BNY Mellon Capital Markets EMEA Limited

Strategic report, Directors' report and financial statements

Registered number 03766757

31 December 2018

BNY Mellon Capital Markets EMEA Limited

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BNY Mellon Capital Markets EMEA Limited

Board of Directors and other information

Directors
R Savchuk
J Tisdall
D Watkins

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BNY Mellon Secretaries (UK) Ltd
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Auditor
KPMG LLP
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London
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London
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Company Number
03766757

BNY Mellon Capital Markets EMEA Limited

Strategic report

In accordance with Section 414A(1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of business and future developments, key performance indicators and a description of the principal risks and uncertainties facing BNY Mellon Capital Markets EMEA Limited ("the Company").

The ultimate parent company is The Bank of New York Mellon Corporation ("BNY Mellon"/"Group").

Business review

The Company generated a loss for the year of £2,017,000 (2017: £880,000 loss). There were no significant changes in the Company's core operations during the year. During 2018, the Company continued to trade in fixed income and equity securities on behalf of clients on a principal trading and agency basis. The Company's revenue increased by 7% to £5,434,000 (2017: £5,055,000). This consists of trading income earned on principal trading, commission charged on agency trades, underwriting and liquidation agent fees. Administrative expenses incurred during the year decreased by 5% to £6,970,000 (2017: £7,350,000). These comprise transaction, execution and clearing fees paid to another Group company, regulatory compliance costs relating to MiFID II, technology and staff costs.

During 2018, QSR Management Ltd remained a 100% owned subsidiary of the Company. Both QSR Management Ltd and the Company remain under the common control of BNY Mellon International Financing Corporation.

Financial key performance indicators

The Company's key financial and other performance indicators during the year were as follows:

	2018 £000	2017 £000	Change £000	Change %
Revenue	5,434	5,055	379	7%
Administrative expenses	6,970	7,350	(380)	(5)%
Operating loss	(1,536)	(2,295)	759	(33)%
Loss before taxation	(2,017)	(879)	(1,138)	129%
Net assets	31,298	33,301	(2,003)	(6)%

Revenue increased by £379,000 (7%) during the year, due to the addition of new clients, which has resulted in increased trading volumes and revenues.

Administrative expenses decreased by £380,000 (5%) during the year as a result of staff costs and repricing of clearing fees, the net impact of this was a decrease in Operating loss of £759,000 (33%).

Net Interest, dividends, impairment and similar charges amounted to £481,000 resulting in a loss for the financial year of £2,017,000.

Net assets decreased by £2,003,000 (6%), mainly reflecting the financial result for the year.

Principal risks and uncertainties

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 4 to 10.

Business and future developments

The directors have reviewed the Company's business and have decided to sell the Company's fixed income business to The Bank of New York Mellon London Branch ("London Branch"), which will continue to service the existing client portfolios, and either close, transfer or sell the Company's equities business to an affiliated entity within the Group. These changes are expected to take place in 2019, after which the Company is expected to be wound down.

As part of the BNY Mellon Brexit Programme, the Company continues to monitor the UK's withdrawal from the European Union and is proactively engaging with clients on their key concerns and considerations. The programme's analysis and planning has taken into account a range of potential economic scenarios and impact on the Company's operating model, aligned with regulatory and supervisory guidance which has been communicated industry-wide.

Specific risks to the Company's business include the impact of potential regulatory changes and retention of clients by the Company. By working closely with regulators, and establishing a full Communications and Client Engagement work stream as part of the wider BNY Mellon Brexit programme, a proactive approach has been taken to mitigate these risks wherever possible, and to support clients with their post-Brexit transition.

Other risks due to the implications of Brexit include potential changes to the legal framework in which the Company operates and the impact of potential adverse movements in financial market values on the Company's financial performance and liquidity.

As Brexit negotiations progress, the BNY Mellon Brexit Programme and the Company's Operating Committee continues to monitor new developments and any regulatory implications that may impact the Company's services.

Approval

By order of the Board

J Tisdall
Director

BNY Mellon Capital Markets EMEA Limited
One Canada Square
London, E14 5AL

Date: 10 April 2019

Registered number: 03766757

BNY Mellon Capital Markets EMEA Limited

Directors' report

The directors present their report and financial statements for the year ended 31 December 2018.

Principal activities

The Company's principal activities were the provision of UK-based broker dealer services, servicing clients in Europe, the Middle East and Africa regions.

Following a review of the business, the directors decided to sell the Company's fixed income business to London Branch, and either close, transfer or sell the Company's equities business to an affiliated entity within the Group. These changes are expected to take place in 2019, after which the Company is expected to be wound down. The Company has therefore not prepared the financial statements on a going concern basis, the effect of which is explained at note 1.1.

Results and dividends

The loss for the year after taxation amounted to £2,017,000 (2017: £880,000 loss). Interim dividends paid during the year amounted to £nil (2017: £nil). The directors do not recommend a final dividend for the year ended 31 December 2018 (2017: £nil).

Political Donations

The Company made no political donations or incurred any political expenditure during the year.

Risk management process

The Board sets the strategy and policies for the management of these risks and is responsible for risk identification, management and monitoring.

Risk management framework

The Company is committed to ensuring that, in executing on its strategic and operational plans, it at all times operates within its own Risk Appetite. In order to achieve this, the Company is committed to having a robust review of the Risk Appetite process. The Company's Risk Appetite Framework defines the roles and responsibilities for ownership, approval and monitoring of Risk Appetite, and the incorporation of Risk Appetite into the governance, business management, decision making and strategy development processes of the Company. The statement and metrics are owned and set by the Board, monitored by the both the First and the Second Line of Defence and its results are discussed and monitored monthly by the Operating Committee.

Risk Appetite for the legal entity is defined in the context of the Group Corporate Risk Appetite for each risk exposure classified within the BNY Mellon Risk Taxonomy. Financial risks and other principal risks relevant to the Company are discussed below.

Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events (including Legal Risk but excluding Strategic and Reputation Risk).

Operational Risk may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to systems failures or other events. Operational Risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

Risk management process - continued

Operational risk - continued

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to fulfil a strategy of managing risk through a culture of risk awareness, a clear governance structure, well defined policies, procedures and reporting and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organised way to the appropriate governance bodies.

The ORMF defines roles and responsibilities through the Group's global risk policy, using the Three Lines of Defence model as a foundation. Thus, responsibility for the management of Operational Risk sits first and foremost with the business and functions.

The Company's ORMF relies on a culture of risk awareness, a clear governance structure and Operational Risk policies and procedures, which define the roles and responsibilities of the First, Second and Third Lines of Defence. These policies and procedures complement each other to ensure that the Operational Risks of the business are effectively identified, managed, mitigated (where possible) and reported to the appropriate governance committees on a monthly basis.

The Company uses the ORMF to capture, analyse and monitor its Operational Risks. The tools used to manage the Operational Risks of the business are prescribed through the enterprise Operational Risk program, assessment systems and related processes.

The Company utilises comprehensive policies and procedures designed to provide a sound operational environment. The Corporate Operational Risk Policies are reviewed and enhanced on an ongoing basis, and adopted by all businesses/legal entities.

Outsourcing

Outsourcing is defined as an arrangement whereby an affiliate entity contracts with a third party service provider to perform services on a continuing basis that would normally be undertaken by the affiliate entity itself.

Outsourcing Risk is the risk of failure in respect of the provision of services by a third party provider that could potentially damage an entity's operations, results in breach of an entity's regulatory or contractual obligations or if contracts with any third party service providers are terminated, the entity may not be able to find replacement alternative providers on a timely basis or on equivalent terms.

The Company's outsourcing oversight may involve performing service review meetings and/or on site due diligence visits. The determination of the method and frequency of oversight is risk based and takes into account the criticality/risk profile of the service provider and the criticality/risk profile of the outsourced function, service or product.

The Company also takes the necessary precautions to be able to adequately transfer the outsourced services to another provider or resume management of them internally, whichever best ensures the continuity of quality of the services should the service provider fail in its responsibilities or otherwise be compromised.

After the outsourcing arrangement is implemented, the Company ensures it maintains the experience, knowledge and means necessary to monitor the proper functions and quality of outsourced activities in order to oversee the function effectively.

Regulatory risk

Regulatory Risk is the risk resulting from non-compliance with, violations of, or non-observance with applicable rules, regulations, laws, ethical standards and related policies and procedures. The inability or failure to fully implement changes to applicable rules and regulations would also constitute Regulatory Risk.

Risk management process - continued

Regulatory risk - continued

Emerging regulations are monitored by Compliance, Legal and Risk Management, and reported to regional senior management. Strategies and preparations to comply with regulations are put in place where necessary.

Strategic risk

Strategic risk is defined as the risk arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the financial industry and operating environment. Strategic and/or Business risks may also arise from the acceptance of new businesses, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions/divestitures/joint ventures and major capital expenditures/investments.

Credit risk

Credit Risk is the risk that an obligor/issuer is unable or unwilling to satisfy an obligation when it falls due. Credit Risk can originate from on balance sheet obligations such as deposits, loans, commitments, securities and other assets by failing to make the required repayments.

The Company's Credit Risk is principally obligor and concentration risk relating to its placement of cash balances to 3rd parties. The Company places the majority of its excess cash in approximately equal amounts with UK bank counterparties (see note 15).

A significant part of the revenue of the Company is earned on matched trades, where it is counterparty to both sides of a matched trade and consequently bears counterparty risk between trade date and settlement date (usually 2 days). To mitigate this risk, the Company undertakes trades on a Delivery versus Payment basis so that in the event of a default prior to settlement, exposure is limited to any mark to market loss that arises. Internal controls exist to identify any default situations as they arise, and normal operating policy is to eliminate any exposures arising by closing out positions in a short time frame.

Market risk

Market Risk is the risk to a Company's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates and equity and commodity prices.

In the normal course of business, the Company does not hold financial securities on its balance sheet and will not carry market risk. In the case of a counterparty default, the Company will be exposed to market risk to the extent that the Company is at risk of replacing the defaulting leg of a matched trade or agency transaction. An adverse price movement of the traded security will therefore result in a loss for the Company.

Liquidity risk

Liquidity Risk is the inability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt, especially during periods of market stress, at a reasonable cost in order to meet its short term (up to one year) obligations.

The Company's overall approach to liquidity management is to ensure that sources of liquidity are sufficient in amount and diversity such that changes in funding requirements can be accommodated routinely without material adverse impact on earnings, capital, daily operations, or the financial condition of the entity.

Risk management process - continued

Liquidity risk - continued

The Company has a Liquidity Risk management framework consisting of a combination of regulatory and internal processes and controls allowing it to measure, monitor and manage Liquidity Risk. Liquidity Risk is mitigated through the daily monitoring of key liquidity ratios.

Capital Management

The Company monitors its capital adequacy in accordance with the CRD IV Framework on the basis of Pillar 1 and Pillar 2 requirements.

The Company has established robust governance arrangements over the Internal Capital Adequacy Assessment Process (ICAAP), including the development, adoption and submission of the ICAAP document itself, the quarterly capital assessment process, and the underlying procedures and methods that are used for capital assessment.

There is a capital planning process which incorporates both economic capital modelling and a capital stress testing programme.

Governance and policies

BNY Mellon Corporation's risk management is coordinated at regional, legal entity and line of business levels. A formal governance hierarchy is in place to ensure effective escalation of issues through the regional and global structure.

The main governing body of the Company is its Board of Directors. The Board meets on a quarterly basis, and receives reports from Risk Management and Compliance to evaluate the effectiveness of the existing control environment. Internal Audit reports are submitted to the Operating Committee (OpCom) and escalated to Board of Directors where appropriate.

The OpCom was proposed and approved by the Board in April 2011, and deals with project governance, risk, and the approval of new products. It meets on a monthly basis and is a key decision making committee. Membership comprises of business line management, Risk Management and business partners. The Committee reports into both the Board and the Markets EMEA Business Risk Committee. The main duties and responsibilities of the OpCom are but are not limited to the following:

- Ensuring that Risk and Compliance activities undertaken by the Company are executed in accordance with internal Group policies and relevant regulations.

- Day to day management of the Company (responsibility of the Chief Executive Officer) includes daily oversight and managing of the trading functions.

A Capital and Stress Testing Council (CSTC) previously Capital and Stress Testing Committee was established in April 2014 to ensure adequate governance and ownership of the Internal Capital Adequacy Assessment Process.

The CSTC is responsible for reviewing the capital requirements, risk model methodologies and stress testing in accordance with relevant internal capital and stress testing policies.

Regional Risk Governance includes:

- EMEA Business Executive Committee provides regional leadership and ensures the execution of regional priorities to inform the EMEA Chairman about material issues impacting the region and ensuring connectivity with and feedback to and from the US Executive Committee.

Governance and policies - continued

- EMEA Senior Risk & Controls Committee which exercises responsibility and provides independent oversight for policies, processes and controls relating to all aspects of risk and compliance for the region.

- The EMEA Asset and Liability Committee (EMEA ALCO) focuses on the balance sheets in its region from an asset & liability management perspective and is responsible for the efficient and effective functioning of the Local Country ALCO or Branch Liquidity Committees in its region. EMEA ALCO is responsible for ensuring that Company policy and guidance set through the Company ALCO is understood and executed locally. This includes strategy related to the investment portfolio, placements, interest rate risk, and liquidity risk.

- EMEA Controls Council is a non-voting committee established (primarily) to review, discuss and challenge control related issues in the EMEA region.

- EMEA Portfolio Committee (EPC) is the primary executive level decision making body mandated with providing portfolio level oversight of all regulatory and significant strategic change programmes within the EMEA region, on behalf of respective legal entities, lines of business and business partners. In line with the operating principles set out for the EPC, it focuses on overseeing the health of the change portfolio, addressing enterprise wide scope changes and conflicts, and making decisions on prioritisation. The EPC escalates issues to the Regulatory Executive Steering Committee (RESC), Major Initiatives Council (MIC), the EMEA Senior Risk Management Committee and where applicable the relevant EMEA Legal Entity Executive or Management Committee.

- Third Party Governance (TPG) EMEA Regional Validation Group is responsible for reviewing and validating all engagements identified as medium risk or higher as well as reviewing due diligence results and assessing and identifying any gaps identified in the third party's risk management processes in the respective regions.

- EMEA Entity Governance Committee oversees the creation, maintenance and dissolution of direct and indirect subsidiaries of BNY Mellon Corporation, branches of those subsidiaries and joint venture arrangements operating within the EMEA region.

Pillar 3 risk disclosures

CRR Pillar 3 disclosures about the Company (capital and risk management) are covered by the BNY Mellon Capital Markets EMEA Limited disclosures which can be found on the Group website: (https://www.bnymellon.com/us/en/investor relations/other-regulatory.jsp)

EU Capital Requirements Directive IV disclosure

Institutions are required to publish details of their revenue, employment, profits, taxation and any public subsidies on a country by country basis under the EU Capital Requirements Directive IV ("CRD IV") from 1 January 2015. Article 89 of CRD IV requires institutions to report the following information by member state and third countries in which it has an establishment:

a) Nature of activities and geographical location (see Principal activities on page 4 and Segmental reporting on page 20), all based in the United Kingdom;
b) Revenue (see disclosure note 4 on page 33), all generated in the United Kingdom;
c) Number of employees on a full time equivalent basis (see disclosure note 6 on page 34), all located in the United Kingdom;
d) Profit and loss before taxation (see page 14), all generated in the United Kingdom;
e) Tax on profit or loss (see disclosure note 12 on page 36), all generated in the United Kingdom; and
f) Public subsidies received (none).

Employees

The Company is committed to a best practice approach to consult with employees on matters that are likely to affect their interests. Information of general interest to employees is provided through the intranet, newsletters, notices and general dialogue between line managers and employees, all of which seeks to achieve a common awareness of the financial and economic factors which impact the Company's performance. In addition the Company participates in the Group's Employee Information & Consultation Forums at both a local and European level. The Forums build on existing communication channels and provide more formal opportunities for dialogue between management and employees.

The Company adopts a total rewards and pay for performance remuneration philosophy. Any variable remuneration incentives are discretionary, based on individual and business unit performance together with other factors as determined from time to time in the context of the Company's operating plans and results and may be subject to deferral. Employees have the opportunity to purchase stock through the Group's Stock Accumulation Plan.

The Company is also committed to providing relevant training and development opportunities, to include achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, and in addition, meet regulatory requirements. The Company adheres to the principles of Equal Employment Opportunity, and is committed to facilitating employment opportunities for people with disabilities.

Directors

The directors who served during the year and up to the date of the report were as follows:

	Appointed	Resigned
J Edwards	-	23 May 2018
R Savchuk	-	-
J Tisdall	-	-
D Watkins	-	-

Directors' indemnity provision

The articles of association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the year but have not been utilised by the directors (2017: not utilised).

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

BNY Mellon Capital Markets EMEA Limited

Directors' report

Post balance sheet events

On 5th March 2019, it was approved by the directors to wind down the Company following the transfer of the Company's fixed income business to London Branch, and the Company's equities business to an affiliated entity within the Group. These changes are expected to take place in 2019.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

J Tisdall
Director

BNY Mellon Capital Markets EMEA Limited
One Canada Square
London
E14 5AL
Registered number: 03766757

Date: 10 April 2019

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: *Reduced Disclosure Framework* ("FRS 101").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of 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 applicable UK Accounting Standards have been followed, including FRS 101, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so (as explained in note 1.1, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of BNY Mellon Capital Markets EMEA Limited

Opinion

We have audited the financial statements of BNY Mellon Capital Markets EMEA Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of profit and loss and other comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101: *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Acts 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the Financial Reporting Council's ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter - non-going concern basis of preparation

We draw attention to the disclosure made in note 1.1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information, which comprises the Strategic report and the Directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Acts 2006.

Independent auditor's report to the members of BNY Mellon Capital Markets EMEA Limited

Matters on which we are required to report by exception

Under the Companies Acts 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Acts 2006. Our audit work has been undertaken so that we might state to the Company's members 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Alison Allen

Alison Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

Date: 18 April 2019

BNY Mellon Capital Markets EMEA Limited

Statement of profit and loss and other comprehensive income

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	4	5,434	5,055
Administrative expenses	5,6 & 7	(6,970)	(7,350)
Operating loss		(1,536)	(2,295)
Income from investment in subsidiary	8	1,000	6,000
Impairment of investment in subsidiary	9 &13	(1,022)	(4,120)
Interest receivable and similar income	10	426	203
Interest payable and similar charges	11	(885)	(667)
Loss before taxation		(2,017)	(879)
Taxation	12	-	(1)
Total loss for the financial year		(2,017)	(880)

Notes 1 to 24 are integral to these financial statements.

The Company has not prepared a separate Statement of other comprehensive income as all the income and losses are reflected in the Statement of profit and loss.

BNY Mellon Capital Markets EMEA Limited

Balance sheet
at 31 December 2018

	Note	2018 £000	2017 £000
Current assets			
Debtors	14	1,791	3,646
Cash at bank and in hand	15	81,068	81,223
Investment in subsidiary	13	4,081	5,103
		86,940	89,972
Creditors: amounts falling due within one year	16	(55,642)	(56,671)
Net assets		31,298	33,301
Capital and reserves			
Called up share capital	19	30,273	30,273
Other reserves	19	231	217
Profit and loss account		794	2,811
Shareholders' funds		31,298	33,301

Notes 1 to 24 are integral to these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:

J Tisdall
Director

Date: 10 April 2019

Registered number: 03766757

BNY Mellon Capital Markets EMEA Limited

Statement of changes in equity
31 December 2018

	Called up Share capital	Other reserves	Profit and loss account	Total
	£000	**£000**	**£000**	**£000**
Balance at 1 January 2017	30,273	37	3,691	34,001
Total loss for the year	-	-	(880)	(880)
Equity capital contribution reserve	-	180	-	180
Balance at 31 December 2017	30,273	217	2,811	33,301
Balance at 1 January 2018	30,273	217	2,811	33,301
Total loss for the year	-	-	(2,017)	(2,017)
Equity capital contribution reserve	-	14	-	14
Balance at 31 December 2018	30,273	231	794	31,298

Notes 1 to 24 are integral to these financial statements.

1 Accounting policies

1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company limited by shares incorporated and domiciled in the UK and registered in England and Wales. The registered address is given on page 1.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 3. In addition, the Directors' report on pages 4 to 10 includes the Company's objectives, policies and processes for managing its capital, its financial risk management objective and its exposures to credit and liquidity risk.

The directors have reviewed the Company's business and have decided to sell the Company's fixed income business and either close, transfer or sell the Company's equities business. These changes are expected to take place in 2019, after which the Company is expected to be liquidated. The Company has therefore prepared the financial statements on a non going-concern basis. The Company expects to realise its investment in subsidiary asset prior to liquidation, and realise and settle its operating assets and liabilities in the ordinary course of business up to and at the point of liquidation without material delay. No changes in methods or assumptions have been made regarding the measurement of assets and liabilities due to this change of basis of preparation.

These financial statements were prepared in accordance with FRS 101.

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company and all its subsidiary undertakings in its consolidated financial statements. The consolidated financial statements of The Bank of New York Mellon Corporation are prepared in accordance with U.S. Generally Accepted Accounting Principles, which are *equivalent* to International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Bank of New York Mellon Corporation's consolidated financial statements are available at https://www.bnymellon.com/us/en/investor relations/. Accordingly the Company is a *qualifying entity* for the purpose of FRS 101 disclosure exemptions.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of Adopted IFRSs, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Statement of Cash Flows and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- Disclosures in respect of compensation of Key Management Personnel; and
- Disclosures in respect of revenue contracts with customers and significant judgements.

As the consolidated financial statements of The Bank of New York Mellon Corporation include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-Based Payments* in respect of Group settled share-based payments; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

1 Accounting policies - continued

1.1 Basis of preparation and statement of compliance with FRS 101 - continued

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.18.

1.2 Exemption from preparation of group financial statements

As noted in section 1.1 above, the Company's ultimate parent company includes the Company in its consolidated financial statements, which are prepared under a basis equivalent to Adopted IFRS. Accordingly, the Company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare Group financial statements. Therefore, these financial statements present information about the Company as an individual undertaking and not about its Group.

1.3 Changes in accounting policies

The Company has initially applied IFRS 9 and IFRS 15 from 1 January 2018.

IFRS 9 *Financial Instruments*

The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments.

The new impairment model applies to debt instruments and financial guarantee contracts issued that are not measured at FVTPL. ECLs on instruments classified as FVOCI are recognised in OCI rather than reducing the value of the instrument.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

1 Accounting policies - continued

1.3 Changes in accounting policies - continued

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

    - The determination of the business model within which a financial asset is held.

    - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Effect of applying IFRS 9

Introduction of these changes had no material impact on the accounting for financial assets nor on retained earnings for the Company.

IFRS 15 ***Revenue from contracts with customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

Introduction of these changes has had no material impact on the accounting for revenue nor on retained earnings for the Company.

1.4 Measurement convention

These financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the statement of profit or loss, and liabilities for cash-settled share-based payments. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

1 Accounting policies - continued

1.5 Related party transactions

As the Company is a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions or balances with entities which form part of the Group. Balances with other members of the Group are disclosed within notes 14, 15 and 16.

1.6 Revenue from contracts with customers

Revenue, which is stated net of value added tax, consists of trading income and commission income on securities transactions. Revenue from all trading activity is recognised on a trade date basis.

Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer.

A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognised by measuring the Company's progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognised at the point in time the customer obtains control of the promised good or service.

The amount of revenue recognised reflects the consideration the Company expects to be entitled to in exchange for the promised goods and services. Taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue producing transaction, are collected from a customer and are excluded from revenue.

Policy applicable before 1 January 2018

The revenue recognition policy applicable before 1 January 2018 was not significantly different to current policy.

1.7 Segmental reporting

A segment is a distinguishable component of the Company which is specific to either the type of product or service (business segment), or to products and services provided within a particular economic environment (geographical segment), where the risks and rewards are different from those of other segments.

Currently, the directors consider that the Company's services comprise one business segment (being the provision of broker dealer services) and that it operates in the UK market which is not geographically segmented.

1.8 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of profit and loss and other comprehensive income in the periods during which services are rendered by employees.

1 Accounting policies - continued

1.9 Interest receivable and interest payable

Interest payable and similar charges include interest payable and net foreign exchange gains or losses that are recognised in the Statement of profit and loss and other comprehensive income (see foreign currency accounting policy). Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest receivable and interest payable is recognised in the Statement of profit and loss and other comprehensive income as it accrues, using the effective interest method.

1.10 Foreign currency

The Company's functional currency is GBP. The Company's presentational currency is also GBP. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are reported net in the Statement of profit and loss and other comprehensive income within interest receivable or payable as appropriate.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Any resulting exchange differences are reported net in the profit and loss account within interest receivable or payable as appropriate.

1.11 Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the Statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Notes to the financial statements
for the year ended 31 December 2018

1 Accounting policies - continued

1.11 Taxation - continued

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.12 Investment in subsidiary

Investments in subsidiaries are carried at cost less impairment.

1.13 Securities settlement

The Company accounts for securities transactions on its balance sheet on a settlement date basis. If unmatched trades occur, either as a result of error or counterparty default, then balances are marked to market through the Statement of profit and loss until settlement occurs. Trade income is accrued on a trade date basis.

1.14 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors.

Financial assets are measured at amortised cost if meeting both of the following conditions and are not designated as at FVTPL:

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

Such financial assets include trade and other debtors.

Financial assets are measured at FVOCI only if meeting both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application depending on the facts and circumstances at that date.

A financial liability is initially recognised at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost or FVTPL. Loans and borrowings and trade and other creditors are measured at amortised cost using the effective interest rate method.

1 Accounting policies - continued

Business model assessment

Certain financial assets, for example, deposits with central banks and financial institutions, always will be held for collection of contractual cash flows as the nature of the asset means that it cannot be sold. For other financial assets, the Company makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the frequency and volume of historical and expected sales.

The Company generally does not hold assets for trading.

Assessment of whether cash flows are solely payments of principal and interest

'Principal' for these purposes is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Policy applicable before 1 January 2018

Financial assets are initially recognised at fair value and classified as fair value through profit and loss, as available-for-sale or as held-to-maturity. Financial assets are subsequently measured at fair value except for loans and receivables and held to maturity investments which are carried at amortised cost. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost, except for trading liabilities which are measured at fair value through profit and loss. Financial assets and liabilities are derecognised when the obligation is discharged, or derecognised when sold (assets) or extinguished (liabilities).

1 Accounting policies - continued

1.15 Impairment of financial assets (including trade and other debtors)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company generally recognises loss allowances at an amount equal to 12-month ECL (Stage 1, the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been a significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis (Stage 2). Exposures that are in default are regarded as credit impaired (Stage 3) and are also measured on a lifetime expected credit loss basis.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Financial guarantee contracts – the expected payments to reimburse the holder less any amounts that the Company expects to recover.

The Company has determined that the application of IFRS 9's impairment requirements had no material impact on the allowance for impairment as at 1 January 2018.

The Company maintains an allowance for doubtful accounts for the estimated non-collection of accounts receivable. Uncollectability is presumed 180 days after invoice issue date unless there are known customer-specific reasons for the delay in settlement.

Policy applicable before 1 January 2018

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

1.16 Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under FRS 101, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

1 Accounting policies - continued

1.17 Share-based payment transactions

Share based payments

Certain employees are issued Restricted Stock Units (RSUs) in the shares of The Bank of New York Mellon Corporation (the Company's ultimate parent). All share-based payments issued under these plans are equity settled.

The grant date fair value of the majority of share based payments awards granted to employees is recognised as an employee expense over the period in which the employees become unconditionally entitled to the awards.

RSUs are measured based on grant date fair value of the shares of The Bank of New York Mellon Corporation. However, certain awards are granted to Material Risk Takers ("MRTs") under the European Banking Authority and are required to be marked to market due to discretionary claw back language contained in their grants. Options are measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted.

Vesting conditions are not factored into the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non market performance or service conditions.

The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately. Certain of the Company's share based payment awards vest when the employee retires. For grants of share based payments with this feature, the award is fully expensed by the first date that the employee is eligible to retire. If an employee voluntarily leaves the company before the awards are fully vested, then the shares in relation to the employee are forfeited, with a credit to the income statement and a debit to equity.

Where an employee has transferred between different companies within the Group, current and future years' amortisation of all types of share based payments issued in prior years will be charged to the new Company from the year of transfer.

1.18 Accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions about future conditions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management believes that the Company's critical accounting policies for which judgement is necessarily applied are those which relate to impairment of investment in subsidiaries (see note 13). Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes to the financial statements.

2 Financial risk management

The Company has policies and procedures in place to ensure adequate governance and risk management of the Company's business. Governance of the Company is carried out through regular meetings of the Board of Directors and the Company's Operating Committee. The Board is responsible for the development of the Company's business under an appropriate risk management framework.

2 Financial risk management - continued

The Board sets the strategy and policies for the management of these risks and is responsible for risk identification, management and monitoring. The Company's risk management framework provides an integrated forward-looking risk assessment, management information reporting, risk appetite and capital adequacy process consistency.

The Board leverages BNY Mellon's EMEA Region (Europe, Middle East, and Africa) and key EMEA oversight committees in addition to the Group BNY Mellon Global Risk Management Framework to discharge its responsibilities. These committees include:

- The EMEA Senior Risk Management Committee, which consists of representatives from risk committees across EMEA legal entities, business groups and countries, and is a point of convergence for the risk committees. The Committee's main purpose is to receive, review and discuss risk and compliance matters relevant to EMEA legal entities and business groups, and to assess the regional impact;

- The Markets EMEA Business Risk Committee, whose purpose is to enhance transparency of the key risk and control issues facing Markets in EMEA and to provide a forum for raising, discussing, approving and escalating these issues; and

- The EMEA Asset & Liability Committee ("EMEA ALCO") which has oversight responsibility for balance sheet liquidity management of branches of BNY Mellon Corporation in the EMEA Region in addition to EMEA legal entities and is responsible for the efficient and effective functioning of local country asset and liability committees or branch liquidity committees in the EMEA Region.

As part of the 2013 application to the FCA on the Company's regulated activity, the Company submitted a document detailing its Internal Capital Adequacy Assessment Process ("ICAAP") the latest version of which was approved by the Board in 2018. This document provides an on-going assessment of the risks to which the Company is exposed. The Company's risk management and risk appetite frameworks describe how these risks are identified and managed.

Credit risk

The Company's exposure to credit risk includes the risk that an obligor/issuer is unable or unwilling to satisfy an obligation when it falls due.

A significant part of the revenue of the Company is earned on matched trades, where the Company is counterparty to offsetting buy and sell trades of the same security and consequently bears counterparty risk between trade date and settlement date (usually 2 days). To mitigate this risk, the Company undertakes trades on a Delivery versus Payment basis so that in the event of a default prior to settlement, exposure is limited to any mark to market loss that arises. Internal controls exist to identify any default situations as they arise, and normal operating policy is to eliminate any exposures arising by closing out positions in a short time frame.

Cash at bank may include funds on deposit with a regulated banking entity within the BNY Mellon Group or with third party regulated banks (see note 15).

(a) Securities settlement amounts receivable

The credit risk policy for securities settlement amounts receivable is to monitor the level of past due receivables on a daily basis. Provisions are raised where the recovery of a debt is considered to be unlikely. All clients with whom the Company deals are subject to detailed credit analysis and a high level assessment of market counterparties is carried out prior to allowing clients to trade.

2 Financial risk management - continued

Credit risk - continued

The aging of securities settlement amounts receivable that were not impaired at the balance sheet date was as follows:

	2018	2017
	£000	£000
Neither past due nor impaired	958	2,684
Past due up to one month	1	25
	959	2,709

The concentration of credit risk for securities settlement amounts receivables at the balance sheet date by geographical region was predominantly European.

The concentration of credit risk for securities settlement amounts receivables at the balance sheet date by type of customer was:

	2018	2017
	£000	£000
Clients	779	1,953
Market counterparties	180	756
	959	2,709

(b) Cash and balances at bank

The credit risk policy for cash and balances at bank is to maintain bank accounts with banks having an average rating of A-/A3 from external rating agencies.

The concentration of credit risk for cash and cash equivalents at the balance sheet date by geographical region was:

	2018	2017
	£000	£000
United Kingdom	81,068	81,223
	81,068	81,223

2 Financial risk management - continued

Market risk

Market risk is the risk of loss due to adverse movements in the financial markets. Market risk arises from foreign exchange exposure in respect of revenue, expenses, deposits and borrowings, and interest rate exposure on cash balances, deposits and borrowings.

In the normal course of business, the Company does not hold financial securities on its balance sheet and will not carry market risk. In the case of a counterparty default, the Company will be exposed to market risk to the extent that it is at risk of replacing the defaulting leg of a matched-principal or agency transaction. An adverse price move of the traded security will therefore result in a loss for the Company.

(a) Foreign currency risk

The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December.

The Company's exposure to foreign currency risk is shown below:

	Sterling	Euro	US Dollar	Other	Total
2018	**£000**	**£000**	**£000**	**£000**	**£000**
Current assets	57,957	683	24,100	119	82,859
Current liabilities	(30,727)	(649)	(24,159)	(107)	(55,642)
Total exposure	27,230	34	(59)	12	27,217

	Sterling	Euro	US Dollar	Other	Total
2017	**£000**	**£000**	**£000**	**£000**	**£000**
Current assets	59,716	2,204	22,896	53	84,869
Current liabilities	(31,111)	(2,099)	(23,441)	(20)	(56,671)
Total exposure	28,605	105	(545)	33	28,198

A 5% weakening of the following currencies against the pound sterling at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

2 Financial risk management - continued

Market risk - continued

A 5% strengthening of the currencies would have an equal but opposite effect, on the basis that all other variables remain constant.

	Equity	Profit or loss	Equity	Profit or loss
	2018	2018	2017	2017
	£000	£000	£000	£000
Euro	2	2	5	5
US Dollar	(3)	(3)	(27)	(27)

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Management have concluded that the impact of interest rate risk on the Company is minimal due to the short-term duration of interest bearing instruments as evidenced in the tables below.

The profile of the Company's interest-bearing financial instruments is as follows:

	2018	2017
	£000	£000
Fixed rate instruments		
Financial liabilities - loans from Group companies	(53,712)	(52,569)
Variable-rate instruments		
Financial assets - cash	81,068	81,223

2 Financial risk management - continued

Market risk - continued

The interest rate profile of the Company's interest-bearing financial instruments by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date is as follows:

2018	Carrying amount £000	Less than 3 months £000	3-6 months £000	1-5 years	More than 5 years £000
Assets					
Cash and cash equivalents	81,068	81,068	-	-	-
	81,068	81,068	-	-	-
Liabilities					
Loans from Group companies	(53,712)	(276)	(53,436)	-	-
	(53,712)	(276)	(53,436)	-	-

2017	Carrying amount £000	Less than 3 months £000	3-6 months £000	1-5 years	More than 5 years £000
Assets					
Cash and cash equivalents	81,223	81,223	-	-	-
	81,223	81,223	-	-	-
Liabilities					
Loans from Group companies	(52,569)	(399)	(52,170)	-	-
	(52,569)	(399)	(52,170)	-	-

The Company has performed sensitivity analysis and determined that a 1% increase in interest rates at the reporting dates would increase profits before tax for the Company by £91,000 (2017: £96,000). However, in the current low interest environment, further changes in interest rates will not have a significant impact on the results of the Company.

Liquidity risk

Liquidity risk is the inability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt, especially during periods of market stress, at a reasonable cost in order to meet the Company's short term (up to one year) obligations.

Notes to the financial statements
for the year ended 31 December 2018

2 Financial risk management - continued

Liquidity risk is governed by a liquidity policy approved by the Board of Directors. The principal objective of the policy is to ensure that at all times there are sufficient liquid assets to satisfy the Company's payment obligations to pay business liabilities, as they fall due without incurring unacceptable losses. This objective is achieved by careful and effective management of the balance sheet within agreed limits as laid down by the Board of Directors.

The Company conducts quarterly liquidity stress testing. In order to manage a liquidity shortfall observed in a worst case liquidity scenario, the Company holds an amount of £30,000,000 and an amount of $30,000,000 of four month term funding from The Bank of New York Mellon, which are rebooked monthly to ensure the remaining term is greater than 3 months.

A maturity analysis of financial liabilities, including estimated interest payments and excluding the effect of netting agreements is shown below:

			Contractual cash flows				
	Carrying amount	Gross nominal inflow/ (outflow)	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
2018	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Non-derivative liabilities							
Securities settlement amounts payable	(959)	(959)	(959)	-	-	-	-
Amounts due to group undertakings	(54,202)	(54,286)	(490)	(53,796)	-	-	-
Accruals & deferred income	(419)	(419)	(419)	-	-	-	-
Other creditors	(62)	(62)	(62)	-	-	-	-
	(55,642)	(55,726)	(1,930)	(53,796)	-	-	-
Non-derivative assets							
Bank, cash and cash equivalents	81,068	81,110	81,110	-	-	-	-
Securities settlement amounts receivable	959	959	959	-	-	-	-
Amounts owed by group undertakings	630	630	630	-	-	-	-
Other debtors	135	135	135	-	-	-	-
Prepayments and accrued income	67	67	67	-	-	-	-
	82,859	82,901	82,901	-	-	-	-

2 Financial risk management - continued

2017	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Contractual cash flows Less than 3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	More than 5 years £000
Non-derivative liabilities							
Securities settlement amounts payable	(2,708)	(2,708)	(2,708)	-	-	-	-
Amounts due to Group undertakings	(53,445)	(53,494)	(875)	(52,619)	-	-	-
Accruals & deferred income	(517)	(517)	(517)	-	-	-	-
Other creditors	(1)	(1)	(1)	-	-	-	-
	(56,671)	(56,720)	(4,101)	(52,619)	-	-	-
Non-derivative assets							
Bank, cash and cash equivalents	81,223	81,246	81,246	-	-	-	-
Securities settlement amounts receivable	2,709	2,709	2,709	-	-	-	-
Amounts owed by Group undertakings	557	557	557	-	-	-	-
Other debtors	380	380	380	-	-	-	-
	84,869	84,892	84,892	-	-	-	-

3 Revenue from contracts with customers

Nature of Services and Revenue Recognition

Trade execution and clearing services are delivered at a point-in-time, based on customer actions. Revenue for trade execution and clearing services is recognised on trade date, which is consistent with the time that the service was provided. Customers are generally billed for services on a monthly or quarterly basis.

Contract Balances

The Company's customers are billed based on fee schedules that are agreed upon in each customer contract. The receivables from customers were £308,000 at 1 January 2018 and £127,000 at 31 December 2018. An allowance is maintained for accounts receivable which is generally based on the number of days outstanding. Adjustments to the allowance are recorded in other expense in the Statement of profit and loss. Receivables from customers are included in Debtors on balance sheet.

Contract assets represent accrued revenues that have not yet been billed to the customers due to contingent factors other than the passage of time and were £nil at 1 January 2018 and £nil at 31 December 2018.

Contract liabilities represent payments received in advance of providing services under certain contracts and were £nil at 1 January 2018 and £nil at 31 December 2018.

3 Revenue from contracts with customers - continued

Any changes in the balances of contract assets and contract liabilities would result from changes arising from business combinations, impairment of a contract asset and changes in the timeframe for a right to consideration becoming unconditional or a performance obligation to be satisfied. No such instances were noted.

Contract Costs

Contract costs represent either costs which are capitalised relating to incremental costs for obtaining contracts, or costs incurred for fulfilling contract obligations when they relate directly to an existing contract or specific anticipated contract, generate or enhance resources that will be used to fulfil performance obligations and are recoverable. The Company had £nil contract costs as at 31 December 2018 (2017: £nil).

Unsatisfied Performance Obligations

The Company does not have any unsatisfied performance obligations other than those subject to a practical expedient election under IFRS 15. The practical expedient applies to (i) contracts with an original expected length of one year or less, and (ii) contracts for which the Company recognises revenue at the amount to which the Company has the right to invoice for services performed.

4 Revenue

Revenue consists of trading income, commission income on securities transactions and underwriting fees.

Currently, the directors consider that the Company's services comprise one business segment (being the provision of broker dealer services) and that it predominantly operates in the UK market which is not geographically segmented.

	2018	2017
	£000	£000
Net commission	2,531	2,726
Trading income	1,163	920
Underwriting fees	1,255	927
Other income	485	482
	5,434	5,055

5 Administrative expenses and auditor's remuneration

Profit before taxation is stated after charging:

Auditor's remuneration:

	2018	2017
	£000	£000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements pursuant to legislation	25	23
CASS audit fees	16	16
All other services	-	2
	41	41

6 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was 4 (2017: 4), of which none were directors (2017: none). All staff are employed by The Bank of New York Mellon London Branch with costs recharged to the Company. Salaries and wages include non-sales incentive plan costs of £306,750 (2017: £226,000).

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Salaries and wages	842	720
Share based payments (see note 21)	14	180
Social security costs	110	131
Pension Costs (see note 18)	28	44
Other staff costs	-	15
	994	1,090

7 Directors' emoluments

The aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services is disclosed below. Qualifying services include services as a director of the company, as a director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings. The amounts are disclosed irrespective of which Group company actually makes the payment to the directors.

7 Directors' emoluments - continued

	2018 £000	2017* £000
Directors' emoluments	144	131
Amounts receivable under long term incentive schemes	55	34
Company contributions to money purchase pension plans	4	2
	203	167

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £177,000 (2017: £146,000), and Company pension contributions of £3,000 (2017: £2,000) were made to a money purchase scheme on their behalf. During the year, the highest paid director received shares under a long term incentive scheme but did not exercise any share options.

	Number of Directors 2018	2017*
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	4
Number of directors in respect of whose services shares were received or receivable under long term incentive schemes	4	3
Number of directors who exercised share options in the ultimate parent company, The Bank of New York Mellon Corporation, during the year	1	2

*The Company has restated certain prior year numbers relating to directors' remuneration to disclose amounts paid in the year and amounts which became receivable under long-term incentive schemes. The charge to administrative expenses in the Statement of profit and loss and other comprehensive income has continued to be recognised on an accruals basis. The number of directors in respect of whose services shares were received or receivable under long term incentive schemes in the prior year has also been updated due to this change.

8 Income from investment in subsidiary

	2018 £000	2017 £000
Dividends received	1,000	6,000

9 Impairment of investment in subsidiary

	2018 £000	2017 £000
Impairment of investment in subsidiary	(1,022)	(4,120)

10 Interest receivable and similar income

	2018 £000	2017 £000
Receivable from third parties on bank deposits	426	203
Total interest receivable and similar income	426	203

Notes to the financial statements
for the year ended 31 December 2018

11 Interest payable and similar charges

	2018	2017
	£000	£000
Net foreign exchange loss	5	44
Interest payable to third parties	136	270
Interest payable to Group undertakings	744	353
Total interest payable and similar charges	885	667

12 Taxation

Recognised in the profit and loss account

	2018		2017	
	£000	£000	£000	£000
UK corporation tax				
Foreign tax				
Deferred tax (see note 17)				
Adjustments in respect of prior periods	-		1	
	-		1	
Total deferred tax		-		1
Tax on loss		-		1

Reconciliation of effective tax rate

	2018	2017
	£000	£000
Total loss for the year	(2,017)	(880)
Total tax expense	-	1
Loss excluding taxation	(2,017)	(879)
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	(383)	(169)
Non-deductible expenses	198	829
Income not subject to tax	(190)	(1,155)
Losses surrendered to Group entities	375	495
Adjustments in respect of prior years	-	1
Total tax expense	-	1

12 Taxation - continued

Reconciliation of effective tax rate - continued

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly. The deferred tax position as at 31 December 2017 has been calculated on these rates.

13 Investment in subsidiary

	2018 £000	2017 £000
Cost		
At 1 January	9,223	9,223
At 31 December	9,223	9,223
Amortisation and impairment		
At 1 January	4,120	-
Impairment losses	1,022	4,120
At 31 December	5,142	4,120
Net book value		
At 31 December	4,081	5,103

Investments are assessed on an annual basis by management for signs of impairment using expected future profitability and expected future cash flows. A discounted cash flow model is used which uses assumptions of a discount rate of nil (2017: 10%). The directors have concluded that in 2018 there was an impairment of £1,022,000 (2017: £4,120,000) in the investment in QSR Management Ltd (QSR Management Ltd is expected to be liquidated in 2019).

Subsidiaries

The Company has the following investments in subsidiaries:

	Country of incorporation	Registered office	Principal activity	Class of shares held	Ownership 2018	Ownership 2017
QSR Management Ltd*	England & Wales	One Canada Square, London, E14 5AL	Administration services	Ordinary £1	100%	100%

* QSR Management Ltd is expected to be liquidated in 2019.

14 Debtors

	2018	2017
	£000	£000
Securities settlement amounts receivable	959	2,709
Amounts owed by Group companies	630	557
Other debtors	135	311
Prepayments and accrued income	67	69
Total debtors	1,791	3,646
Due within one year	1,791	3,646

15 Cash at bank and in hand

	2018	2017
	£000	£000
Cash at bank and in hand	81,068	81,223

Cash at bank and in hand included £1,579,000 (2017: £16,000) of funds on deposit with a regulated banking entity within the BNY Mellon group.

The Company is exposed to foreign exchange risk between the date of recognition and settlement of foreign currency income and expenses. To mitigate this, the Company maintains foreign currency cash balances to offset the net currency position. This activity can result in foreign currency overdrafts that mitigate the risk of foreign currency receivables. All overdrafts are with the Bank of New York Mellon London Branch.

16 Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Securities settlement amounts payable	959	2,708
Amounts owed to Group undertakings*	54,202	53,445
Accruals and deferred income	419	517
Taxation and social security	61	-
Other creditors	1	1
	55,642	56,671

* Amounts owed to Group undertakings includes a GBP 30,000,000 loan repayable at a fixed interest rate of 0.94427% p.a. and a USD 30,000,000 loan repayable at a fixed interest rate of 2.82013% p.a. Both loans are from another Group member company, The London Branch of the Bank of New York Mellon, and are repayable on April 23, 2019.

Notes to the financial statements
for the year ended 31 December 2018

17 Deferred tax assets and liabilities

Movement in deferred tax

	1 January 2018 £000	Recognised in income £000	Recognised in equity £000	31 December 2018 £000
Share-based payments	-	-	-	-
	-	-	-	-

	1 January 2017 £000	Recognised in income £000	Recognised in equity £000	31 December 2017 £000
Share-based payments	1	(1)	-	-
	1	(1)	-	-

18 Employee benefits

The total pension cost for the period was £28,000 (2017: £44,000) relating to the defined contribution plan. No amount (2017: £nil) was payable to the schemes at the year end.

Defined contribution plans

Employees of the Company are eligible to join The Bank of New York Mellon Group Personal Pension scheme. This scheme is funded by monthly payments to a third party insurer.

19 Capital and reserves

Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
20,044,981 ordinary shares of £1 each	20,045	20,045
15,750,000 ordinary shares of $1 each	10,228	10,228
	30,273	30,273

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The balance in other reserves of £231,000 (2017: £217,000) is comprised of restricted stock.

20 Financial instruments

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The are no financial assets and liabilities carried at fair value.

Financial instruments that are not carried at fair value:

	Carrying Value		Fair value	
	2018 £000	2017 £000	2018 £000	2017 £000
Financial liabilities				
Loan due to fellow Group undertaking	53,712	52,569	49,780	48,068

Financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short term in nature:

Financial Assets

Cash at bank and in hand
Debtors

Financial Liabilities

Creditors: amounts falling due within one year (other than loans due to fellow Group undertakings)

Notes to the financial statements
for the year ended 31 December 2018

21 Share based payments

Certain employees dedicated to the Company's business participate in a Group long-term incentive plan which issues shares in BNY Mellon Corporation.

Restricted stock and restricted stock units (RSU)

These awards are granted at no cost to the recipient. Generally restricted stock and RSUs vest in tranches over a specified period, expire on vesting and are subject to forfeiture until certain restrictions have lapsed, predominantly continued employment by The Bank of New York Mellon Group for a specified period. The recipient of a share of restricted stock is entitled to voting rights and generally is entitled to dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse. The recipient generally is entitled to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding but does not receive voting rights. The fair value of restricted stock and RSUs is equal to the fair market value of The Bank of New York Mellon common stock on the date of grant. However, certain awards granted to MRTs (Material Risk Takers under the European Banking Authority) are required to be marked to market due to discretionary claw back language contained in their grants.

All restricted stock and RSUs are to be settled by physical delivery of shares.

22 Transactions involving directors, officers and others

At 31 December 2018 there were no loans or other transactions made to directors, officers or other related parties of the Company (2017: £nil).

23 Post Balance Sheet Event

On 5th March 2019, it was approved by the directors to wind down the Company following the transfer of the Company's fixed income business to London Branch, and the Company's equities business to an affiliated entity within the Group. These changes are expected to take place in 2019.

24 Ultimate parent company and parent company of larger group

The immediate parent undertaking of the Company is BNY International Financing Corporation, a company incorporated in the United States of America. The Company's registered address is 240 Greenwich Street, New York, NY, 10286, USA.

The ultimate parent company as at 31 December 2018 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

The Secretary
The Bank of New York Mellon Corporation
240 Greenwich Street
New York, NY
10286
USA