

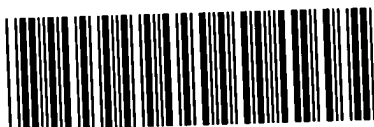
Walter Scott & Partners Limited

Strategic report, Directors' report and financial statements

Registered number SC93685

31 December 2018

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Walter Scott & Partners Limited

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Walter Scott & Partners Limited

Board of Directors and other information

Directors

R H Nisbet (Executive Chairman) (resigned 05 July 2018)

J E Henderson (Managing Director)

J D Smith

E L Pearston (resigned 30 April 2018)

R M Leckie

C E Macquaker

M E Harris

D J Heberle (resigned 31 March 2018)

Secretary

Colin J Wood

One Charlotte Square

Edinburgh

EH2 4DR

Auditors

KPMG LLP

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Registered Office

One Charlotte Square

Edinburgh

EH2 4DR

Company Number

SC93685

Walter Scott & Partners Limited

Strategic report

In accordance with Section 414A(1) of the Companies Acts 2006, we have prepared the Strategic report which includes a review of Walter Scott & Partners Limited ("the Company") business and future developments, a description of the principal risks and uncertainties facing the Company and key performance indicators.

Strategy

The Walter Scott business strategy, investment philosophy and process remain fundamentally unchanged since the business was founded in 1983. The business provides global portfolio management to institutional investors across the world with a focus on research led investment decisions.

Stock markets do not create wealth for investors; companies do. Walter Scott believes that, over time, the returns derived from investing in the shares of a company will simply reflect the internal wealth generated by that business.

2018 proved favourable for stock pickers given the backdrop of more volatile markets. The Company's assets under management are determined by investment performance, retention of existing client assets and funding from new clients.

Business review

There have been no significant changes in the Company's core operations during the year. 2018 has again demonstrated that a simple business, with relatively low fixed costs, contributes to the delivering of robust financial performance.

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 %
Turnover	226,904	237,997	(11,093)	(5)%
Administrative expenses	81,006	75,312	5,694	8%
Net assets	184,655	194,369	(9,714)	(5)%
Assets under management	49.6 billion	52.1 billion	(2.5) billion	(5)%

Principal risks and uncertainties

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 5 to 9.

Walter Scott & Partners Limited

Strategic report

Business and future developments

The business is focused on serving the firm's existing clients first and foremost with limits in place in regards to the number of new clients and minimum account sizes. The Company continues to invest in client operations to ensure that the firm continues to meet the highest standards of client service. With a significant percentage of clients based in North America a decision has been made to establish a small presence in the US. Over the coming year the firm will continue to review and evolve the organisational structure and governance framework.

Key events

The Markets in Financial Instruments Directive II (MiFID II)

The Markets in Financial Instruments Directive II (MiFID II) and Markets in Financial Instruments Regulation (MiFIR) came into effect on 3 January 2018. The underlying aim of MiFID II/MiFIR (referred to generally as MiFID II) is to promote transparency in the industry and enhance consumer protection. The key changes for the Company arising from MiFID II are the requirements for commissions paid to brokers for trade execution to be unbundled from those paid for broker research, transaction reporting to the FCA via Approved Reporting Mechanism and trade reporting to the market via the Approved Publication Agreement.

Walter Scott's MiFID II Programme began at the start of 2016 and was successfully implemented on 3 January 2018. Subsequent updates from both European Securities and Market Authority (ESMA) and the FCA in 2018 regarding best practice and clarification on any outstanding issues have also been successfully implemented.

The General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) came into effect on 25 May 2018. GDPR is intended to strengthen the security and protection of personal data within the EU. At Walter Scott we pride ourselves on the relationships and the trust within those relationships that we work hard to maintain with our clients, employees and all other stakeholders and seek to apply the highest level of data protection and security with regard to all personal data as an intrinsic part of the process.

The Company's GDPR Programme commenced in the third quarter of 2017 and achieved compliance in all material respects ahead of 25 May 2018. The Company's updated privacy policy is available on our website.

United Kingdom withdrawal from the European Union ("Brexit")

The Company has continued to monitor developments closely to ensure that appropriate contingencies are in place and believes that the provisions of investment management services to its clients will be uninterrupted regardless of the form of Brexit. The Company has a small number of EU-based clients, however the recent February 2019 announcement by the European Securities and Markets Authority and the UK Financial Services Authority has confirmed that draft Co-operation Agreements/MOUs have been agreed between the FCA and all the EU financial services regulators, which should ensure a seamless continuation of services post-Brexit.

Should there be a need to use an EU-based MiFID authorised management company in order to serve EU based clients, this can be accessed through The Bank of New York Mellon Corporation ("BNY Mellon" / "the Group"), the ultimate parent company, without material delay.

Walter Scott & Partners Limited

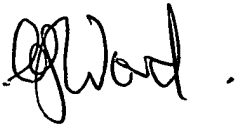
Strategic report

Donations

Charitable donations totalled £437,839 (2017: £431,657). The annual donations are administered by the Walter Scott Giving Group which is used to channel Walter Scott's charitable activities. The ambition is to support local charities that focus on community, education and health. Through multi-year commitments to a number of charities, it is hoped a meaningful difference can be made. Through a selective and largely local project focus, the Walter Scott Giving Group requires assurance that donations are efficiently spent and the benefits are evidenced.

Approval

By order of the Board



C J Wood
Company Secretary

Walter Scott & Partners Limited
One Charlotte Square
Edinburgh
EH2 4DR

27 March 2019

Registered number: SC93685

Walter Scott & Partners Limited

Directors' report

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

Principal activities

The principal activity of the Company is the provision of global equity portfolio management services to institutional clients from around the world.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") pursuant to the Financial Services Act 2012. All of the Company's activities during the year are regulated and conducted within the scope of permissions granted to the Company by the FCA.

Additionally, the Company is registered in the USA with the Securities and Exchange Commission (SEC) and in South Africa with the Financial Sector Conduct Authority (FSCA). The Company is registered as an Exempt Market Dealer (EMD) (through which it offers certain investment vehicles on a private placement basis) in all Canadian provinces (Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland & Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan) and is also availing itself of the International Adviser Exemption (IAE) in these same provinces with the exception of Prince Edward Island. Each of the EMD registration and the IAE are in compliance with the National Instrument 31-103, Registration Requirements, Exemption and Ongoing Registrant Obligations. The Company operates in Australia under an Australian Securities and Investment Commission (ASIC) Class Order 03/1099 exemption and in Japan under the offshore investment manager exemption.

Results and dividends

The profit for the year after taxation amounted to £118.7m (2017: £130.5m profit).

Dividends paid during the year amounted to £130m (2017: £200m).

Risk management

The Company is a BIPRU limited licence and is regulated by the FCA. Capital and other financial returns are prepared and submitted to the regulator on a semi-annual basis. At 31 December 2018 capital as reflected within the Company's regulatory returns amounted to £51.4m (2017: £50.8m).

Governance and policies

Governance of the Company is the ultimate responsibility of the Board of directors. The Board is responsible for the ongoing success and development of the Company's business as well as setting the risk appetite for the Company as part of the risk framework.

Formal Board committees have been set up to help ensure adequate governance, risk management and controls are in place. Each committee has clearly stated terms of reference which includes their purpose and responsibilities.

The current committees are:

- The Executive Management Committee
- The Client Service Committee
- The Investment Management Committee
- The Operations Committee
- The Risk and Compliance Committee
- The Remuneration and Nominations Committee

Policies and procedures also exist throughout the Company to help ensure there is an appropriate level of risk management.

Walter Scott & Partners Limited

Directors' report

Risk management continued

Governance and policies continued

There are a number of key oversight committees within the BNY Mellon Global Risk Management Framework. The BNY Mellon Risk Management Committee is the most senior body and has an oversight responsibility covering all major risk sources. It is made up of senior Investment Management business and risk and compliance personnel. The Committee is provided with appropriate Management Information including any risk issues arising.

Risk management process

The Company is responsible for actively identifying the risks associated with its key business processes, business change or external threats, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls. The objective of this detailed self-assessment is to prevent or minimise:

- Errors or service delivery failures, especially those with impact on clients
- Financial losses
- Compliance breaches
- Reputational damage

The Company utilises the BNY Mellon Operational Risk Platform to record the above process. The platform is used to maintain risk and control self-assessments, key risk indicators and tracking of operational risk events. Risk Management works in partnership with the business to ensure that there is adequate understanding and assessment of, and accountability for, all risks that relate to the Company.

The Risk Appetite at the Group level is set and owned by the BNY Mellon Board of directors, giving the overall strategy and willingness to take on risk at a global level. The Company's Risk Appetite identifies the amount and type of risk that the business is willing to take in order to meet its strategic objective. It is commensurate with guidance set by BNYM Investment Management.

Capital requirements are directly related to the Company's risk profile and are considered as part of our internal capital adequacy assessment process (ICAAP).

Credit risk

Credit risk covers default risk from counterparties or clients for loans, commitments, securities, and other assets where realisation of the value of the asset is dependent on counterparties' ability to perform.

Market risk

Market risk is the risk of loss due to adverse changes 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.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events including the potential for loss that arises from problems with operational processing, human error or omission, breaches in internal controls, fraud, and unforeseen catastrophes.

Walter Scott & Partners Limited

Directors' report

Risk management process continued

Liquidity risk

Liquidity risk is the risk that a firm, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Business risk

Business risk includes risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

Compliance risk

Compliance risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the firm and its executors to fines, payment of damages, the voiding of contracts and damaged reputation.

Pillar 3 risk disclosures

Basel II Pillar 3 disclosures about the Company (capital and risk management) are covered by the BNY Mellon Investment Management (Europe) Holdings Limited group disclosures which can be found on the group website (<http://www.bnymellon.com/investorrelations/filings/index.html>).

EU Capital Requirements Directive IV ("CRD IV") disclosure

Institutions are required to publish details of their turnover, 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 5);
- b) Turnover (see disclosure note 2 on page 27);
- c) Number of employees on a full time equivalent basis (see disclosure note 4 on page 28);
- d) Profit and loss before taxation (see Statement of profit and loss on page 14);
- e) Tax on profit or loss (see disclosure note 8 on page 30);

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 and 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 on the Company's performance. In addition, the Company participates in the Group's Employee Information & Consultation Forum. The Forum builds on existing communication channels and provides 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. All employees have the opportunity to purchase stock through the Group's Employee Stock Purchase Plan and the key employees are eligible to participate in a long term incentive scheme which links their compensation to the growth in value and financial performance of the Company.

Walter Scott & Partners Limited

Directors' report

Employees continued

The Company is also committed to providing relevant training and development opportunities, including 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:

	Resigned
R H Nisbet	5 July 2018
J E Henderson	-
J D Smith	-
E L Pearston	30 April 2018
R M Leckie	-
C E Macquaker	-
M E Harris*	-
D J Heberle**	31 March 2018

* M E Harris is the Chief Executive Officer of Investment Management for BNY Mellon and whilst he is a member of the board he is not employed or remunerated by Walter Scott & Partners Limited.

** D J Heberle was the Chief Executive Officer of BNY Mellon Wealth Management and whilst he was a member of the board he was not employed or remunerated by Walter Scott & Partners Limited.

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: none).

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.

Post balance sheet events

There are no material post balance sheet events.


Walter Scott & Partners Limited

Directors' report

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 E Henderson
Director

Walter Scott & Partners Limited
One Charlotte Square
Edinburgh
EH2 4DR

27 March 2019

Registered number: SC93685

Walter Scott & Partners Limited

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.

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 Walter Scott & Partners Limited

Opinion

We have audited the financial statements of Walter Scott & Partners Limited 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 profit 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for an entity and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Independent auditor's report to the members of Walter Scott & Partners Limited

Other information

The directors are responsible for the other information, which comprises the Strategic report, Directors' report and Board of Directors and 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 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.

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 10, 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

Independent auditor's report to the members of Walter Scott & Partners Limited

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.



Catherine Burnet (Engagement Partner)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh, EH1 2EG

27 March 2019

Walter Scott & Partners Limited

Statement of profit and loss for the year ended 31 December 2018

		2018	2017
	Note	£000	£000
Turnover	2	226,904	237,997
Administrative expenses	3	(81,006)	(75,312)
Operating profit		145,898	162,685
Interest receivable and similar income	6	1,309	674
Interest payable and similar expenses	7	(791)	(2,011)
Profit before taxation		146,416	161,348
Taxation on profit	8	(27,759)	(30,878)
Profit after taxation		118,657	130,470

Notes 1 to 23 are integral to these financial statements.

All items dealt with in arriving at the Company's results for the financial year and prior year relate to continuing operations.

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 above.

Walter Scott & Partners Limited

Balance sheet at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	9	5,705	4,750
Intangibles	10	669	749
		<u>6,374</u>	<u>5,499</u>
Current assets			
Debtors	11	64,111	68,153
Investments	12	23,669	23,208
Cash at bank and in hand	13	183,562	216,134
		<u>271,342</u>	<u>307,495</u>
Creditors: amounts falling due within one year	14	(93,061)	(118,625)
Net current assets		<u>178,281</u>	<u>188,870</u>
 Total assets less current liabilities		 <u>184,655</u>	 <u>194,369</u>
Net assets		<u>184,655</u>	<u>194,369</u>
 Capital and reserves			
Called up share capital	17	25	25
Other reserves		13,947	12,318
Profit and loss account		170,683	182,026
		<u>184,655</u>	<u>194,369</u>
Shareholders' funds		<u>184,655</u>	<u>194,369</u>

Notes 1 to 23 are integral to these financial statements.

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



J E Henderson
Director

27 March 2019

Company registered number: SC93685

Walter Scott & Partners Limited

Statement of changes in equity

31 December 2018

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	25	9,972	251,556	261,553
Profit for the year	-	-	130,470	130,470
Equity-settled share based payment transactions	-	2,346	-	2,346
Dividends	-	-	(200,000)	(200,000)
Total contributions by and distributions to owners	-	2,346	(200,000)	(197,654)
Balance at 31 December 2017	25	12,318	182,026	194,369

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2018	25	12,318	182,026	194,369
Profit for the year	-	-	118,657	118,657
Equity-settled share based payment transactions	-	1,629	-	1,629
Dividends	-	-	(130,000)	(130,000)
Total contributions by and distributions to owners	-	1,629	(130,000)	(128,371)
Balance at 31 December 2018	25	13,947	170,683	184,655

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies

1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with FRS 101.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("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, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosure in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of compensation of Key Management Personnel; and
- Disclosures in respect of financial instruments.

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.

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 1.20.

1.2 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.

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.2 Changes in accounting policies continued

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 ("ECL") 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.

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

Changes to classification and measurement of financial assets held at 31 December 2018 were:

- debt securities that were classified as available-for-sale under IAS 39 continue to be measured at FVOCI under IFRS 9; and
- derivatives held for risk management purposes that are measured at FVTPL under IAS 39 continue to be so measured under IFRS 9.

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.2 Changes in accounting policies continued

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 this model had no material impact on the accounting for revenue nor on retained earnings for the Company.

1.3 Accounting standards not yet effective

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use (“ROU”) asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. IFRS 16 replaces existing guidance including IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019.

When adopting the standard, the Company will recognise an increase in assets and liabilities, as a result of recording operating leases on balance sheet. Additionally, the Company expects the expense recognition pattern to be modified as a result of switching from a straight line approach, as required by the standard. Introduction of these changes is not expected to have a material impact.

1.4 Measurement convention

These financial statements are prepared on the historical cost basis except that financial instruments classified as fair value through profit or loss are stated at their fair value.

1.5 Going concern

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 4. In addition, the Directors' report on pages 5 to 9 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 Company has adequate liquidity and capital. The directors perform an annual going concern review that considers, under a stress test scenario, the Company's ability to meet its financial obligations as they fall due, for a period of at least

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.5 Going concern continued

twelve months after the date that the financial statements are signed. As a consequence, the directors believe that the Company is well placed to manage its business risks.

Based on the above assessment of the Company's financial position, liquidity and capital, the directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future (for a period of at least twelve months after the date the financial statements are signed). Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.6 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.

1.7 Turnover

Revenue, which is stated net of value added tax, comprises management fees, performance fees, net management fees receivable from Group undertakings and other income and is accrued over the period for which these services are provided.

Management fees are fees paid for the management of investment portfolios. These are recognised as services are provided and are calculated on various formulae linked to the value of portfolios at invoicing dates. Performance fees are fees paid on the investment performance in current and previous periods. Revenue is recognised for the element of management fees linked to performance, which is usually billed on a four year rolling basis, when such fees in respect of each calendar year are receivable in accordance with management agreements.

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.

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.

1.8 Operating leases

Payments made under operating leases are recognised in the statement of profit and loss on a straight-line basis over the term of the lease.

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.9 Interest receivable and interest payable

Interest receivable/payable and similar expenses/income include foreign exchange gains/losses that are recognised in the statement of profit and loss (see foreign exchange currency accounting policy).

Interest income and interest expense are recognised in the statement of profit and loss as accrued, using the effective interest method.

1.10 Long term incentive plan

The Company has in place a long term incentive plan for its employees. Long term incentive awards are delivered in the form of BNY Mellon Corporation Restricted Stock and units in a Mellon Long Term Global Equity Fund. Employees are generally prevented from selling or transferring restricted stock for a three or four year period (the vesting period) and generally the shares and units are forfeited if employment is terminated. The units held in the BNY Mellon Global Equity Fund are treated as deferred cash. The amounts payable to employees under the plan are required under IAS19 to be deferred and recognised over the vesting period. The long term incentive liability and the assets held to hedge against variability in that plan are both designated as fair value through the Statement of profit and loss reflecting the fair value as at balance sheet date. The difference between the book cost and the fair value of both the liability and the asset is marked to market through the Statement of profit and loss, and is included within the total long term incentive costs (see note 4 staff numbers and costs).

Under IAS 1.69 the element of the awards that is due within 12 months of the balance sheet date will be presented as a current liability.

1.11 Share-based payment transactions

Restricted Stock Units (RSUs) and options in The Bank of New York Mellon Corporation (the Company's ultimate parent) shares issued under long term incentive plans are equity settled. When the Company's parent grants rights to its equity instruments to the Company's employees and recharges the Company, such recharges are recognised as a liability with a corresponding debit to equity.

The grant date fair value of share based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, 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. 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 our 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 statement of profit and loss and a debit to equity. Where an employee has transferred between

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.11 Share-based payment transactions continued

different Companies within the BNY Mellon 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.

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit and loss.

Current tax is the expected tax payable or receivable on the taxable income 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 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.

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.

1.13 Foreign currency

The Company's functional currency is £ sterling. The Company's presentational currency is also £ sterling. 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 at the balance sheet date are retranslated to the functional currency ruling at that date. Any resulting exchange differences are reported net in the statement of profit and loss.

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 statement of profit and loss within interest receivable or payable as appropriate.

1.14 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of current liabilities.

1.15 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 IFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.16 Non-derivative financial instruments - classification and measurement

Non-derivative financial instruments comprise investments in equity and debt securities, 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.

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.

Business model assessment

Certain financial assets, for example, deposits with central banks and financial institutions, will always 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.

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.16 Non-derivative financial instruments - classification and measurement continued

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are repayable on demand.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Available-for-sale Financial Instruments

Available-for-sale financial instruments solely comprise debt securities that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions. After initial recognition, available-for-sale financial instruments are subsequently measured at fair value. Unrealised gains and losses are recognised in other comprehensive income.

When a debt security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to the Statement of profit and loss and other comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the Effective Interest Rate ("EIR"). Any losses arising from impairment of such investments are recognised in the Statement of profit and loss and other comprehensive income.

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.17 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, 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 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. Receivables are presumed uncollectable 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.

An impairment loss in respect of a financial asset measured at amortised cost (such as held to maturity debt securities) is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Company assesses the debt instruments classified as available-for-sale on an individual basis, whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair

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Notes to the financial statements

for the year ended 31 December 2018

1 Accounting policies continued

1.17 Impairment of financial assets (including trade and other debtors) continued

value, less any impairment loss on that investment previously recognised in the consolidated Statement of profit and loss and other comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Statement of profit and loss and other comprehensive income.

1.18 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

When parts of a class of tangible fixed assets have different useful lives, they are accounted for as separate classes of tangible fixed assets.

Depreciation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of each class of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- | | |
|-------------------------------|-----------------|
| • Freehold land and buildings | 40 years |
| • Fixtures and fittings | 4-10 years |
| • Computer equipment | 2-4 years |
| • Works of art | Indefinite life |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.19 Intangible assets

Intangible assets that are internally generated or acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives are as follows:

- | | |
|---|---------|
| • Computer software, internally generated | 5 years |
|---|---------|

1.20 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 the valuation of financial instruments, deferred tax assets, provisions and impairment of intangible assets. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes in the financial statements.

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

2 Revenue from contracts with customers

Nature of services and revenue recognition

Fee revenue is primarily variable, based on levels of assets under management ("AUM") and the level of client-driven transactions, as specified in fee schedules.

Investment management fees are dependent on the overall level and mix of AUM. The management fees, expressed in basis points, are charged for managing those assets. Management fees are typically subject to fee schedules based on the overall level of assets managed and products in which those assets are invested.

Investment management fee revenue also includes transactional and account-based fees. These fees are recognised when the services have been complete. Clients are generally billed for services performed on a monthly or quarterly basis.

Performance fees are generally calculated as a percentage of the applicable portfolio's performance in excess of a benchmark index or peer group's performance. Performance fees are recognised at the end of the measurement period when they are determinable.

The directors have taken advantage of the provisions of Schedule 1 paragraph 68 (5) of the Companies Act 2006 SI 2008 No.410, as in their opinion it would be seriously prejudicial to the interests of the Company to disclose a geographical analysis of turnover.

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 £37.6m at 1 January 2018 and £37.7m at 31 December 2018. Receivables from customers are included in debtors on the balance sheet.

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 specified 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.

Revenue by activity

	2018	2017
	£000	£000
Management fees	221,652	237,434
Performance	5,252	563
Total turnover	226,904	237,997

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

3 Expenses and auditor's remuneration

Profit on ordinary activities before taxation is stated after charging:

	2018	2017
	£000	£000
Depreciation of tangible fixed assets	591	485
Amortisation of intangible assets	304	360
Charges paid under leases for land and buildings	546	520

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	23	19
Other assurance services	190	168
Other services	-	(1)
	<u>213</u>	<u>186</u>

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was 148 (2017: 138), of which 5 were directors (2017: 6).

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Salaries and wages*	45,056	45,339
Long term incentive costs (see note 20)	7,505	5,344
Share based payments (see note 21)	1,847	1,926
Social security costs	7,115	7,271
Contributions to defined contribution plan	983	937
Other staff costs	38	63
	<u>62,544</u>	<u>60,880</u>

* Includes compensation for loss of office as disclosed in Note 5.

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Notes to the financial statements

for the year ended 31 December 2018

5 Directors' remuneration

	2018	2017
	£000	£000
Directors' emoluments	22,252	22,323
Amounts receivable under long term incentive schemes	5,852	4,250
Company contributions to money purchase pension plans	67	87
Compensation for loss of office	2,286	-
	<u>30,457</u>	<u>26,660</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £8,911,292 (2017: £8,416,916), and Company pension contributions of £10,000 (2017: £10,000) 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.

	Number of Directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	4	6
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	<u>4</u>	<u>6</u>

6 Other interest receivable and similar income

	2018	2017
	£000	£000
Net foreign exchange gain	160	-
Interest receivable from short term deposits	1,149	674
Total interest receivable and similar income	<u>1,309</u>	<u>674</u>

7 Interest payable and similar expenses

	2018	2017
	£000	£000
Net foreign exchange loss	-	1,244
Interest payable on short term overdrafts (see note 13)	791	767
Total other interest payable and similar charges	<u>791</u>	<u>2,011</u>

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

8 Taxation

Recognised in the profit and loss account

	2018 £000	£000	2017 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	27,677		31,110	
Adjustments in respect of prior periods	99		172	
Total current tax		27,776		31,282
<i>Deferred tax (see note 15)</i>				
Origination and reversal of temporary differences	(11)		(471)	
Reduction in tax rate	1		55	
Adjustment in respect of prior period	(7)		12	
Total deferred tax		(17)		(404)
Tax on profit on ordinary activities		27,759		30,878

Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit for the year	118,657	130,470
Total tax expense	27,759	30,878
Profit excluding taxation	146,416	161,348
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	27,819	31,054
Non-deductible expenses	110	232
Impact of changes in tax rate	1	55
Other - items not subject to tax	(263)	(647)
Adjustments in respect of prior years	92	184
Total tax expense	27,759	30,878

Factors that may affect current and total tax charge

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 2018 has been calculated on these rates.

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

9 Tangible fixed assets

	Building £000	Fixtures, fittings and art work £000	Computer equipment £000	Total £000
Cost				
At 1 January 2018	3,592	2,085	563	6,240
Additions	593	354	645	1,592
Disposals	-	(84)	-	(84)
At 31 December 2018	4,185	2,355	1,208	7,748
Depreciation and impairment				
At 1 January 2018	419	752	319	1,490
Disposals	-	(38)	-	(38)
Depreciation	271	124	196	591
At 31 December 2018	690	838	515	2,043
Net book value				
At 31 December 2018	3,495	1,517	693	5,705
At 31 December 2017	3,173	1,333	244	4,750

10 Intangible assets

	Computer software, internally generated £000	Total £000
Cost or valuation		
At 1 January 2018	3,043	3,043
Additions	225	225
At 31 December 2018	3,268	3,268
Amortisation and impairment		
At 1 January 2018	2,294	2,294
Amortisation	305	305
At 31 December 2018	2,599	2,599
Net book value		
At 31 December 2018	669	669
At 31 December 2017	749	749

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

11 Debtors

	2018	2017
	£000	£000
Trade debtors	3,200	2,842
Amounts owed by group companies	23,486	27,544
Other debtors	317	171
Prepayments and accrued income	34,892	35,180
Deferred tax asset (see note 15)	2,216	2,416
	<u>64,111</u>	<u>68,153</u>
Due within one year	<u>64,111</u>	<u>68,153</u>

Debtors include prepayments and accrued income of £nil (2017: £nil) due after more than one year.

12 Current asset investment and other financial assets

	2018	2017
	£000	£000
Current asset investments		
Financial assets designated as fair value through profit or loss	<u>23,669</u>	<u>23,208</u>

Financial assets designated as fair value through statement of profit and loss represent investments backing the LTIP liability.

13 Cash and cash equivalents

	2018	2017
	£000	£000
Cash at bank and in hand	<u>183,562</u>	<u>216,134</u>

Cash at bank and in hand is presented gross of overdrafts in foreign currency of £32.1m (2017: £56.3m). Overdrafts in foreign currency accounts are with a UK regulated banking entity within the 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.

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

14 Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Bank loans and overdrafts (see note 13)	32,104	56,328
Amounts owed to group undertakings	1,724	2,803
Accruals and deferred income	41,764	43,097
Taxation and social security	16,852	15,780
Other creditors	617	617
	<u>93,061</u>	<u>118,625</u>

Included within accruals and deferred income is £6.8m (2017: £6.8m) which represents the amount payable to employees under the deferred cash plan and which fall due within one year.

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Movement in deferred tax

	1 January 2018	Recognised in income	Recognised in equity	31 December 2018
	£000	£000	£000	£000
Tangible fixed assets	(9)	11	-	2
Share-based payments	1,103	22	(217)	908
Long-term incentive compensation in profit and loss account	1,322	(16)	-	1,306
	<u>2,416</u>	<u>17</u>	<u>(217)</u>	<u>2,216</u>

	1 January 2017	Recognised in income	Recognised in equity	31 December 2017
	£000	£000	£000	£000
Tangible fixed assets	24	(33)	-	(9)
Share-based payments	906	(104)	301	1,103
Long-term incentive compensation in profit and loss account	781	541	-	1,322
	<u>1,711</u>	<u>404</u>	<u>301</u>	<u>2,416</u>

Walter Scott & Partners Limited

Notes to the financial statements

for the year ended 31 December 2018

16 Employee benefits

Employees of the Company are eligible to join The Bank of New York Mellon Group Personal Pension scheme. The group personal pension scheme is funded by a monthly payment to a third party insurer and is a defined contribution scheme.

The total pension cost for the Company in respect of the year to 31 December 2018 was £1.0m (2017: £0.9m). At the year-end, contributions of £nil were payable to the scheme and are included in creditors (2017: £nil).

17 Called up share capital

	2018 £000	2017 £000
<i>Authorised, allotted, called up and fully paid</i>		
25,126 (2017: 25,126) Ordinary shares of £1 each	25	25

Dividends

The following dividends were recognised during the period:

	2018 £000	2017 £000
£5,174 (2017: £7,960) per qualifying ordinary share	130,000	200,000

18 Operating leases

At the end of the year, the Company had the following annual commitments under non-cancellable operating leases relating to land and buildings, the Company's leased office in Edinburgh:

	2018 £000	2017 £000
Expiring within one year	546	520
Expiring between two and five years	2,184	2,080
Expiring in more than five years	2,184	2,600
	4,914	5,200

19 Financial instruments

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts are approximate to their fair value. This assumption is also applied to variable rate financial instruments. Short term debtors and creditors are excluded from financial assets and financial liabilities.

Walter Scott & Partners Limited

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

20 Long term incentive plan

Long term incentive awards are delivered in the form of BNY Mellon Corporation Restricted Stock (see Note 1 Accounting Policies) and units in a BNY Mellon Long Term Global Equity Fund managed by Walter Scott & Partners Limited. The units held in the BNY Mellon Global Equity Fund are treated as deferred cash. The amounts payable to employees under the plan are required under IAS19 to be deferred and recognised over the vesting period. Assets held against variability in that plan are designated as fair value through profit or loss.

	2018		2017	
	Number of units	2018	Number of units	2017
	000's	£000	000's	£000
Balance outstanding at 1 January	7,908	23,208	7,326	18,942
Additions	3,143	9,174	3,010	8,179
Disposals	(3,180)	(9,283)	(2,428)	(6,651)
Included in profit and loss	-	570	-	2,738
Balance outstanding at 31 December	7,871	23,669	7,908	23,208

21 Share based payments

Restricted share awards

	2018	2017
	Number of shares	Number of shares
Balance outstanding at 1 January	164,814	184,351
Awarded during the year	44,318	54,248
Vested in the year	(67,916)	(73,785)
Balance outstanding at 31 December	141,216	164,814

The price of restricted share outstanding at 31 December 2018 was \$47.07 (2017: \$53.86).

During 2018, £1,846,337 excluding National Insurance was charged to the Statement of profit and loss in respect of restricted share awards settled in equity (2017: £1,926,209).

As at 31 December 2018, £35,229 (2017: £31,843) of total unrecognised compensation costs related to non-vested restricted stock is expected to be recognised over the weighted average period of approximately 14 months (2017: 13 months). In February 2018 44,318 shares with a combined value of £2,014,312 were awarded in respect of the 2017 incentive plan.

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Notes to the financial statements

for the year ended 31 December 2018

22 Provisions

	Operational loss £000
At 1 January 2018	617
Arising during the year	-
Utilised	-
At 31 December 2018	617

Operational loss

The Company continues to discuss matters in relation to a potential overseas fund tax liability. In 2014 payments were made to the UK Tax Authority. This did not imply any acceptance of any liability but ensured that no further interest would accrue whilst the matter was being considered.

In relation to this matter and as at 31 December 2018, the Company carries forward a provision for a potential contract settlement of £0.6m. The applicability of this is contingent on whether a tax liability is established. The timing and outcome of any decision by the UK Tax Authority is currently unknown.

23 Ultimate parent company and parent company of larger group

The immediate parent undertaking of the Company is BNY Mellon International Asset Management Holdings No.1 Limited, a company registered in England and Wales. Copies of accounts for BNY Mellon International Asset Management Holdings No.1 Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

The largest and smallest group in which the results of the Company are consolidated is that headed by The Bank of New York Mellon Corporation, incorporated in the United States of America.

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
225 Liberty Street,
New York, NY
10286
USA.