Lombard Odier Asset Management (Europe) Limited

Annual report
for the year ended 31 December 2018

Registered number: 07099556

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Annual Report
for the year ended 31 December 2018

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Directors and other information

Directors

Hubert Keller
Jeremy Bailey
Peter Clarke
Stephen Fitzgerald
Hugo Banziger (resigned 31.03.2018)
Annika Falkengren (appointed 11.04.2018)

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Regulator

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Registered office

Queensberry House
3 Old Burlington Street
London W1S 3AB
United Kingdom

Company number

07099556

Strategic report
for the year ended 31 December 2018

Registered number: 07099556

The directors present their Strategic report on Lombard Odier Asset Management (Europe) Limited ('the Company') for the year ended 31 December 2018.

Review of the business and risk management

Review of business

The Company's key performance indicators, defined by management, are (i) Assets Under Management ('AUM'), (ii) turnover, (iii) headcount, and (iv) operating results.

The Company continued to perform strongly against its key performance indicators, leading to a reported profit for the financial year of £8.6m (2017: £7.7m). The Company improved both turnover and headcount metrics during the year. In respect to AUM, despite a modest decrease in assets, the Company experienced a growth in client base which is a positive step in terms of reducing client concentration and future asset raising.

Staff headcount continued to rise. At 31 December 2018, the number of staff employed by the Company was 139 (2017: 135).

Total AUM decreased by 2.1% to £13.1bn (2017: £13.4bn). Funds and segregated mandates accounted for 76.5% and 23.5% respectively of the total at 31 December 2018 (2017: 70.5% and 29.5% respectively). Funds AUM rose by 6.4% to £10.1bn (2017: £9.5bn). Segregated mandates fell by 22.3% to £3.1bn (2017: £4.0bn) with low impact on the Company's profitability, as these mandates typically had lower than average margin rates.

Turnover increased by 4.3% from £76.3m to £79.8m comprising of management fee income of £57.0m (2017: £53.3m), performance fees of £13.6m (2017: £12.2m), advisory fees of £2.7m (2017: £3.7m), operating lease rental income of £1.1m (2017: £1.0m) and other fee income of £5.4m (2017: £6.2m).

Administration expenses increased by 4.9% to £71.6m (2017: £68.2m). The Operating profit for 2018 was £8.3m (2017: £8.5m). As at 31 December 2018, shareholders' funds stood at £35.2m (2017: £26.4m); which exceeded the Company's regulatory capital requirement by £18.7m (2017: £14.7m).

The financial results for the year are set out on page 8 and in the notes to the financial statements.

Strategic report (continued)
for the year ended 31 December 2018

Principal risks and uncertainties

The section below provides a summarised description of the principal risks and uncertainties facing the Company.

Operational risks

The risk of loss arising from deficiencies or failures relating to internal procedures, people, or systems or following external events due to intentional, accidental or natural causes. The Company manages risk through pre-emptive risk reviews of new products/policies, and through the maintenance of an operational risk management master record, through which all operational risk incidents are reported. The Company implements processes to mitigate future risks where appropriate.

Market risks

The risk of loss resulting from changes in general market factors and from events specific to individual issuers of debt and equity instruments, which may negatively impact AUM and ultimately revenues related to investment management. The Company manages risk through the diversification of products on offer to its clients, and by the activities of risk management professionals who use a range of tools to monitor the activities of investment

Foreign currency exchange risks

The risk of an adverse impact on the Company's results due to fluctuations in foreign currency exchange rates. The Company manages risk on its balance sheet by forecasting non-functional currencies, and maintaining sufficient cash balances in appropriate currencies to meet liabilities as they fall due.

Credit and counterparty risks

The risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations, including settlement risk. The Company's strategy is to be conservative and as such the Company deals with financial institutions of very high credit quality (in general a minimum external rating of A (Fitch) is required for any cash deposits). The Company mitigates further risk through active credit control, with timely management escalation of aged receivables.

Liquidity risks

The risk that the Company is unable to meet efficiently both expected and unexpected, current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To mitigate this risk, the Company maintains a liquidity reserve and follows a prudent balance sheet management approach. The Company monitors Liquidity Risk on an on-going basis, and undertakes Liquidity Stress Testing on an annual basis or more often if the circumstances demand.

Political risks

The risk that the Company's operations are adveresely affected by Brexit, and in particular, a no-deal Brexit. The Company manages risk through a steering committee charged with monitoring, estimating the impact and limiting exposure to risks faced, including but not limited to the restructuring of it's operations.

Staff retention

The financial services industry is an extremely competitive market and the Company recognises the need to employ and retain the best talent. The Company is committed to providing a rewarding and stimulating environment for all its employees.

By order of the board

Director

11 April 2019 **Annika Falkengren**
Director

Directors' report
for the year ended 31 December 2018

The directors present their report and the audited financial statements of Lombard Odier Asset Management (Europe) Limited for the year ended 31 December 2018.

The directors are ultimately responsible for the management of risks facing the Company. The directors meet this responsibility by establishing and monitoring suitable governance frameworks for material risks faced.

The directors disclose the Company risks/exposures listed below in the appendices to the financial statements on pages 26-29

- Financial risk management objectives and policies
- Exposure to price, credit, and liquidity risks

The directors note the existence of four branches of the Company that operate outside the of the United Kingdom in the following countries: Italy, Netherlands, Germany and France.

These financial statements have been prepared in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102).

Dividends

The directors recommend that no dividend be paid in respect of the year ended 31 December 2018 (2017 : Nil).

Directors

The directors of the Company who held office during the year and up to the date of signing the financial statements are disclosed on page 1.

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2018 and remain in force, in relation to certain losses and liabilities which the directors may incur to third parties in the course of acting as directors or employees of the Company.

Independent auditors

As permitted by the Companies Act 2006, being a private Company, the Company does not appoint auditors annually and therefore PricewaterhouseCoopers LLP will be deemed to be re-appointed as auditors at the end of their term of office in accordance with s485 of the Companies Act 2006.

Research and development

There was no research and development in the year.

Future developments

The Company intends to continue to develop its asset management capabilities, which may require the hiring of additional investment management professionals and the acquisition of investment books that are strategically aligned with the Company and which compliment existing strengths.

Following the 2016 UK referendum result, the Company acknowledges its operations may be negatively impacted by Brexit. As such, the Company has taken necessary steps to plan for a range of final deal scenarios. The Company has factored such scenarios into the Internal Capital Adequacy Assessment Process ("ICAAP") to ensure it holds sufficient capital irrespective of the outcome of the negotiations. On January 1, 2019, the Company underwent a restructuring with a view to further minimise it's exposure. The Company transferred its European branch operations to another Lombard Odier group company domiciled in Luxembourg, which is controlled by the immediate parent, LO Holding S.A. Further details of the transaction are included in the notes to the finanacial statements.

Directors' report (continued)
for the year ended 31 December 2018

Financial instruments

Details of the Company's financial risk management objectives and policies are provided in the strategic report on page 3 under the heading 'Principal risks and uncertainties'. Further detail of the Company's risk and capital management policies can be found in Appendix 1 to the financial statements.

Disclosure of information to Auditors

Each of the persons who is a director 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 auditors are unaware; and
- each director has taken all the steps that 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors 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.

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.

On behalf of the board

Director
11 April 2019

Annika Falkengren
Director

Independent auditors' report to the members of Lombard Odier Asset Management (Europe) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lombard Odier Asset Management (Europe) Limited's financial statements:

- give a true and fair view of the state 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the company's business, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

T Ahuja

Tina Ahuja (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 April 2019

Statement of comprehensive income
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Revenue	5	79,764	76,347
Administrative expenses	6	(71,567)	(68,230)
Other operating gains		102	450
Interest receivable and similar income	7	171	3
Finance costs	7	(82)	(22)
Profit on ordinary activities before taxation	6, 8	**8,388**	**8,548**
Tax on profit	9	191	(849)
Profit for the financial year		**8,579**	**7,699**
Exchange gains on retranslation of opening balances		184	155
Total comprehensive income for the year		**8,763**	**7,854**

The notes on pages 11 to 26 form an integral part of these financial statements. Further comments on the statement of comprehensive income line items are presented in the notes to the financial statements.

Lombard Odier Asset Management (Europe) Limited

Statement of financial position
as at 31 December 2018

	Note	31 December 2018	31 December 2017
		£ '000	£ '000
Fixed assets			
Intangible assets	10	3,651	6,431
Tangible assets	11	674	237
		4,325	**6,668**
Current assets			
Debtors	12	21,651	22,688
Cash	13	48,236	34,344
		69,887	**57,032**
Prepayments and accrued income		**728**	**2,634**
Creditors: amounts falling due within one year	14	**(39,675)**	**(39,771)**
Provisions for liabilities	15	**(100)**	**(161)**
Net current assets		**30,840**	**19,734**
Total assets less Current liabilities		**35,165**	**26,402**
Net assets		**35,165**	**26,402**
Capital and reserves			
Called up share capital	17	59,000	59,000
Other reserves	17	954	770
Profit and loss account		(24,789)	(33,368)
Total equity		**35,165**	**26,402**

The notes on pages 11 to 26 from an integral part of these financial statements.

The financial statements on pages 8 to 26 were approved and authorised for issue by order of the Board on 11 April 2019 and signed on its behalf by:

Annika Falkengren
Director

Director
Lombard Odier Asset Management (Europe) Limited
Registered Number: 07099556

Lombard Odier Asset Management (Europe) Limited

Statement of changes in equity
for the year ended 31 December 2018

	Notes	£ '000 Called up share capital	£ '000 Other reserves	£ '000 Profit and loss account	£ '000 Total equity
Balance as at 1 January 2017		59,000	615	(41,067)	18,548
Profit for the financial year		-	-	7,699	7,699
Other comprehensive income for the year	17	-	155	-	155
Total comprehensive income for the year			155	7,699	7,854
Issue of share capital	17	-	-	-	-
Total transactions with owners, recognised directly in equity		-	-	-	-
Balance as at 31 December 2017		**59,000**	**770**	**(33,368)**	**26,402**
Profit for the financial year		-	-	8,579	8,579
Other comprehensive income for the year	17	-	184	-	184
Total comprehensive income for the year		-	184	8,579	8,763
Issue of share capital	17	-	-	-	-
Total transactions with owners, recognised directly in equity		-	-	-	-
Balance as at 31 December 2018		**59,000**	**954**	**(24,789)**	**35,165**

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

1 General Information

The principal activity of the Company is the provision of asset management services. The Company is an active international investor with a global institutional client focus. The Company is a private Company, limited by its shares authorised and regulated by the Financial Conduct Authority ("FCA") and as such is subject to regulatory capital requirements. As well as carrying out business in the UK, the Company has branches in Italy, Netherlands, Germany and France.

The Company was incorporated on 9 December 2009 in the United Kingdom, and obtained its Financial Services Act 2000 Part IV Permission with effect from 5 August 2010. It is a wholly owned subsidiary of LO Holding SA, incorporated in Switzerland. The Company's ultimate holding entity is Compagnie Lombard Odier SCmA, a Swiss corporate partnership with various financial services businesses across 27 offices.

Given the continuing building of strategic marketing and sales activities in addition to the continued support from the ultimate parent, the directors remain confident about the long term prospects of the Company. Further details regarding the adoption of the going concern basis can be found in the accounting policies note 3(b) of the financial statements.

2 Statement of compliance

The individual financial statements of Lombard Odier Asset Management (Europe) Limited have been prepared in compliance with United Kingdom Accounting Standards and the Companies Act 2006 and in accordance to the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

These financial statements are prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(b) Going Concern

After reviewing forecasts, the directors have a reasonable expectation that the Company has sufficient financial resources to continue in operational existence for a period of at least twelve months from the date of signing the financial statements.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3 Summary of significant accounting policies

(c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with. The Company has taken advantage of certain exemptions.

These exemptions are:

- the requirement to prepare a statement of cash flows. [Section 7 of FRS 102 and para 3.17(d)];
- a reconciliation of the number of shares outstanding at the beginning and end of the period. [FRS 102 para 4.12(a)(iv)]; [FRS 102 para 1.12(b)]
- the non-disclosure of key management personnel compensation in total. [FRS 102 para 33.7]
- the requirement to disclose details of transactions with entities that are part of the same group in accordance with FRS 102 paragraph 33.9 since it is a subsidiary of a group which is wholly owned and the group's financial statements are publicly available.

(d) Foreign currency

(i) Functional and presentation currency

The Company's functional and presentation currency is pound sterling, which is also the local currency of its UK Headquarters. The local currency of the Company's European branches (Germany, Italy, France and the Netherlands) is the Euro. Accounting records for both the Company's UK Headquarters and its European branches are maintained in their respective local currencies.

(ii) Functional and presentation currency

Foreign currency transactions are translated into functional currency using spot exchange rates at the dates of the transactions.

At each period end, foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses resulting from the retranslation of opening net assets of the Company's European branches are recognised through other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within finance (expense)/income.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered, net of discounts and rebates allowed by the Company and value added taxes.

(i) Sale of services

Revenue is recognised in the accounting period in which the services are rendered.

(ii) Interest income

Interest income is recognised using the effective interest rate method.

3 Summary of significant accounting policies (continued)

(e) Revenue Recognition

(iii) Rental income

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-lined basis over the lease term.

(f) Employee Benefits

(i) Employee deferral scheme

The Company operates multiple employee deferral schemes eligible to certain employees whereby a portion of their total compensation is deferred. All scheme amounts are accounted for on a straight line basis over a vesting period of up to three years, and are subject to forfeiture conditions.

(ii) Defined contribution pension scheme

The Company operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown as accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

(g) Taxation

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on timing differences at the reporting date, to the extent that management deem it probable that such tax losses and other deferred assets will be recovered through the reversal of deferred tax liabilities and/or future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(h) Intangible assets

Intangible assets that are acquired by the Company are stated at their historical cost less accumulated amortisation and impairment losses. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Client book acquisition - 3 years

Intangible assets are reviewed for impairment on an annual basis.

3 Summary of significant accounting policies (continued)

(i) Business combinations and goodwill

Business combinations are accounted for by applying the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and the equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at the estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measurable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Company's interest in the identifiable net assets, liabilities and contingent liabilities acquired

On acquisition, goodwill is allocated to cash generating units ('CGU's) that are expected to benefit from the combination. Goodwill is amortised over its expected useful life. Where the Company is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 5 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

Where the cost of the business combination exceeds the fair value of the Company's interest in the assets, liabilities and contingent liabilities acquired, negative goodwill arises. The Company, after consideration of the assets, liabilities and contingent liabilities acquired and the cost of the combination, recognises negative goodwill on the balance sheet and releases this to the profit and loss, up to the fair value of non-monetary assets acquired, over the periods in which the non-monetary assets are recovered and any excess over the fair value of non-monetary assets in the income statement over the period expected to benefit.

(j) Tangible assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on a straight line basis to write off the cost of tangible fixed assets over their estimated useful lives as follows:

Office equipment and furniture	-	1 -2 years
Short-term leasehold improvements	-	over the period of the lease

Notes to the financial statements
for the year ended 31 December 2018 (continued)

3 Summary of significant accounting policies (continued)

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(m) Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(ii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefit is probable.

(n) Related party transactions

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned in accordance with FRS 102 1AC.34.

(o) Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss on a straight-line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

3 Summary of significant accounting policies (continued)

(p) Financial Instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for impairment. If an asset is deemed as impaired, the impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised in the statement of comprehensive income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price

Such assets are subsequently carried at fair value and changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of ownership are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest

Debt instruments are subsequently carried at amortised cost using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

4 Critical accounting judgements and estimation uncertainty
(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Business combinations

The recognition of business combinations requires the excess of the acquisition price over the book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgements and estimates in relation to the fair value allocation of the purchase price. Any unallocated portion is recognised as goodwill if positive or negative goodwill if negative.

(ii) Estimation of useful life

The useful life used to amortise intangible assets relates to the expected future performance of assets acquired and managements estimate of the period over which economic benefit will be derived from the asset.

(iii) Deferred tax on losses

The Company makes estimates about the probability deferred tax on losses will be recovered through the reversal of deferred tax liabilities and/or future taxable profits. Where the Company deems the probability of utilising such losses is low, deferred tax assets are not recognised in full.

5 Revenue

	Year ended 31 December 2018	Year ended 31 December 2017
Analysis by category:	£ '000	£ '000
Management fee income	56,955	53,322
Advisory fee	2,741	3,683
Performance fees	13,600	12,156
Rental income	1,088	994
Miscellaneous income	5,380	6,192
	79,764	76,347

	Year ended 31 December 2018	Year ended 31 December 2017
Analysis of revenue by geography:	£ '000	£ '000
United Kingdom	69,342	65,767
Netherlands	1,043	1,884
Germany	1,619	1,375
Italy	2,270	2,466
France	5,490	4,855
	79,764	76,347

6 Profit before taxation

Profit on ordinary activities before taxation, stated after charging:	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Wages and salaries	47,650	45,786
Social security costs	7,317	6,782
Healthcare and life insurance	441	383
Other pension costs	1,471	1,408
Other personnel expenses	1,571	1,440
Total Personnel Costs	58,450	55,799
Operating lease rentals	3,012	2,737
Foreign currency exchange losses	(175)	527
Depreciation & Amortization	129	39
Other administrative expenses	10,151	9,128
Total Administrative expenses	71,567	68,230

Services provided by the Company's auditors and its associates

During the year the Company obtained the following services from the Company's auditors and associates:

	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Audit of the Company	67	82
Audit related assurance services	110	143
Tax and other advisory services	9	7
Other services pursuant to legislation	4	4
Total fees	190	236

Notes to the financial statements
for the year ended 31 December 2018 (continued)

7 Net interest income/(expense)

	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Bank interest received	171	3
Bank charges paid	(82)	(22)
Net interest income/(expense)	89	(19)

8 Directors and employees

The average monthly number of persons (including directors) employed during the year was 139 (2017: 126). The staff costs (including directors) during the year are disclosed above in note 6.

The Company made contributions of £5k (2017: 5k) on behalf of two directors (2017: two) who were members of a defined contribution scheme during the year.

Details of directors' aggregate emoluments are as follows:	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Aggregate emoluments	3,301	3,351

Details relating to the highest paid director are as follows:	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Aggregate emoluments	3,000	3,000

9 Tax on profit on ordinary activities

	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
UK taxation		
UK corporation tax on profit for the year	39	-
Adjustments in respect of previous years	-	-
Foreign taxation		
Current tax on profit for the year	652	850
Adjustments in respect of previous years	92	(62)
Total taxation	783	788

The tax for the year is different from 2017; different from that arrived at by applying the standard rate of corporation tax in the UK to the profit for the year. The difference is explained on the following page:

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Tax on loss on ordinary activities (continued)

	Year ended 31 December 2018 £ '000	Year ended 31 December 2017 £ '000
Profit on ordinary activities before taxation	8,388	8,548
Profit on ordinary activities multiplied by standard rate of UK corporation tax in the UK 19.00% (2017: 19.25%)	1,594	1,645
Effect of:		
Expenses not deductible for tax purposes	586	32
Taxable profits of foreign branch	451	401
Difference in tax rates	293	387
Double tax relief	(451)	(401)
Depreciation in excess of capital allowances	(48)	438
Other short term timing differences	107	1,357
Group relief claimed	(342)	(987)
Utilisation of losses brought forward	(1,407)	(2,084)
Current UK tax charge for the year	783	788
Deferred Tax:		
Origination and reversal of timing differences	(826)	61
Adjustment in respect of prior periods	-	-
Impact of change in rate of tax	(148)	-
Deferred tax charge for the year	(974)	61
Tax on profit on ordinary activities	**(191)**	**849**

Trading losses of £11.0m (2017: £19.5m) are available for set-off against future profits of the Company. A deferred tax asset in respect of these losses has been recognised in line with the company's accounting policy.

A further reduction to the Corporation tax rate was enacted as part of the Finance Act 2016, which will reduce the main rate to 17% from 1 April 2020.

	31 December 2018 £ '000	31 December 2017 £ '000
Deferred tax (asset)/ liability		
Acquired intangible asset	971	1,470
Unused tax losses	(1,884)	(1,409)
Total deferred tax (asset)/ liability	(913)	61

10 Intangible assets

	Client book Acquisition
At 1 January 2017	£ '000
Cost	983
Acquisitions	8,763
Accumulated amortisation	(3,315)
Net book amount at 31 December 2017	**6,431**
Year ended 31 December 2018	**£ '000**
Acquisitions	-
Amortisation	(2,780)
Closing net book amount	3,651
At 31 December 2018	
Cost	9,746
Accumulated amortisation	(6,095)
Net book amount at 31 December 2018	**3,651**

In 2017, the Company acquired the 'Volantis' client book intangible asset from a third party external to Lombard Odier Group and associated companies. The acquisition cost represents the valuation at the date of acquisition, which was calculated using the discounted cash flow method. The useful life of the asset is based on the average expected utilisation to the Company. *Further details in respect to the intangible acquisition are disclosed in note 20.*

11 Tangible assets

	Leasehold improvements	Office Equipment and Furniture	Total
At 31 December 2017	£ '000	£ '000	£ '000
Cost	954	124	1,078
Accumulated depreciation	(779)	(62)	(841)
Net book amount	175	62	237
Year ended 31 December 2018			
Opening net book amount	175	62	237
Additions	517	52	569
Charge for the year	(84)	(48)	(132)
Closing net book amount	**608**	**66**	**674**
At 31 December 2018			
Cost	1,471	176	1,647
Accumulated depreciation	(863)	(110)	(973)
Net book amount	**608**	**66**	**674**

Notes to the financial statements
for the year ended 31 December 2018 (continued)

12 Debtors

	2018	2017
	£ '000	£ '000
Trade debtors	352	1,276
Amounts owed by group undertakings	17,137	18,458
Other debtors	3,249	2,954
Deferred Tax (refer to note 15)	913	-
	21,651	22,688

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

13 Cash

Cash at 31 December was £48.2m (2017: £34.3m), a balance of £47.4m (2017: £33.8m) was held with Lombard Odier Group.

14 Creditors: amounts falling due within one year

	2018	2017
	£ '000	£ '000
Trade creditors	308	1,244
Amounts owed to group undertakings	1,223	188
Taxation and social security costs	868	98
Other creditors	2,373	5,045
Accruals and deferred income	34,903	33,196
	39,675	39,771

Accruals and deferred income includes negative goodwill of £2.2m in respect to the Volantis acquisition (2017: £4.7m). An estimated £0.4m of negative goodwill could be classified as non-current under the current amortisation profile (2017: 2.2m).

Accrued expenses and other financial liabilities are non-interest bearing and normally settled within 30 days. Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15 Provisions for liabilities

	Deferred Tax Provision	Dilapidations payable at the end of an operating lease	Total
	£ '000	£ '000	£ '000
At 1 January 2018	61	100	161
Additions dealt with in profit or loss	-	-	-
Amounts utilised	-	-	-
Unused amounts reversed to the profit and loss	(61)	-	(61)
At 31 December 2018	-	100	100

Dilapidations payable at the end of an operating lease

In 2013, the Company signed a ten year non-cancellable operating lease which included a clause to make good any dilapidations that have occurred by the end of the lease term. The current provision is considered adequate based on the good condition of the building, and the current market costs associated with such office repairs.

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Provisions for liabilities (continued)

Deferred tax (asset)/ liability

The provision for deferred tax consists of the following tax liabilities/(assets)	2018	2017
- Acquired intangible assets	971	1,470
- Unused tax losses	(1,884)	(1,409)
	(913)	**61**

The net deferred tax asset is expected to increase in 2019 by £0.7m due to the reversal of timing differences on acquired intangible assets. The deferred tax asset is classified under debtors in note 12 to the financial statements.

16 Financial Instruments

	2018	2017
Financial assets that are debt instruments measured at amortised cost	**£ '000**	**£ '000**
Trade debtors	352	1,276
Amounts owed by group undertakings	17,137	18,458
Other debtors	3,249	2,954
Prepayments and accrued income	728	2,634
	21,466	25,322

	2018	2017
Financial liabilities measured at amortised cost	**£ '000**	**£ '000**
Trade creditors	308	1,244
Amounts owed to group undertakings	1,223	188
Taxation and social security costs	868	98
Other creditors	2,373	5,045
Accruals and deferred income	34,903	33,196
	39,675	39,771

17 Share capital and other reserves

As at 31 December 2018, there were 59,000,000 shares (31 December 2017: 59,000,000) issued and outstanding. Allotted shares are fully paid up. Events after the end of the reporting period altered the allotted shares issues and outstanding, details of which are provided in note 21.

	2018	2017
Ordinary shares of £1 each:	**£ '000**	**£ '000**
Allotted, and fully paid at 1 January 2018	59,000	59,000
Ordinary shares of £1 each	59,000	59,000
Allotted during the year: nil (2017: nil) of £1	-	-
At 31 December 2018	59,000	59,000

Notes to the financial statements
for the year ended 31 December 2018 (continued)

17 Share capital and other reserves (continued)

Other Reserves	**Retranslation reserve**	**Total**
Other Reserves consist of the following amount	**£ '000**	**£ '000**
At 1 January 2018	770	770
Exchange gains on retranslation of opening balances	184	184
At 31 December 2018	954	954

The retranslation reserve is used to record foreign exchange gains and losses resulting from the retranslation of opening net assets of the Company's European branches.

18 Defined contribution scheme

The Company provides a defined contribution scheme for its employees. The amount recognised as an expense for the defined contribution scheme was:

	2018	**2017**
	£ '000	**£ '000**
Current year contributions	1,471	188
Contributions payable	178	135

19 Financial commitments

Commitments of lease payments under non-cancellable operating leases are as follows:
During the year, the Company decided against exercising a break-clause in respect of the Company premises. As a result, the non-cancellable lease period has been extended to reflect the new cancellation date.

	2018 Premises Cost	**2017 Premises Cost**
	£ '000	**£ '000**
Payable within one year	2,156	1,617
Payable between two and five years	8,084	8,623
Payable after five years	-	1,617

During the year, the Company awarded long term deferred bonuses to a number of key employees. The amount awarded is charged on a straight line basis to the profit and loss account from the date when service by the employee first leads to the award, until the date when no further service by the employee is required to receive the award. The commitments under these bonus arrangements are as follows:

	2018	**2017**
	£ '000	**£ '000**
Payable within one year	5,359	1,225
Payable between two and five years	10,407	11,339
Payable after five years	-	-

Notes to the financial statements
for the year ended 31 December 2018 (continued)

20 Business Combinations

On 1st April 2017, the Company completed an acquisition of an investment management business and business related assets ("Volantis acquisition"). The acquisition expands the Company's presence and client base in the UK alternatives market, with coverage of both UK equity long/short and long-only strategies.

Contingent consideration is based on revenues generated by the Volantis business after the acquisition date, payable quarterly in arrears until 31 March 2020. The amount has been discounted.

Consideration at 1 April 2017

Contingent consideration	1,777
Total consideration	1,777

Recognised amounts of identifiable assets acquired and liabilities assumed

	Note	Fair values
Intangible assets	10	8,763
Deferred tax liability		(1,875)
Total identifiable net assets		6,888
Goodwill		(5,111)
Total		1,777

21 Events after the end of the reporting period

On January 1, 2019, the Company entered into contribution agreements (and in respect to the Netherlands branch, a sale and purchase agreement) that resulted in the transfer of the net assets of the Company's European branches to sister company Lombard Odier Funds (Europe) S.A. In consideration for branch net assets, the Company received 170 shares in the acquiring company, representing 5.4% of the total Lombard Odier Funds (Europe) S.A share capital, for consideration of £10.1m. At the date of signing the Financial Statements, 169 of the 170 shares acquired have been sold to the Company's immediate parent, Lombard Odier Holding S.A.

On April 11, 2019, the directors approved a £39 million reduction in the Company's share capital. The share capital reduction has a neutral effect on net equity, as the £39 million of capital has been transferred to the profit and loss reserve. Following the share capital reduction, the Company had 20,000,000 shares issued and outstanding.

Notes to the financial statements
for the year ended 31 December 2018 (continued)

22 Discontinued operations

On January 1, 2019, the Company discontinued european branch operations; details of the which can be found in note 21 (Events after the end of the reporting date).

A summary of the impact of discontinued operations post January 1, 2019, on the primary statements is presented below:

	2018		
	Continued	**Discontinued**	
Presentation of discontinued operations	**operations**	**operations**	**TOTAL**
Summary comprehensive income	**£ '000**	**£ '000**	**£ '000**
Revenue	70,567	9,197	79,764
Administrative expenses	(63,329)	(8,238)	(71,567)
Other	200	(9)	191
Profit on ordinary activities before taxation	7,438	950	8,388
Profit for the financial year after taxation	8,373	206	8,579
Exchange gains on retranslation of opening balances	-	184	184
Total comprehensive income for the year	8,373	390	8,763

	2018		
	Continued	**Discontinued**	
Presentation of discontinued operations	**operations**	**operations**	**TOTAL**
Summary financial position	**£ '000**	**£ '000**	**£ '000**
Total Assets	**70,269**	**4,671**	**74,940**
Total Liabilities	**(36,157)**	**(3,618)**	**(39,775)**
Net Assets	**34,112**	**1,053**	**35,165**

23 Ultimate holding Company and controlling party

The immediate parent undertaking is LO Holding SA, incorporated in Switzerland.

The ultimate parent undertaking and controlling party is Compagnie Lombard Odier SCmA, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Compagnie Lombard Odier SCmA's registered address is 11 rue de la Corraterie, 1204 Geneva, Switzerland.

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

Appendix 1- Risk and capital management policies (unaudited)

Risks facing the Company and the effectiveness of existing controls are assessed regularly. The Company has an established governance framework, with clear terms of reference for the Board and management committee and a clear organisation structure, with documented delegated authorities and responsibilities.

(a) Approach to capital management

Capital is managed within the regulatory framework in which the Company operates with the purpose of maintaining a strong capital base to uphold investor, creditor and market confidence and sustain future development of the business. This framework uses the Internal Capital Adequacy Assessment Process ('ICAAP') of the Financial Conduct Authority, to identify the risks to which the business is exposed and to quantify their impact on the Company's capital and changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency.

(b) Approach to operational risk management

Definition. Operational risk is defined as the risk of loss arising from deficiencies or failures relating to internal procedures, people, or systems or following external events due to intentional, accidental or natural causes. They include legal, tax, regulatory and compliance risks.

Strategy/Policy for Operational Risk. Operational risks are identified as part of the Company's risk materiality assessment on an annual basis. The result is codified in a risk matrix, which provides a consolidated view of the identified risks, including their evaluation as well as associated key controls and risk indicators. Where necessary, action plans to contain or reduce the residual risk are also included in the matrix.

The Company use Key Risk Indicators (KRIs) to measure their operational risk exposure, including for non-quantifiable risks. Notification thresholds can be defined for some of these KRIs. Every operational error has to be notified by the affected employee, with relevant data (including potential gains or losses associated with the error) entered into the Company's incident management database. The entries are analysed and validated in order to define, as necessary, mitigating actions or improvement projects. Monthly reports are produced to inform management committees about the level of operational risk and actual operational errors. These reports combine qualitative and quantitative aspects. A summary of information on operational errors and their financial impact is included in the the Company's Risk Reports on a monthly basis.

(c) Approach to financial risk management

Financial risks comprise credit, market and liquidity risk. Financial risks in client portfolios are not included in this definition as they represent an indirect risk for the firm that manifests itself in a potential loss of earnings due to lower revenue from client business.

(i) Market risk and sensitivities

Definition. Market risk is defined as the risk of loss resulting from changes in general market factors (e.g. interest rates, exchange rates, equity prices, commodity prices and credit spreads) and from factors and events specific to individual issuers of debt and equity instruments.

Strategy/Policy for Market Risk. As a Limited Licence BIPRU Investment Firm, the Firm does not have a Trading Book. The only potential exposures are Non-Trading Book Exposures, i.e. to Foreign Currency held on deposit and assets or liabilities held in a non-Reporting Currency, such as Debtors, in a non-functional currency. The Firm's appetite for Market Risk is low so the Firm only holds a minimum level of foreign currency assets to cover further expenses. Surpluses of assets in foreign currency are converted to the Firm's Reporting Currency. The firm may also be exposed to market risk due to operational incidents such as an incorrect trade being executed or a process failure such as an incorrect share class hedge being applied.

(c) Approach to financial risk management (continued)

(ii) Credit and Counterparty risk

Definition: Credit risk is defined as the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. The definition includes settlement risk.

Strategy/Policy for Credit Risk. The Company's strategy with respect to credit risk, both direct and indirect is to be conservative. This implies that financial institution counterparties have to be of very high credit quality (in general a minimum external rating of A (Fitch) is required for any cash deposits.

As a Limited Licence BIPRU Investment Firm, the Firm neither holds client money nor assets nor deals in Investment as Principal, and is, therefore, not exposed to Credit Risk in its traditional sense. The Firm's exposure to Credit Risk is the risk that investment management fees cannot be collected and the exposure to banks where revenues and cash used for day to day operations is deposited. The Firm's Credit Risk Appetite is low so the Firm only holds significant cash with banks assigned high credit ratings (long term minimum rating AA-/ short-term F1+., as per the Lombard Odier Group Counterparty Risk Management Policy).

(iii) Liquidity risk

Definition. Liquidity risk is defined as the risk that the Company is unable to meet efficiently both expected and unexpected, current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. Liquidity risk is only considered as funding liquidity and not market liquidity risk.

Strategy/Policy for Liquidity Risk. The Company's strategy is to have a highly liquid balance sheet. In addition to always meeting regulatory liquidity requirements the Company must also show positive net liquidity in line with an internal liquidity stress scenario at all times. To meet these objectives, the Company has to maintain a liquidity reserve and follow a prudent balance sheet management approach. Liquidity risk is governed by the Company's Liquidity Risk Assessment Policy which sets out the governance arrangements, risk management principles, limit and reporting framework and the liquidity contingency plan for the the Company.

The Company monitors Liquidity Risk on an on-going basis. The Company subsequently undertakes Liquidity Stress Testing on an annual basis or more often if the circumstances demand. The Financial controller monitors daily reports showing the Company's cash holdings in its bank accounts.

(d) Regulatory compliance

The FCA regulates the Company's business. The FCA has broad powers including the authority to grant, vary the terms of, or cancel a regulated Company's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources.

The Directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current and potential customers. Regulatory action against the Company could result in adverse publicity, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

Appendix to the financial statements
for the year ended 31 December 2018 (continued)
Appendix 1- Risk and capital management policies (unaudited) (continued)

(e) Regulatory capital

The disclosure requirements in the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Company's apply to the Company. The Company is a limited license entity and its minimum Capital Resources Requirement ('CRR') is the higher of the fixed overheads requirement and sum of the capital requirements for credit risk and market risk.

For the Company, the higher of these is the fixed overheads requirement and therefore, forms the CRR. Credit risk arises only incidentally to the operations of the business and the Company uses the simplified method of the standardised approach to calculate this requirement. Market risk arises only in respect of foreign currency exposures.

The Company met all of its regulatory capital requirements during the year.

Appendix to the financial statements
for the year ended 31 December 2018 (continued)
Appendix 2- BIPRU Disclosures (unaudited)

(a) Capital Resources Disclosures: BIPRU 11.5.3

The Company is a BIPRU Company with MiFID activity restriction.
Tier 1 Capital comprises Share Capital and Audited Reserves/Losses

	2018	2017
Tier One Capital	**£ '000**	**£ '000**
Ordinary share capital	**59,000**	59,000
Profit and loss and other reserves	**(23,835)**	**(32,598)**
Upper Tier Three Capital		
Short term subordinated debt	-	-
Upper Tier Three Capital	**35,165**	26,402
Pillar I capital requirement	**(8,935)**	(7,982)
Pillar I Surplus	**26,230**	18,419
Pillar II capital requirement	**(16,501)**	(11,694)
Pillar II Surplus	**18,664**	14,707

(b) Remuneration Disclosure: BIPRU 11.5.18

The Company is a Remuneration Code Proportionality Level 3 Company and has applied the rules appropriate to its Proportionality Tier. The Company's Board of Directors, in close coordination with the LOIM Management Committee is responsible for the Company's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff: remuneration by business area
(BIPRU 11.5.18(6))

Type of Remuneration Code Staff

Senior Management

Aggregate quantitative variable remuneration by senior management and other Remuneration Code Staff (BIPRU 11.5.18(7))

	Total Remuneration
	£ '000
Senior management	13,735

The Company's Pillar 3 disclosure is published on an annual basis and is accessible via the Lombard Odier Group website (www.lombardodier.com), under the asset management regulatory disclosures section.