350	9,100	9,100

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

6. Risk management

Risk management framework

Introduction

RBS, the largest group into which the Company is consolidated, operates an integrated risk management framework, centred on the embedding of a strong risk culture, designed to achieve compliance with prudential and conduct obligations. The framework ensures the tools and capabilities are in place to facilitate risk management and decision-making across the organisation. Its strategy is informed and shaped by an understanding of the risk landscape, including a range of significant risks and uncertainties in the external economic, political and regulatory environment. Identifying these risks and understanding how they affect RBS, informs risk appetite and risk management practice. The Company's Board is responsible for ensuring that the RBS approach is implemented as relevant to the Company. More information on the RBS approach, risk appetite, and governance can be found in the RBS annual report and accounts.

The major risks associated with the Company's businesses are compliance & conduct, operational, financial crime and capital adequacy. 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.

Compliance & Conduct Risk

Definition and sources of risk

Compliance risk is the risk that the behaviour of the Company towards clients fails to comply with laws, regulations, rules, standards and codes of conduct. Such a failure may lead to breaches of regulatory requirements, organisational standards or client expectations and could result in legal or regulatory sanctions, material financial loss or reputational damage.

Conduct risk is the risk that the conduct of the Company and its subsidiaries and its staff towards clients – or in the markets in which it operates – leads to unfair or inappropriate client outcomes and results in reputational damage, financial loss or both.

Compliance and conduct risks exist across all stages of the Company's relationships with its clients and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information.

Compliance and Conduct risk management

The Company defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework.

Risk appetite statements articulate the levels of risk that the Company works within when pursuing its strategic objectives and business plans.

The Company operates a range of controls to ensure its business is conducted in accordance with legal and regulatory requirements, as well as delivering good client outcomes. A suite of policies addressing compliance and conduct risks set appropriate standards across the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Operational risk

Definition and sources of risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. It arises from day-to-day operations and is relevant to every aspect of the business.

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of client data. Fraud and theft – as well as the increasing threat of cyber attacks – are sources of operational risk, as is the impact of natural and man-made disasters. Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

The Company experiences continued cyber attacks, with an emerging trend of attacks against the Company's supply chain, re-enforcing the importance of due diligence and working closely with the third parties on which the Company relies.

Operational risk management

Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk the Company is willing to accept to achieve its strategic objectives and business plans.

Financial Crime

Definition and sources of risk

Financial crime risk is the risk presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion. It does not include fraud risk management.

Financial crime risk may be presented if the Company's employees, clients or third parties undertake or facilitate financial crime, or if the Company's products or services are used to facilitate such crime. Financial crime risk is an inherent risk across all of the Company's lines of business.

Financial crime risk management

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.

Capital adequacy risk

Capital adequacy risk is the risk that there is or will be insufficient capital to operate effectively, including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals.

The Board regularly reviews capital adequacy to ensure common equity and reserves are within appetite.

7. Memorandum items

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.

8. 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.

9. Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of RBS. Its shareholding is managed by UK Government 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 RBS plc, a company incorporated in the UK and registered in Scotland.

As at 31 December 2018, the smallest group which the Company has been consolidated into was RBS plc 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 both may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. Presentation

The Company has improved presentation of the primary statements and the impact on the comparative figures has been adjusted to be consistent with new presentation.

	31 December 2017	New Presentation	31 December 2017 Represented
	£'000	£'000	£'000
Current assets			
Prepayments, accrued income and other assets	23,731	(23,731)	-
Amounts due from holding companies and fellow subsidiaries	-	20,373	20,373
Other assets	-	3,358	3,358
Total current assets	23,731	-	23,731
Non current assets			
Deferred tax asset	505	-	505
Total assets	24,236	-	24,236
Current liabilities			
Accruals, deferred income and other liabilities	4,906	(4,906)	-
Other liabilities	-	4,906	4,906
Total liabilities	4,906	-	4,906
Equity:			
Shareholders' equity:			
Called up share capital	8,350	(8,350)	-
Retained earnings	10,980	(10,980)	-
Owner's equity	-	19,330	19,330
Total equity	19,330	-	19,330
Total liabilities and equity	24,236	-	24,236

11. 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.