Schroders

Annual Report and Accounts 2019

Schroder & Co. Limited

Year Ended 31 December 2019

Registered Number: 02280926

Contents

Officers and professional advisers

Directors

Mary-Anne Daly
Peter Hall
Susan Harris
Richard Keers
Annamaria Koerling
Caspar Rock
Carolyn Sims
Alexander Whitburn

Company Secretary

Schroder Corporate Services Limited

Registered Office

1 London Wall Place
London
EC2Y 5AU

Independent Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Strategic report

The Directors present their Strategic report on Schroder & Co. Limited (the Company) for the year ended 31 December 2019.

Results and review of the business

The profit for the year, after tax, was £42.2 million (2018: £48.2 million). This represents a return on assets of 19 per cent. (2018: 20 per cent.). Assets under management (AUM) grew by £4.5 billion during the year, from £31.6 billion to £36.1 billion.

The Company offers investment management, wealth planning and specialist banking services primarily for private clients and charities. The Company's Wealth Management business continued during the year and its investment and operating principles are expected to remain unchanged in 2020.

The Directors consider the results and the Company's financial position at 31 December 2019 to be satisfactory.

The United Kingdom left the European Union on 31 January 2020 under the terms of the European Union (Withdrawal Agreement) Act 2020 beginning a period of transition to 31 December 2020. During the transition period EU law and the rulings of the European Court of Justice will continue to apply within and to the UK. Negotiations on the future relationship between the UK and EU will continue but uncertainty remains as to what will be agreed before the end of the year.

The Schroders plc Group (the 'Group') remains well positioned to manage the challenges that may arise as a result of Brexit, regardless of the outcome of the negotiations. Whilst all the legal and regulatory challenges of Brexit are not yet clear, our structure provides us with flexibility in deciding how best to respond and continue to service our clients. We believe that the Company is well placed to weather these challenges and to adapt to ongoing changes in the political, economic and regulatory environment.

Directors' duties – compliance with s172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

To discharge their section 172 duties the directors had regard to the factors set out above in making the principal decisions taken by the Company.

The Board considered a number of key proposals in 2019. They agreed to provide funding via a capital injection to the Company's subsidiary, Schroder & Co. (Asia) Limited, to enable it to acquire the Wealth Management business of ThirdRock. This was viewed as a key acquisition for future growth in Asia for the wider Wealth Management division of the Group.

The Board agreed in principle the sale of the Company's subsidiary Schroder & Co. (Asia) Limited, subject to regulatory approval, and the transfer of the business and employees of the Company's Frankfurt Branch to other Schroders Group entities. The Board considered the interests of stakeholders when making these decisions, including those relating to the referral of new business brought to the Company by the strategic partnership. In particular, the interests of the employees of the Frankfurt branch were considered ahead of the transfer via a consultation process, and the Board were made aware of the results of this ahead of approving the change.

The directors also approved the payment of two interim dividends during 2019. In reaching this decision, the Board considered the long term impact on its working capital, and prudential requirements.

Clients are at the centre of our business and doing the right thing by clients is key to the future success of the Company. The impact on clients is a key consideration for all major decisions taken by the Board.

The Company has a policy of regularly providing employees with information on matters of interest to them in relation to the business of the Company and the Group. Please see the Directors' report for further details.

The Company has adopted the UK Prompt Payment Code and is committed to these principles regarding the fair treatment of suppliers, who are viewed as key stakeholders. Please see note 17 to the accounts for further details.

Due to the structure of the Schroders Group, stakeholder engagement also took place at Group level, in respect of the Group's impact on wider society and the environment. For details of the engagement that takes place with the Company's stakeholders at Group level, please refer to the Schroders plc annual report and accounts for the year ended 31 December 2019 ('the Schroders Report').

Principal risks and uncertainties

From the perspective of the Company, with the exception of the below risks, the principal risks and uncertainties are integrated with the principal risks of Schroders plc's other subsidiary undertakings which, with Schroders plc, form the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in "Key risks and mitigations" in the Strategic report and "Risk and internal controls" within the Governance section of the Schroders Report. The Schroders Report does not form part of this report.

The risks specific to the Company which are managed separately to that of the Group include capital risk, liquidity risk, interest rate risk (duration and basis) and foreign exchange risk. Note 13 contains more details on these risks, along with details of the risks managed by the Group.

Key performance indicators

The Group's operations are managed on a divisional basis. For this reason, the Directors considered that during 2019, that it was appropriate to rely on the Group's key performance indicators, and that Company specific analysis using key performance indicators was not required for an understanding of the development, performance or position of the business of the Company. Subsequently, the Board have considered and approved Company specific key performance indicators which will apply for 2020 and will report on these in the 2020 Annual Report and Accounts. The development, performance and position of the Group, which includes the Company, is discussed in the Strategic report in the Schroders Report.

Approved by the Board of Directors and signed on its behalf by:

Matthew Buckland, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
6 March 2020

Directors' report

The Directors present their report and the audited accounts of the Company for the year ended 31 December 2019. The information contained in the Strategic report and the Statement of Directors' responsibilities forms part of this Directors' report.

General information

The Company is a private limited company, limited by shares incorporated and domiciled in England and Wales. The Company's ultimate parent undertaking and controlling entity is Schroders plc, which together with the Company and Schroders plc's other subsidiary undertakings, form the Group.

The Company is an authorised banking institution under the Financial Services and Markets Act 2000. The Company is authorised and regulated by the Prudential Regulation Authority and Financial Conduct Authority.

Future developments

The future developments of the Company are disclosed within the Strategic report.

Dividends

During the year, the Directors declared interim dividends totalling £62.6 million. The Directors also recommend a further dividend of £5.0m in respect of the year ended 31 December 2019 (2018: £45.0 million).

Risk management and use of financial instruments

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in "Key risks and mitigations" in the Strategic report and "Risk and internal controls" within the Governance section of the Schroders Report. The Company's specific risk exposures to financial instruments are explained in note 13 to the accounts.

Going concern

Taking all the above factors into consideration, including the nature of the Company and its business, the Directors are satisfied that, at the time of approving the accounts, there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which is at least 12 months from the date the Annual Report and Accounts is signed. For this reason the Directors continue to adopt the going concern basis in preparing the accounts.

Directors' report (continued)

Directors

The Directors of the Company who have served during the year, except where listed below, are listed on page 3. Between 1 January 2019 and 6 March 2020 the following changes have taken place:

Director	Appointed	Resigned
Peter Hall	1 April 2019	
Jeremy Turnbull		9 September 2019

Directors' liability insurance

Directors' and Officers' liability insurance is taken out by Schroders plc, the Company's ultimate parent undertaking for the benefit of the Directors of the Company.

Employee engagement

The Company has a policy of regularly providing employees with information on matters of interest to them in relation to the business of the Company and the Group.

Employees are consulted via email, an intranet site and an employee forum (the Forum). The Senior Independent Director of Schroders plc attends the Forum in order to gather feedback and hear the issues that concern employees. The Forum consists of employees elected by their peers, and members of the Forum meet regularly with management as part of a Joint Consultative Group which discusses employee-related matters and provides feedback and recommendations to the senior management team of the Group.

Financial and economic factors affecting the performance of the Group are set out in the Schroders Report which is made available to all employees. Through the Share Incentive Plan, employees are encouraged to participate in the success of the Group.

Employment policy

The Company is committed to equal opportunities for both existing employees and applicants seeking employment. It is the Company's policy to give appropriate consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. For the purpose of training, career development and promotion, disabled employees, including any who become disabled in the course of their employment, are treated on equal terms with other employees.

Independent auditor and disclosure of information to independent auditor

In accordance with section 487(2) of the Companies Act 2006 and in the absence of a notice proposing that the appointment be terminated at a general meeting, the current auditors, Ernst & Young LLP ("EY"), are deemed to be reappointed for the next financial year. To the best of the Directors' knowledge there is no relevant audit information of which EY is unaware. Each of the Directors has taken all reasonable steps that ought to have been taken by him or her as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of such information.

Statement of corporate governance arrangements

As a subsidiary undertaking, the Company applies the UK Corporate Governance Code where applicable to support the overall compliance of Schroders plc with that code.

Directors' report (continued)

Statement of Directors' responsibilities in respect of the accounts

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

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have prepared the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the accounts 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 accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' report is approved:

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

Approved by the Board of Directors and signed on its behalf by:

Matthew Buckland, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
6 March 2020

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No 02280926

Independent auditor's report to the member of Schroder & Co. Limited

We have audited the financial statements of Schroder & Co. Limited for the year ended 31 December 2019, which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, cash flow statement and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU'); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Overview of our audit approach

Key audit matters	• Improper recognition of revenue • Impairment of investment in subsidiary
Materiality	• Overall materiality of £2.6 million (2018: £3.0 million) which represents 5% of profit before tax.

Independent auditor's report to the member of Schroder & Co. Limited (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Improper recognition of revenue (£172.7 million, PY comparative £171.4 million) *Refer to accounting policies in note 2 of the financial statements (page 23).* There is a risk of inappropriate recognition of revenue specifically focussed on manual fee calculations that may be susceptible to management override or error. The revenue generated by the Company is largely automated for interest, and fee and commission income. As such, the risk of material misstatement due to fraud or error is lower. However, for manual calculations of fees and commission income, that have increased complexity, there is a heightened risk of management override because the calculations are manual and there are adjusting journal entries recorded in the ledger. The risk has neither increased nor decreased in the current year.	We have: ▸ confirmed and updated our understanding of the procedures and controls in place throughout the revenue process, as well as updated our understanding of the fee arrangements with each client, the input of those arrangements in the relevant systems, and billing and cash collections; ▸ tested the controls over access to, and changes to, the IT systems underpinning the revenue process, including testing controls and reconciliations over the flow of data between systems for completeness and accuracy; ▸ tested the onboarding process for new clients and for a sample of clients including controls over new and amended fee arrangements, determined if changes made to client files have been appropriately reviewed once the changes have been submitted; ▸ tested the controls in place over the calculation of revenue; ▸ for a sample of manual fee and commission items we agreed the fee rates used in the calculation to the customer agreements and recalculated the fee income; ▸ for a sample of automated fee and commission revenue items we agreed the fee rates used in the calculation to customer agreements and recalculated 100% of automated fee and commission income; ▸ tested the revenue accrual raised at year end by substantiating the total amount to post year end billings to assess the appropriateness of the accrual raised; ▸ validated the selected sample of manual and automated fee and commission revenue samples to cash receipts; ▸ performed revenue cut off procedures to assess if revenue was recorded within the correct period; ▸ tested the appropriateness of journal entries recorded in the sub-ledgers and any other adjustments made in the preparation of the financial statements by auditing a sample of journal entries back to supporting documentation; and ▸ tested compliance with IFRS 15 – *Revenue from contracts with customers ('IFRS 15')* by assessing the revenue samples selected met the criteria specified under IFRS 15.

Independent auditor's report to the member of Schroder & Co. Limited (continued)

Key audit matters (continued)

Key observations communicated to the Schroder & Co. Limited Audit Committee
Based on the procedures performed, we have no matters to report in respect of revenue recognition and nothing has come to our attention that causes us to believe that revenue is materially misstated.

Risk	Our response to the risk

Impairment of investment in subsidiary (carrying value of investment in subsidiary £25.9 million, PY comparative £16.2 million)
 	
Refer to note 12 of the financial statements (pages 36 and 37).
 	
There is a risk that management makes inaccurate assumptions in the discounted cash flow ('DCF') model resulting in incorrectly identifying whether an impairment is required.
 	
Management must use their judgment to determine whether there is any indication that the investment is impaired. This assessment is based on the expected value of the subsidiary.
 	
Management uses a DCF model to estimate the recoverable amount of the investment. The model requires management to make judgments on terminal growth rates, discount rates and forecast the profit before tax of the subsidiary.
 	
The risk has neither increased nor decreased in the current year.
	We have:
	▸ confirmed and updated our understanding of the procedures and controls in place;
	▸ assessed the appropriateness of the model used for the valuation and whether it is in line with industry and accounting standards;
	▸ with the assistance of our valuation specialists, tested the model, inputs into the investment value-in-use calculation; including the discount and growth rates:
	  ▸ reviewed the methodology used in the assessment of impairment;
	  ▸ determined a reasonable range for the terminal growth rate by using comparable companies and observable market data;
	  ▸ determined a reasonable range for the discount rates applied with reference to comparable companies and observable market data;
	  ▸ determined a value in use calculation range to conclude there was sufficient headroom over the carrying amount of the investment in subsidiary;
	▸ reviewed the future cash flows forecast against budget and back tested the accuracy of prior cash flow forecasting:
	  ▸ we challenged management on the growth forecasts incorporating a recently integrated wealth management business into the subsidiary by obtaining board approved budgets;
	▸ performed sensitivity analysis by flexing the key assumptions to establish the values that would result in an impairment, and therefore assessing the risk of unrecorded impairment;
	▸ re-performed and re-calculated the investment value-in-use calculation; and
	▸ assessed the compliance of Management's accounting policies and disclosures with IAS 36 – Impairment of Assets ('IAS 36').

Key observations communicated to the Schroder & Co. Limited Audit Committee Based on the procedures performed, we have no matters to report in respect of the valuation of investment in subsidiary and nothing has come to our attention that causes us to believe the investment in subsidiary valuation is materially misstated.	

Independent auditor's report to the member of Schroder & Co. Limited (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Changes from the prior year

In the prior year, we identified '*impairment of goodwill*' as a key audit matter. We no longer deem this to be a key audit matter as we concluded as part of the 2018 year-end audit that there was significant headroom as part of our goodwill impairment testing.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.6 million (2018: £3.0 million), which is 5% of profit before tax. We believe that profit before tax is the most applicable measure to reflect what is most important to the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2018: 50%) of our planning materiality, namely £1.9 million (2018: £1.5 million). We have used a higher threshold than in our first-year audit because we now have prior experience as to the likelihood of misstatements and the effectiveness of the control environment and accounting processes.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.13 million (2018: £0.15 million), which is set at 5% (2018: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent auditor's report to the member of Schroder & Co. Limited (continued)

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis

of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and have a direct impact on the preparation of the financial statements. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS as adopted by the EU and the Companies Act 2006) and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the relevant Prudential Regulatory Authority ('PRA') and Financial Conduct Authority ('FCA') rules and regulations.
- We understood how Schroder & Co. Limited is complying with those frameworks by making enquiries of senior management, including the Chief Financial Officer, General Counsel, Company Secretary, Head of Risk and Compliance, Head of Internal Audit and the Chair of the Audit and Risk Committee. We corroborated our understanding through our review of board and Committee meeting minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by management to manage or influence the perceptions of analysts. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management, and focused testing, as referred to in the key audit matters section above.

Independent auditor's report to the member of Schroder & Co. Limited (continued)

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

Other matters we are required to address

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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

Julian Young (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

6 March 2020

Income statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Interest income and similar income arising from:			
Debt securities and other fixed income securities		3,810	3,330
Other interest income and similar income		18,518	16,420
		22,328	19,750
Interest expense		(8,655)	(5,922)
Net interest income		**13,673**	13,828
Fee and commission income		172,691	171,368
Fee and commission expense		(4,320)	(3,822)
Net fee income		**168,371**	167,546
Net gains on financial instruments and other income	5	6,618	5,957
Total net income		**188,662**	187,331
Administrative expenses	4	(135,878)	(126,914)
Profit before tax		**52,784**	60,417
Tax	6 (a)	(10,562)	(12,183)
Profit after tax		**42,222**	48,234

Statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Profit for the year		42,222	48,234
Items that may be reclassified to the income statement			
Currency translation differences		-	(2)
Net loss/(gain) on financial assets at fair value through other comprehensive income	5	417	(463)
		417	(465)
Items reclassified to the income statement			
Net realised loss on disposal of debt securities classified as fair value through other comprehensive income	5	109	-
Net exchange difference reserve		810	-
Other comprehensive income/(expense) for the year		1,336	(465)
Total comprehensive income for the year		**43,558**	47,769

Statement of financial position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Loans and advances to banks	8	1,478,858	1,532,658
Financial assets	9	450,186	436,265
Loans and advances to customers	10	167,916	172,162
Trade and other receivables		2,753	988
Prepayments and accrued income		43,391	38,469
Property, plant and equipment	11	-	19
Investments in subsidiaries	12	25,875	16,152
Deferred tax	7	1,036	163
Goodwill and intangible assets	14	91,425	74,988
Total assets		**2,261,440**	2,271,864
Liabilities			
Deposits by banks	15	97,875	19,495
Customer accounts	16	1,861,102	1,941,490
Financial liabilities derivative contracts	13 (e)	12,135	5,099
Trade and other payables	17	6,381	7,927
Corporation tax		11,528	12,424
Accruals and deferred income		47,079	41,499
Total liabilities		**2,036,100**	2,027,934
Net assets		**225,340**	243,930
Total equity	19	**225,340**	243,930

The accounts on pages 16 to 71 were approved by the Board of Directors on 6 March 2020 and signed on their behalf by:

Carolyn Sims
Director

Schroder & Co. Limited
Registered in England and Wales
Registered number 02280926

Statement of changes in equity

for the year ended 31 December 2019

	Share capital £'000	Fair value reserve £'000	Net exchange difference reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	127,900	108	(808)	109,592	236,792
Profit for the financial year	-	-	-	48,234	48,234
Currency translation differences	-	-	(2)	-	(2)
Fair value adjustment	-	(463)	-	-	(463)
Total comprehensive (expense)/income for 2018	-	(463)	(2)	48,234	47,769
Tax in respect of share schemes	-	-	-	(231)	(231)
Share capital issued	4,600	-	-	-	4,600
Dividends paid				(45,000)	(45,000)
At 31 December 2018	**132,500**	**(355)**	**(810)**	**112,595**	**243,930**
Profit for the financial year	-	-	-	42,222	42,222
Fair value adjustment	-	526	-	-	526
Net exchange difference reserve through Income statement	-	-	810	-	810
Total comprehensive income for 2019	-	526	810	42,222	43,558
Tax in respect of share schemes	-	-	-	452	452
Dividends paid	-	-	-	(62,600)	(62,600)
At 31 December 2019	**132,500**	**171**	**-**	**92,669**	**225,340**

Cash flow statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Net cash generated/(used in) from operating activities	23	**45,728**	(13,415)
Investing activities			
Acquisition of business	28	(16,279)	-
Purchase of software	14	(6,219)	(5,903)
Disposal/(purchase) of property, plant and equipment	11	15	(3)
Net purchases of debt and other fixed income securities		(4,722)	(72,402)
Capital injection to a subsidiary	12	(9,723)	(4,336)
Net cash used in investing activities		**(36,928)**	(82,644)
Financing activities			
Dividends paid	18	(62,600)	(45,000)
Proceeds on issue of shares	19 (a)	-	4,600
Net cash used in financing activities		**(62,600)**	(40,400)
Net decrease in cash and cash equivalents		**(53,800)**	(136,459)
Cash and cash equivalents at beginning of year		**1,532,658**	1,669,119
Effect of foreign exchange rate changes		-	(2)
Cash and cash equivalents at end of year	8	**1,478,858**	1,532,658

Notes to the accounts

for the year ended 31 December 2019

1. General information

The Company provides investment management, wealth planning and specialist banking services primarily for private clients and charities. The Company is an authorised institution under the Financial Services and Markets Act 2000. The Company is both authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

The Company's immediate parent undertaking is Schroder Wealth Holdings Limited, which is registered and incorporated in England. The Company's ultimate parent company and ultimate controlling party is Schroders plc, which is a public limited liability company and is incorporated and domiciled in the UK. The address of its registered office is as follows:

1 London Wall Place
London
EC2Y 5AU

2. Summary of accounting policies

The Company has taken advantage of the exception in IAS 1 'Presentation of Accounts' to present its statement of financial position on a liquidity basis as it believes this format to be more relevant than separating current and non-current assets and liabilities.

(a) Basis of preparation

The accounts are prepared in accordance with IFRS, which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has taken advantage of the exemption not to prepare consolidated accounts, provided by Section 400 of the Companies Act 2006, as the Company is included in the consolidated accounts of a larger group.

The financial information presented within these accounts has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments, financial assets and liabilities that are held at fair value through profit or loss and that are held at fair value through other comprehensive income.

The Company's principal accounting policies have been consistently applied. The preparation of accounts in conformity with IFRS 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. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed within note 3. Where there is a principal accounting policy relevant to a note, it is disclosed in that note, otherwise they are disclosed below.

(b) New accounting standards and interpretations

The Company has applied IFRS 16 from 1 January 2019. The nature and effect of these changes are disclosed below.

2. Summary of accounting policies (continued)

(b) New accounting standards and interpretations (continued)

(i) IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and is effective for annual periods beginning on or after 1 January 2019. Where the Company is a lessee IFRS 16 requires operating leases to be recorded in the Company's statement of financial position. A right-of-use asset (ROU asset) will be recognised within property, plant and equipment and a lease liability recorded. The ROU asset and lease liability will be calculated based on the expected payments, requiring an assessment as to the likely effect of renewal options, and are discounted using the relevant incremental borrowing rate.

The ROU asset will be depreciated on a straight-line basis over the expected life of the lease. The lease liability will be reduced as lease payments are made with an interest expense recognised using the effective interest method as a component of finance costs. This will result in a proportion of the lease expense being recognised earlier in the life of the lease.

In preparation for the implementation of IFRS 16 the Company has reviewed all its leasing arrangements and assessed the estimated impact that the initial application of IFRS 16 will have on the accounts. Having completed this review, the implementation of IFRS 16 does not have a material impact on its results as there are no leasing arrangements.

(c) Future accounting developments

The Company did not implement the requirements of any other standards or interpretations which were in issue but were not required to be adopted by the Company at the year end date. No other Standards or Interpretations have been issued that are expected to have an impact on the Company's financial statements.

(d) Net interest income

Interest receivable on the Company's activities comprises interest receivable on debt securities and other fixed income securities, loans, advances and deposits placed, and is recognised using the effective interest rate. Interest expense on banking activities comprises interest paid on deposit taken and is recognised using the effective interest rate.

(e) Dividends receivable

Dividends are recognised when the shareholders' right to receive the payment is established.

(f) Fees and commissions

Asset management fees, investment advisory fees, ad hoc advisory fees, custody fees, commitment fees, arrangement fees and guarantor fees are recognised over time as the service is provided and it is highly probable that the fee will be collected. Asset management fees, investment advisory fees and custody fees are generated through investment agreements and all fees are generally based on an agreed percentage of the valuation of AUM.

Wealth management transaction and loan-related fees, together with fees from wealth planning are recognised at a point in time when the right to the fee is established, the service has been provided and it is highly probable that the fee will be collected.

(g) Fee expenses

Commissions and distribution fees payable to third parties are recognised over the period for which the service is provided.

for the year ended 31 December 2019

2. Summary of accounting policies (continued)

(h) Foreign currency translation

The functional and presentation currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the company operates.

Monetary foreign currency assets and liabilities are translated at the rates of exchange ruling at the year end date. Any exchange differences arising are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(i) Dividends payable

Dividends payable are recognised when the dividend is paid or approved by shareholders, whichever is earlier.

(j) Trade and other receivables

Trade and other receivables are recorded initially at fair value and subsequently at amortised cost, after the deduction of provisions for any impairment. The Directors consider that as a result of their short-term nature, the fair value of trade and other receivables held at amortised cost approximates their carrying value.

(k) Prepayments and accrued income

Accrued income represents unbilled revenue, it is not dependant on future performance. Prepayments arise where the Company pays cash in advance for services. As the service is provided, the prepayment is reduced and the administrative expense recognised in the income statement.

3. Estimates and judgements

Estimates and judgements used in preparing the accounts are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

Impairment of investments in subsidiaries

The recoverable amount of investments in subsidiaries is determined based on value-in-use calculations, using a discounted cash flow model, prepared on the basis of management's assumptions and estimates (see note 12).

Impairment of goodwill and acquired intangibles

The Company determined the fair value of acquired intangible assets based on estimated profits, taking account of synergies, derived from contractual relationships that existed at the acquisition date. This assessment involved judgements and assumptions relating to potential future revenues, appropriate discount rates and the expected duration of client relationships. The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, was accounted for as goodwill.

At each reporting date, an assessment is made as to whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and the carrying value exceeds the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model, details of which are provided in note 14. Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. For all acquisitions where the acquired business is fully integrated into the Company, it is considered that there is only one CGU, being the Company.

for the year ended 31 December 2019

3. Estimates and judgements (continued)

Impairment of financial assets

The Company applied an expected loss model in accordance with IFRS 9 for the calculation of impairment. The estimates and judgements used in this model are explained in note 13 (a).

The Company monitors its loans on a daily basis and exercises judgement periodically in determining whether a loan has defaulted and should be impaired. This includes, amongst other steps, assessing the financial condition of the borrower and the value of the loan compared to the collateral pledged by the borrower.

Fair value measurements

The Company holds financial instruments that are measured at fair value. The fair value of financial instruments may require some estimation or may be derived from readily available sources. For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

Financial assets that have no quoted price principally consist of investments in derivatives and loans and advances to customers. The determination of fair value for these instruments requires significant estimation, particularly in determining whether changes in fair value have occurred since the last formal valuation.

Derivative contracts are valued on prices provided by market counterparties and are verified by a mathematical calculation based on appropriate valuation techniques undertaken by the Company. The fair value of loans and advances to customers is determined by using appropriate valuation techniques such as net present value techniques using projected cash flows and suitable discount rates.

for the year ended 31 December 2019

4. Administrative expenses

	2019 £'000	2018 £'000
Employee costs		
- Wages and salaries	60,562	52,782
- Share-based payments	294	3,663
- Social security costs	7,961	6,333
- Other pension costs	3,568	3,479
Total employee costs	**72,385**	66,257
Depreciation	4	33
Amortisation	6,061	3,933
Write-down of intangible assets	-	2,378
Fees payable for the audit of the Company	157	152
Fees payable to the auditor for other assurance services	111	73
Other administrative expenses	57,160	54,088
Administrative expenses	**135,878**	126,914

Administrative expenses are accounted for on an accrual basis.

The monthly average number of employees employed by the Company in Wealth Management in the year was 409 (2018: 387).

The Company makes deferred cash awards to key employees under the Equity Compensation Plan in the form of a notional investment in funds operated by the Group. Such awards do not constitute share-based payments, but are accounted for in accordance with IAS 19 (Amended). These awards are charged to 'Administrative expenses' within the income statement over the performance period and the vesting period of the awards. Awards that lapse are credited to the income statement, again within 'Administrative expenses', in the year in which they lapse.

Other administrative expenses include £40,386,000 (2018: £40,082,000) in relation to related parties (see note 24).

Fees payable for the audit of the Company's subsidiaries were £93,000 (2018: £87,000) and for other assurance services £13,000 (2018: £12,000).

for the year ended 31 December 2019

5. Net gains on financial instruments and other income

A portion of the Company's financial instruments that are measured at fair value are classified as financial instruments at fair value through profit and loss. Net gains and losses on financial instruments at fair value through profit or loss principally comprise market returns on investments in equities, and gains and losses on derivatives (which mainly arise from hedging activities). The revaluation of loans and advances to customers and customer accounts principally represent market movements and are hedged by the revaluation of derivative contracts.

The remainder of the Company's investments held at fair value are classified as fair value through other comprehensive income. This classification is typically selected when the investment is expected to be held for the long-term but not necessarily to maturity and where short-term volatility does not reflect long-term expected returns. Unrealised gains and losses on these investments are recorded in other comprehensive income except for impairment and foreign exchange gains or losses which are recognised in the income statement. The cumulative gains and losses recorded in other comprehensive income are transferred to the income statement when the investment is derecognised. The fair value reserve in the statement of changes in equity represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at the date of reclassification or impairment) and the fair value of financial assets that are classified as fair value through other comprehensive income. This classification applies to certain debt securities.

Financial assets classified as fair value through other comprehensive income are assessed for impairment under an expected loss model (see note 13 (a)). Changes in the estimate of expected losses are recognised in the income statement.

Other income includes gains and losses on foreign exchange.

	2019		
	Income statement £'000	**Other comprehensive income £'000**	**Total £'000**
Net losses on financial assets held at fair value through profit or loss – held for trading			
- Derivative contracts	(4)	-	(4)
- Equity	-	-	-
Net gains on financial assets designated as being at fair value through profit or loss upon initial recognition			
- Loans and advances to customers	2	-	2
Net losses on financial assets at fair value through other comprehensive income			
- Net losses arising from fair value movements	-	417	417
- Net transfer on disposal	(109)	109	-
Net increase in impairment of financial assets	(20)	-	(20)
Net gains on foreign exchange	6,749	810	7,559
Net gains on financial instruments and other income	**6,618**	**1,336**	**7,954**

5. Net gains on financial instruments and other income (continued)

	2018		
	Income statement £'000	Other comprehensive income £'000	Total £'000
Net losses on financial assets held at fair value through profit or loss – held for trading			
- Derivative contracts	(13)	-	(13)
- Equity	(5)	-	(5)
Net losses on financial assets designated as being at fair value through profit or loss upon initial recognition			
- Loans and advances to customers	(6)	-	(6)
Net losses on financial assets at fair value through other comprehensive income			
- Net losses arising from fair value movements	-	(444)	(444)
- Net transfer on disposal	19	(19)	-
Net decrease in impairment of financial assets	104	-	104
Net gains on foreign exchange	5,858	-	5,858
Net gains on financial instruments and other income	5,957	(463)	5,494

6. Tax

Most taxes are recorded in the income statement (see part (a) of this note below) and relate to profits earned in the reporting year (current tax) but also adjustments due to timing differences between the accounting recognition of profits and the tax recognition (deferred tax). Deferred tax is explained in note 7. Some current and deferred tax - mainly relating to changes in the intrinsic value of employee share awards - is recorded directly in equity (see part (b) below).

for the year ended 31 December 2019

6. Tax (continued)

(a) Analysis of charge in year

Major components of the income tax charge for the years ended 31 December 2019 and 31 December 2018:

	2019 £'000	2018 £'000
Current tax		
Current tax charge	11,856	12,811
Adjustment in respect of prior years - UK tax	80	(2)
Total current tax	11,936	12,809
Deferred tax		
Origination and reversal of temporary differences	(1,712)	(683)
Adjustments in respect of prior years	1	(70)
Effect of changes in UK corporation tax rate	337	127
Total deferred tax	(1,374)	(626)
Total tax charge for the year	**10,562**	12,183

(b) Analysis of (credit)/charge to equity

	2019 £'000	2018 £'000
Current income tax	(245)	(387)
Deferred income tax	(230)	628
Effect of changes in UK corporation tax rate	23	(10)
Total (credit)/charge reported in equity	**(452)**	231

(c) Factors affecting the tax charge for the year

The UK standard rate of corporation tax is 19% (2018: effective rate 19%). The tax charge for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit before tax	52,784	60,417
Profit before tax multiplied by the UK effective corporation tax rate of 19% (2018: 19%)	10,029	11,479
Effects of:		
Non deductible expenses	115	649
Prior year adjustments	81	(72)
Deferred tax adjustments in respect of changes in UK tax rates	337	127
Total income tax charge	**10,562**	12,183

for the year ended 31 December 2019

7. Deferred tax

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences between the tax bases of assets and liabilities at the balance sheet date and their carrying amounts for financial reporting purposes.

However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, branches and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognised directly in the statement of recognised income and expense is recognised in the statement of recognised income and expense and not the income statement.

Deferred tax is calculated in full on temporary differences under the liability method using the rate expected to be applicable at the time the net deferred tax asset is realised. The movement on the deferred tax account is as shown below:

	2019 **£'000**	2018 £'000
At 1 January	163	153
Income statement credit	1,712	683
Income statement prior year adjustments	(1)	70
Effect of changes in UK tax rates – income statement expense	(337)	(127)
Credit/(charge) to equity	207	(618)
Foreign exchange movement on deferred tax assets	(2)	2
Deferred tax liability on acquired intangible asset	(706)	-
At 31 December	**1,036**	163

for the year ended 31 December 2019

7. Deferred tax (continued)

	Accelerated tax depreciation £'000	Deferred employee awards £'000	Acquired intangible assets £'000	Other temporary differences £'000	Total £'000
At 1 January 2019	174	3,077	(3,303)	215	163
Credit to income statement	25	818	703	(172)	1,374
Credit to equity	-	166	-	41	207
Deferred tax asset on acquired intangible assets	-	-	(706)	-	(706)
FX on deferred tax assets	-	-	-	(2)	(2)
At 31 December 2019	**199**	**4,061**	**(3,306)**	**82**	**1,036**
At 1 January 2018	169	3,731	(3,944)	197	153
(Charge)/credit to income statement	5	(18)	641	(2)	626
(Charge)/credit to equity	-	(636)	-	18	(618)
Foreign exchange movement on deferred tax assets	-	-	-	2	2
At 31 December 2018	174	3,077	(3,303)	215	163

for the year ended 31 December 2019

8. Loans and advances to banks

	2019 £'000	2018 £'000
Bank of England reserve account	992,177	1,056,064
Nostro accounts	15,101	14,049
Interbank deposits	471,141	459,125
Margin accounts	439	3,420
	1,478,858	1,532,658

A maturity analysis of loans and advances to banks is disclosed in note 13.

The Bank of England reserve account is interest bearing and linked to the Bank of England base rate. It is envisaged that the Company will continue to make material placements to this account for the foreseeable future.

Nostro accounts include £4,337,000 (2018: £818,000) and interbank deposits include £Nil (2018: £6,285,000) placed with other banks in the Group.

Margin account balances arise as all of the Company's derivative counterparty relationships now operate under an ISDA agreement that includes a Credit Support Annex (CSA) capturing margining requirements.

The expected credit losses for loans and advances to banks are disclosed in note 13 (a).

The Directors consider that the carrying amount of loans and advances to banks, which are all held at amortised cost, is approximately equal to their fair value.

for the year ended 31 December 2019

9. Financial assets

	2019			
	Fair value through other comprehensive income £'000	**Amortised cost £'000**	**Fair value through profit or loss £'000**	**Total £'000**
Bank and building society certificates of deposit	-	19,992	-	19,992
Fixed rate bonds	-	-	-	-
Floating rate notes	90,069	-	-	90,069
Government bonds	260,589	-	-	260,589
Covered bonds	68,649	-	-	68,649
Derivative contracts	-	-	10,887	10,887
	419,307	**19,992**	**10,887**	**450,186**

	2018			
	Fair value through other comprehensive income £'000	Amortised cost £'000	Fair value through profit or loss £'000	Total £'000
Bank and building society certificates of deposit	-	110,955	-	110,955
Fixed rate bonds	4,524	-	-	4,524
Floating rate notes	145,095	-	-	145,095
Government bonds	80,546	-	-	80,546
Covered bonds	92,822	-	-	92,822
Derivative contracts	-	-	2,323	2,323
	322,987	110,955	2,323	436,265

Bank and building society certificates of deposit are unlisted. Floating rate notes and fixed rate, government and covered bonds are listed. The fair value of the bank and building society certificates of deposit was £20,164,000 (2018: £111,424,000).

for the year ended 31 December 2019

9. Financial assets (continued)

Classification and measurement

The Company initially records all financial assets at fair value, which is the cost of acquiring the asset or, in the case of loans, the amount loaned to customers (note 10). The Company holds each financial asset either at fair value ('fair value through profit or loss' or 'fair value through other comprehensive income') or at amortised cost. Fair value is the amount for which an asset could be exchanged, or a liability transferred, between knowledgeable, willing parties in an arm's length transaction. Amortised cost is the amount determined based on moving the initial amount recognised for the financial instrument to the maturity value on a systematic basis using a fixed interest rate (effective interest rate), taking account of repayment dates and initial premiums or discounts.

(a) Financial assets at amortised cost

The Company's financial assets are measured at amortised cost when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect contractual cash flows. This measurement classification typically applies to the Company's loans and advances, trade and other receivables, accrued income and certain debt securities. The carrying value of financial assets measured at amortised cost is adjusted for impairments under the expected loss model (see page 44), where impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event.

(b) Financial assets at fair value through other comprehensive income

Financial assets are held at fair value through other comprehensive when their contractual cash flows represent solely payments of principal and interest and they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. This classification applies to certain debt securities. Impairment is also recognised for these debt securities (see page 44). The carrying value of these financial assets is not adjusted, but any expected credit losses are recognised in the income statement rather than in other comprehensive income.

(c) Financial assets at fair value through profit or loss

All other financial assets are held at fair value through profit or loss and principally comprise investments in derivatives (which mainly arise from hedging activities).

for the year ended 31 December 2019

10. Loans and advances to customers

	2019		
	Amortised cost £'000	**Designated at fair value through profit or loss £'000**	**Total £'000**
Overdrafts	113	-	113
Term loans	81,799	-	81,799
Mortgages	85,401	603	86,004
	167,313	**603**	**167,916**

	2018		
	Amortised cost £'000	Designated at fair value through profit or loss £'000	Total £'000
Overdrafts	394	-	394
Term loans	76,813	-	76,813
Mortgages	94,353	602	94,955
	171,560	602	172,162

All loans and advances to customers are secured. A maturity analysis is disclosed in note 13.

Loans and advances to customers are initially recognised at fair value and, unless they are hedged for interest rate risk, in which case they continue to be measured at fair value through profit or loss in order to avoid an accounting mismatch, are subsequently measured at amortised cost, being the measurement on initial recognition less principal repayments, plus or minus the cumulative amortisation. Fair value is determined using discounted cash flow models. The Directors consider that the carrying amount of loans and advances to customers held at amortised cost is approximately equal to their fair value.

Loans and advances to customers include £4,617,000 (2018: £3,750,000) placed with related parties.

The expected credit losses for loans and advances to customers, under IFRS9, are disclosed in note 13 (a).

The maximum exposure to credit risk for loans designated at fair value through profit and loss was £603,000 (2018: £602,000). The net fair value loss on loans and advances to customers designated at fair value through profit or loss was £2,000 (2018: £6,000). The amount of change in the year that is attributable to changes in credit risk is a loss of £1,000 (2018: £1,000) and a gain of £1,000 (2018: £nil) cumulatively. The changes in fair value attributable to credit risk were determined by comparing fair value movements in risk-free bonds with similar maturities to the change in fair value of loans designated at fair value through profit or loss.

for the year ended 31 December 2019

11. Property, plant and equipment

	2019 £'000	2018 £'000
Cost		
At 1 January	64	666
Additions	-	3
Disposals	(64)	(605)
At 31 December	**-**	64
Accumulated depreciation		
At 1 January	(45)	(617)
Charge in year	(4)	(33)
Disposals	49	605
At 31 December	**-**	(45)
Net book value as at 31 December	**-**	19

Property, plant and equipment which comprises office equipment and computers, is 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 the depreciable amount on a straight line basis over their useful lives of three to five years. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

Depreciation rates and methods as well as the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. Depreciation of property, plant and equipment is recorded in the income statement as an administrative expense.

for the year ended 31 December 2019

12. Related undertakings

The Group operates globally which results in the Company having a corporate structure consisting of a number of related undertakings, comprising of subsidiaries. A full list of these undertakings, the country of incorporation (which in all cases is the principal place of business) and the ownership of each share class, as at 31 December 2019, is disclosed below.

Shares in Group undertakings

The Company's subsidiary undertakings, all held directly, are as follows:

Name (activity)	Registered office address	Country of incorporation	Type of shares	Proportion of nominal capital
Schroder & Co. (Asia) Limited (bank)	138 Market Street, #23-02, CapitaGreen, 048946, Singapore	Singapore	Ordinary	100%
CCM Nominees Limited (nominee company)	1 London Wall Place, London, EC2Y 5AU, England	England	Ordinary	100%
Cazenove New Europe (CFM1) Limited (non-trading)	1 London Wall Place, London, EC2Y 5AU, England	England	Ordinary	100%
Cazenove New Europe (PPI) Limited (non-trading)	1 London Wall Place, London, EC2Y 5AU, England	England	Ordinary	100%
Cazenove New Europe Staff Interest Limited (non-trading)	1 London Wall Place, London, EC2Y 5AU, England	England	Ordinary	100%
Schroder & Co Nominees Limited (nominee company)	1 London Wall Place, London, EC2Y 5AU, England	England	Ordinary	100%

Investments in subsidiaries	2019 £'000	2018 £'000
Balance at 1 January	16,152	11,816
Capital injection	9,723	4,336
Balance at 31 December	**25,875**	16,152

Shares in Group undertakings are valued at cost less any diminution for impairment in value. Shares in Group undertakings are tested annually to determine whether they have suffered any impairment. Such investments are judged to be impaired when there is objective evidence that the carrying amount of the asset exceeds its recoverable amount.

for the year ended 31 December 2019

12. Related undertakings (continued)

Investments in subsidiaries (continued)

An impairment review was undertaken on the Company's 100% owned subsidiary Schroder & Co. (Asia) Limited using a discounted cash flow model. The key assumptions on which the Company's cash flow projections are based include long-term market growth rates of 2.47 per cent., a pre-tax discount rate of 17.0 per cent, expected fund flows and expected changes to margins. The Directors deemed that it was not necessary to write-down the carrying value of this subsidiary (2018: write-down of £nil). In April 2019 and June 2019 the Company purchased additional shares amounting to SGD 10,000,000 (£5,221,000) and SGD 7,000,000 (£4,502,000) respectively in Schroder & Co. (Asia) Limited.

13. Risk review

(a) Risk management

The Company is involved in providing investment management, wealth planning and specialist banking services, primarily to private clients and charities. In carrying out this business it transacts as agent and principal in financial assets and liabilities (including derivatives) in order to meet customer facilitation requirements. The Company's policy is to hedge, as appropriate and to the extent possible, exchange rate and interest rate risk on its principal and customer facilitation positions using foreign exchange and interest rate contracts. This hedging of equal and opposite risks seeks to mitigate market risk, but does not eliminate the possibility of credit risk.

Operational, market, liquidity and credit risk exposures exist within the business. The effectiveness of the Company's risk management process is, therefore, critical to its soundness and profitability and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Company's senior management. The Group Risk and Compliance functions are responsible for monitoring the overall risk environment. The Company has established a control environment that ensures risks are reviewed regularly and that all risk controls operating throughout the Company are in accordance with regulatory requirements. In addition, an independent assessment of the risk management process and the fundamental risk assumptions is provided by Group Internal Audit.

The Company is part of the Group's Wealth Management business. The Chief Executive of the Company has established an Executive Directors Forum, a Wealth Management Executive Committee, an Asset and Liability Management Committee, a Credit Committee and an Investment Risk Committee. These committees, together referred to as the Schroder & Co. Risk Committees, oversee the Company's risk management.

The Board has established the Wealth Management Audit and Risk Committee comprised of the non-executive Directors. This committee is responsible for overseeing, on behalf of the Board, the financial reporting, risk management and internal controls of the Company and receiving relevant reports on its operating subsidiaries and other operating companies within the Wealth Management segment of the Schroders Group.

for the year ended 31 December 2019

13. Risk review (continued)

(a) Risk management (continued)

Capital risk

The Company's capital corresponds to its shareholder's equity. The Company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is subject to the EU Capital Requirement Regulation (EU No. 575/2013) and the PRA Rulebook for Capital Requirement Regulation firms. One of the requirements is that capital resources must be in excess of its capital requirement at all times. Management monitors the Company's capital and capital requirements on an ongoing basis, taking into account the effects of changes in market conditions, fluctuations in asset, liability and off-balance sheet values, among other factors. Maintaining a strong capital base is important to the Company's business and is a core part of the Company's strategy. The Company's senior management will ensure that the Company meets its minimum regulatory capital requirements. The Company maintains a prudent level of capital, including a significant buffer over the minimum regulatory capital requirement, which allows it to conduct its business. The Company was in compliance with the capital requirements throughout 2018 and 2019 without exception.

The Company's Board support the Chief Financial Officer in exercising responsibility for the management of the Company's capital. The Company performs a thorough assessment of the adequacy of its capital through the Internal Capital Adequacy Assessment Process (ICAAP).

The Company has complied with regulation 2 of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 by publishing the information in relation to the year ended 31 December 2018 on the Schroders Group website by 31 December 2019. This is available at www.schroders.com/cbcr. The Company will publish the information in relation to the year ended 31 December 2019 on the Schroders Group website on or before 31 December 2020. This will be available at www.schroders.com/cbcr

Market risk

The Company, in association with Group Risk, has a risk framework in place to identify, analyse, monitor and control market risk arising from the Company's treasury activities on a consistent and timely basis.

Market risk-taking activities are limited to those necessary to support the treasury activities of the Company. These activities are primarily to facilitate client requirements.

The principal market risks arising are interest rate risk and foreign exchange rate risk. The Company uses sensitivity-based and stress-based models for monitoring interest rate risk. This involves assessing the impact on the Company's net worth against a prescribed basis point rise in interest rates with severe scenarios for the stress tests.

For foreign exchange risk the Company has adopted an approach which monitors the greater of the overall net long or short risk factored exposure.

Interest rate and foreign exchange risk exposure is calculated daily for each currency and in aggregate and distributed to senior management through the production of a daily risk dashboard.

Group Risk performs independent oversight of the Company's market risk management. Limits are proposed by the risk function, approved by the Asset and Liability Management Committee and monitored against policies.

for the year ended 31 December 2019

13. Risk review (continued)

(a) Risk management (continued)

Liquidity risk

The Liquidity Risk Management framework includes several departments, boards and committees of the Company and the Wealth Management Division. Responsibility for managing the Company's liquidity day-to-day, within the liquidity risk tolerance and regulatory requirements, rests with the Chief Executive of the Company. This responsibility is delegated to the Head of Treasury, with immediate oversight from the Head of Banking and Treasury.

Group Risk performs independent oversight of the Company's liquidity risk management. Limits are proposed by the risk function, approved by the Asset and Liability Management Committee and monitored against policies on a daily basis including the production of a daily liquidity dashboard.

For maturity analysis see the tables in 13 (b) Interest rate repricing and maturity analysis.

Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay, in full, amounts when due. The Company carefully manages its exposure to credit risk by: approving lending policies that specify the type of collateral and minimum lending margins: setting limits for exposure to individual counterparties and sectors; and by taking security. The Company takes a conservative approach to its treasury investments placing them with, or purchasing debt securities issued by, UK and overseas banks and corporates, supranational banks and sovereigns. All treasury investments held by the Company have investment grade credit rating.

Principal credit risks arising from the banking and treasury business are monitored under the supervision of the Schroder & Co. Risk Committees. The Company's Board approves the underlying methodology and credit limits are set by the Schroder & Co. Risk Committees. Credit exposures and limits are monitored to identify, investigate and report any breaches to Schroder & Co. Risk Committees. All new credit exposures require approval of the Schroder & Co. Risk Committees which also reviews all outstanding limits at least annually.

The Company's maximum exposure to credit risk is represented by the carrying value of its loan and advances to banks, loans and advances to customers, trade and other receivables, and financial assets.

A breakdown of the Company's relevant financial assets by credit rating, as provided by rating agencies, are shown below. The relevant financial assets include the Company's loans and advances to banks and amounts disclosed in financial assets except for derivatives. All these financial assets are classified as performing (stage 1) in the three stage model under IFRS9. This model is described in Note 13 (a).

for the year ended 31 December 2019

13. Risk review (continued)

(a) Risk management (continued)

Credit risk (continued)

Credit rating	**2019 £'000**	2018 £'000	**2019 %**	2018 %
AAA	30,057	40,124	2	2
AA+	49	49	-	-
AA	1,255,806	1,139,173	65	58
AA-	235,626	192,520	12	10
A+	224,035	405,732	12	21
A	105,071	129,588	6	6
A-	62,896	52,311	3	3
BBB+	-	-	-	-
Not rated[1)]	4,617	7,103	-	-
	1,918,157	1,966,600	**100**	100

[1)] Placed with Group undertakings.

The Company also holds collateral on some short term advances to counterparties, as part of its liquidity management. The collateral accepted includes investment-grade securities that can be sold or repledged without default to the provider. At 31 December 2019 the fair value of collateral which related solely to these arrangements and could be sold or repledged, but had not been, was £339,482,000 (2018: £333,678,000).

The loans and advances to customers split by collateral type are as follows:

Collateral type	**2019 £'000**	2018 £'000
Portfolio	81,912	77,208
Residential property	86,004	94,954
	167,916	172,162

All customer credit requests are presented to the relevant Schroder & Co. Risk Committees and counterparty exposures are monitored daily against limits. Loans, overdrafts and advances to customers are secured on a range of assets including residential real estate, cash and client portfolios. The Company does not usually provide loans, overdrafts and advances to customers on an unsecured basis. Where disposal of non-cash collateral is required, in the event of default, the terms and conditions relevant to the specific contract and country will apply. Portfolios held as collateral are marked to market daily and positions compared to customers' exposures. Credit limits are set following an assessment of the market value and lending value of each type of collateral, depending on the perceived risk associated with the collateral. Customers are contacted if these limits are breached, or if collateral is not sufficient to cover the outstanding exposure.

The amount of change in the year in the fair value of loans and receivables held at fair value through profit or loss that is attributable to changes in credit risk is nil (2018: nil) and nil (2018: nil) cumulatively.

for the year ended 31 December 2019

13. Risk review (continued)

(a) Risk management (continued)

Under IFRS 9, expected credit losses are calculated on all the Company's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. Factors considered in determining whether a default has taken place include how many days past the due date a payment is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a counterparty's ability to pay. For loans and advances to banks and debt securities, a default usually arises when contractual payments are 1 day overdue. For loans and advances to customers, a default usually arises when information is known about the customer that is highly likely to result in cash shortfalls. A default also occurs when any contractual payments (principal or interest) are 90 days or more overdue.

A three stage model is used for calculating expected credit losses which requires financial assets to be assessed as:

– Performing (stage 1) – Financial assets where there has been no significant increase in credit risk since original recognition; or

– Under-performing (stage 2) – Financial assets where there has been a significant increase in credit risk since initial recognition, but no default; or

– Non-performing (stage 3) – Financial assets that have defaulted.

For financial assets in stage 1, expected credit losses are calculated based on the credit losses that are expected to be incurred over the following twelve-month period. For financial assets in stage 2 and 3, expected credit losses are calculated based on the expected credit losses over the life of the instrument. The Company applies the simplified approach to calculate expected credit losses for trade and other receivables and accrued income. Under this approach, instruments are not categorised into three stages as expected credit losses are calculated based on the life of the instrument.

The Company has internal processes designed to assess the credit risk profile of its financial instruments, and to determine the relevant stage for calculating the expected credit losses. These processes include consideration of internal, external, historic and forward-looking information about specific loans and securities as well as market data.

For financial assets held with rated counterparties (such as cash and cash equivalents, loans and advances to banks and debt securities), the Company calculates expected credit losses based on default information published by rating agencies and considers any known factors not yet reflected in this information.

For loans and advances to customers, the Company calculates expected credit losses based on historical credit loss experience and by taking into account the relevant approval authorities' current lending rates against the various types of collateral. A record is kept of all information that has or could have an impact on a customer's servicing and repayment as well as of all loan exposures where collateral has decreased in value and/or quality. This record is used to identify stage 2 or 3 loans.

For trade and other receivables and accrued income, the Company has established a provision matrix that incorporates the Company's historical credit loss experience, counterparty groupings and whether a receivable is overdue or not.

for the year ended 31 December 2019

13. Risk review (continued)

(a) Risk management (continued)

Expected credit losses for financial assets are summarised below:

	31 December 2019			
	Gross carrying value £'000	Expected credit losses £'000	Net carrying value £'000	Expected credit losses as a percentage of gross carrying value %
Financial assets at amortised cost				
Loans and advances to banks	1,478,875	(17)	1,478,858	-
Financial assets	20,000	(8)	19,992	-
Loans and advances to customers[1]	167,344	(31)	167,313	-
Trade and other receivables	2,755	(2)	2,753	0.1
Accrued income	42,245	(29)	42,216	0.1
Financial assets at fair value through other comprehensive income				
Financial assets	419,441	(134)	419,307	-
	2,130,660	**(221)**	**2,130,439**	**-**

[1)] Includes a £1,795,000 loan classified as non-performing (stage 3) giving rise to £31,000 of expected credit losses. There were no other loans classified as non-performing (stage 3).

for the year ended 31 December 2019

13. Risk review (continued)

(a) Risk management (continued)

	31 December 2018			
	Gross carrying value £'000	Expected credit losses £'000	Net carrying value £'000	Expected credit losses as a percentage of gross carrying value %
Financial assets at amortised cost				
Loans and advances to banks	1,532,675	(17)	1,532,658	-
Financial assets	111,000	(45)	110,955	-
Loans and advances to customers[1]	171,603	(43)	171,560	-
Trade and other receivables	989	(1)	988	0.1
Accrued income	37,501	(18)	37,483	-
Financial assets at fair value through other comprehensive income				
Financial assets	323,064	(77)	322,987	-
	2,176,832	(201)	2,176,631	-

[2)] Includes £1,800,000 of loans classified as under-performing (stage 2) giving rise to £40,000 of expected credit losses. There were no loans classified as non-performing (stage 3).

for the year ended 31 December 2019

13. Risk review (continued)

(b) Interest rate repricing and maturity analysis

The tables below summarise the repricing mismatches on the Company's non-trading book at 31 December 2019. Items are allocated to time bands by references to the earlier of the next contractual interest rate repricing date and the maturity date. As noted in 13 (d) the Company does not measure its interest rate risk on this basis.

31 December 2019 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	Non interest bearing	Total
Assets								
Loans and advances to banks	1,478,858	-	-	-	-	-	-	1,478,858
Financial assets	439,340	-	-	-	-	-	10,846	450,186
Loans and advances to customers	167,916	-	-	-	-	-	-	167,916
Trade and other receivables	-	-	-	-	-	-	2,753	2,753
Prepayments and accrued income	-	-	-	-	-	-	43,391	43,391
Investments in subsidiaries	-	-	-	-	-	-	25,875	25,875
Deferred tax	-	-	-	-	-	-	1,036	1,036
Goodwill and intangible assets	-	-	-	-	-	-	91,425	91,425
Total assets	**2,086,114**	**-**	**-**	**-**	**-**	**-**	**175,326**	**2,261,440**

31 December 2019 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	Non interest bearing	Total
Liabilities								
Deposits by banks	97,875	-	-	-	-	-	-	97,875
Customer accounts	1,861,102	-	-	-	-	-	-	1,861,102
Financial liabilities	41	-	-	-	-	-	12,094	12,135
Trade and other payables	-	-	-	-	-	-	6,381	6,381
Corporation tax	-	-	-	-	-	-	11,528	11,528
Deferred tax	-	-	-	-	-	-	-	-
Accruals and deferred income	-	-	-	-	-	-	47,079	47,079
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**225,340**	**225,340**
Total liabilities and equity	**1,959,018**	**-**	**-**	**-**	**-**	**-**	**302,422**	**2,261,440**
Interest rate sensitivity gap	127,096	-	-	-	-	-	(127,096)	-
Cumulative gap	**127,096**		**127,096**	**127,096**	**127,096**		**-**	**-**

13. Risk review (continued)

(b) Interest rate repricing and maturity analysis (continued)

31 December 2018 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	Non interest bearing	Total
Assets								
Loans and advances to banks	1,532,658	-	-	-	-	-	-	1,532,658
Financial assets	433,947	-	-	-	-	-	2,318	436,265
Loans and advances to customers	172,162	-	-	-	-	-	-	172,162
Trade and other receivables	-	-	-	-	-	-	988	988
Prepayments and accrued income	-	-	-	-	-	-	38,469	38,469
Property, plant and equipment	-	-	-	-	-	-	19	19
Investments in subsidiaries	-	-	-	-	-	-	16,152	16,152
Deferred tax	-	-	-	-	-	-	163	163
Goodwill and intangible assets	-	-	-	-	-	-	74,988	74,988
Total assets	2,138,767	-	-	-	-	-	133,097	2,271,864

31 December 2018 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	Non interest bearing	Total
Liabilities								
Deposits by banks	19,495	-	-	-	-	-	-	19,495
Customer accounts	1,941,490	-	-	-	-	-	-	1,941,490
Financial liabilities	1	-	-	-	-	-	5,098	5,099
Trade and other payables	-	-	-	-	-	-	7,927	7,927
Corporation tax	-	-	-	-	-	-	12,424	12,424
Accruals and deferred income	-	-	-	-	-	-	41,499	41,499
Equity	-	-	-	-	-	-	243,930	243,930
Total liabilities and equity	1,960,986	-	-	-	-	-	310,878	2,271,864
Interest rate sensitivity gap	177,781	-	-	-	-	-	(177,781)	-
Cumulative gap	177,781		177,781	177,781	177,781	177,781	-	-

for the year ended 31 December 2019

13. Risk review (continued)

(c) Contractual cash flow maturity analysis

31 December 2019 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	No contractual maturity	Total
Assets								
Loans and advances to banks	1,478,858	-	-	-	-	-	-	1,478,858
Financial assets	391,061	48,238	11	30	-	-	10,846	450,186
Loans and advances to customers	59,371	33,627	17,175	17,419	40,324	-	-	167,916
Trade and other receivables	-	-	-	-	-	-	2,753	2,753
Prepayments and accrued income	-	-	-	-	-	-	43,391	43,391
Investments in subsidiaries	-	-	-	-	-	-	25,875	25,875
Deferred tax	-	-	-	-	-	-	1,036	1,036
Goodwill and intangible assets	-	-	-	-	-	-	91,425	91,425
Total assets	**1,929,290**	**81,865**	**17,186**	**17,449**	**40,324**	**-**	**175,326**	**2,261,440**

31 December 2019 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	No contractual maturity	Total
Liabilities								
Deposits by banks	97,875	-	-	-	-	-	-	97,875
Customer accounts	1,861,102	-	-	-	-	-	-	1,861,102
Financial liabilities	-	1	11	29	-	-	12,094	12,135
Trade and other payables	-	-	-	-	-	-	6,381	6,381
Corporation tax	-	-	-	-	-	-	11,528	11,528
Deferred tax	-	-	-	-	-	-	-	-
Accruals and deferred income	-	-	-	-	-	-	47,079	47,079
Equity	-	-	-	-	-	-	225,340	225,340
Total liabilities and equity	**1,958,977**	**1**	**11**	**29**	**-**	**-**	**302,422**	**2,261,440**

13. Risk review (continued)

(c) Contractual cash flow maturity analysis (continued)

31 December 2018 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	No contractual maturity	Total
Assets								
Loans and advances to banks	1,532,658	-	-	-	-	-	-	1,532,658
Financial assets	241,045	110,466	43,656	10,014	28,766	-	2,318	436,265
Loans and advances to customers	70,465	30,236	38,366	11,866	21,229	-	-	172,162
Trade and other receivables	-	-	-	-	-	-	988	988
Prepayments and accrued income	-	-	-	-	-	-	38,469	38,469
Property, plant and equipment	-	-	-	-	-	-	19	19
Investments in subsidiaries	-	-	-	-	-	-	16,152	16,152
Deferred tax	-	-	-	-	-	-	163	163
Goodwill and intangible assets	-	-	-	-	-	-	74,988	74,988
Total assets	1,844,168	140,702	82,022	21,880	49,995	-	133,097	2,271,864

31 December 2018 £'000	<1yr	1-2yrs	2-3yrs	3-4yrs	4-5yrs	>5yrs	No contractual maturity	Total
Liabilities								
Deposits by banks	19,495	-	-	-	-	-	-	19,495
Customer accounts	1,941,490	-	-	-	-	-	-	1,941,490
Financial liabilities	-	-	-	-	1	-	5,098	5,099
Trade and other payables	-	-	-	-	-	-	7,927	7,927
Corporation tax	-	-	-	-	-	-	12,424	12,424
Accruals and deferred income	-	-	-	-	-	-	41,499	41,499
Equity	-	-	-	-	-	-	243,930	243,930
Total liabilities and equity	1,960,985	-	-	-	1	-	310,878	2,271,864

The difference between the discounted and undiscounted cash flows for assets and liabilities accounted for at fair value is immaterial.

for the year ended 31 December 2019

13. Risk review (continued)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. As referenced in note 13 (a), it is the Company's policy to hedge, as appropriate, interest rate risk on its client facilitation positions.

Interest rate risk is monitored through sensitivity analysis performed by the Company (PV01 and PV200). The PV01 and PV200 metrics assess the impact on the Company's current net worth against a one basis point and a 200 basis point respectively, parallel change (both up and down) in interest rates and is calculated daily for each currency and then in aggregate.

The Company's position at 31 December is shown below:

	2019 £'000	2018 £'000
PV01	**(12)**	(12)
PV200	**(2,422)**	(2,505)

The Company's market risk policy for sensitivity analysis stipulates a limit of +/-£20,000 (PV01) and +/-£4,000,000 (PV200). These limits have not been breached in 2019 and 2018.

Interest rate risk at the Company is limited due to the short-term nature of the Company's financial assets. In the case of changes in market interest rates, the Company can re-price the majority of assets within an average of 3 months (2018: 3 months).

for the year ended 31 December 2019

13. Risk review (continued)

(e) Fair values of assets and liabilities

The Company's required disclosures in respect of financial instruments that are held at fair value in the statement of financial position are included in note 9 (financial assets), note 10 (loans and advances to customers) and note 16 (customer accounts). Where significant estimates and judgements are required in determining fair values, these are disclosed in note 3. All fair values are derived from published market prices or indices, where applicable.

The Company uses the following derivative instruments:

- FX spot and forward transactions;

- Foreign currency, equity and interest rate options;

- Currency and interest rate swaps.

With swap contracts, the Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities. The Company is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Derivative contracts are included at fair value at the year end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the year end date between willing parties.

The following table shows the fair value of all assets and liabilities accounted for at fair value.

31 December 2019 **£'000**	**Assets**			**Liabilities**		
	One year or less	**Greater than one year**	**Total**	**One year or less**	**Greater than one year**	**Total**
Foreign exchange derivatives						
Forward foreign exchange contracts	10,846	-	10,846	12,094	-	12,094
Interest rate derivatives						
Interest rate swaps held for non-trading purposes	-	41	41	-	41	41
Derivative contracts	**10,846**	**41**	**10,887**	**12,094**	**41**	**12,135**
Financial assets at fair value through other comprehensive income	419,307	-	419,307	-	-	-
Loans and advances to customers	603	-	603	-	-	-
	430,756	**41**	**430,797**	**12,094**	**41**	**12,135**

for the year ended 31 December 2019

13. Risk review (continued)

(e) Fair values of assets and liabilities (continued)

31 December 2018 £'000	Assets			Liabilities		
	One year or less	Greater than one year	Total	One year or less	Greater than one year	Total
Foreign exchange derivatives						
Forward foreign exchange contracts	2,318	-	2,318	5,098	-	5,098
Interest rate derivatives						
Interest rate swaps held for non-trading purposes	-	5	5	-	1	1
Derivative contracts	2,318	5	2,323	5,098	1	5,099
Financial assets at fair value through other comprehensive income	322,987	-	322,987	-	-	-
Loans and advances to customers	602	-	602	-	-	-
	325,907	5	325,912	5,098	1	5,099

The Company's financial instruments have been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices using simple models and extrapolation methods); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels in the year. Any transfers are assumed to have occurred at the beginning of the year.

for the year ended 31 December 2019

13. Risk review (continued)

(e) Fair values of assets and liabilities (continued)

	2019			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Derivative contracts	-	10,887	-	10,887
Financial assets at fair value through other comprehensive income				
Fixed rate bonds	-	-	-	-
Floating rate notes	90,069	-	-	90,069
Government bonds	260,589	-	-	260,589
Covered bonds	68,649	-	-	68,649
Financial assets designated at fair value through profit and loss				
Loans and advances to customers	-	603	-	603
Total assets	**419,307**	**11,490**	**-**	**430,797**
Financial liabilities at fair value through profit and loss				
Derivative contracts	-	12,135	-	12,135
Total liabilities	**-**	**12,135**	**-**	**12,135**

for the year ended 31 December 2019

13. Risk review (continued)

(e) Fair values of assets and liabilities (continued)

	2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Derivative contracts	-	2,323	-	2,323
Financial assets at fair value through other comprehensive income				
Fixed rate bonds	4,524	-	-	4,524
Floating rate notes	145,095	-	-	145,095
Government bonds	80,546	-	-	80,546
Covered bonds	92,822	-	-	92,822
Financial assets designated at fair value through profit and loss				
Loans and advances to customers	-	602	-	602
Total assets	322,987	2,925	-	325,912
Financial liabilities at fair value through profit and loss				
Derivative contracts	-	5,099	-	5,099
Total liabilities	-	5,099	-	5,099

for the year ended 31 December 2019

13. Risk review (continued)

(f) Fair values of financial assets and liabilities – replacement cost and residual maturity

Gross-settled forward foreign exchange contracts maturing/repricing[1] in:

	2019		2018	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
One year or less:				
Gross inflows	(345,385)	(448,117)	(140,590)	(315,241)
Gross outflows	345,305	447,476	140,416	315,126
Difference between future contractual cash flows and fair value	10,926	(11,453)	2,492	(4,983)
	10,846	**(12,094)**	2,318	(5,098)

[1] Whichever is earlier

No contracts held have a maturity of greater than one year.

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14. Goodwill and intangible assets

	2019			
	Goodwill £'000	**Acquired intangible assets £'000**	**Software £'000**	**Total £'000**
Cost				
At 1 January 2019	50,005	26,500	5,717	82,222
Additions	12,128	4,151	6,225	22,504
Disposals	-	-	(29)	(29)
Write-down	-	-	-	-
At 31 December 2019	**62,133**	**30,651**	**11,913**	**104,697**
Accumulated amortisation				
At 1 January 2019	-	(7,072)	(162)	(7,234)
Charge in year	-	(4,130)	(1,931)	(6,061)
Disposals	-	-	23	23
At 31 December 2019	**-**	**(11,202)**	**(2,070)**	**(13,272)**
Carrying amount as at 31 December 2019	**62,133**	**19,449**	**9,843**	**91,425**

	2018			
	Goodwill £'000	Acquired intangible assets £'000	Software £'000	Total £'000
Cost				
At 1 January 2018	50,005	26,500	2,818	79,323
Additions	-	-	5,903	5,903
Disposals	-	-	(626)	(626)
Write-down	-	-	(2,378)	(2,378)
At 31 December 2018	50,005	26,500	5,717	82,222
Accumulated amortisation				
At 1 January 2018	-	(3,300)	(627)	(3,927)
Charge in year	-	(3,772)	(161)	(3,933)
Disposals	-	-	626	626
At 31 December 2018	-	(7,072)	(162)	(7,234)
Carrying amount as at 31 December 2018	50,005	19,428	5,555	74,988

for the year ended 31 December 2019

14. Goodwill and intangible assets (continued)

Intangible assets (other than software) arise when the Company acquires a business and the fair value paid exceeds the fair value of the net tangible assets acquired. This premium reflects additional value that the Company determines to be attached to the business. Intangible assets include the contractual agreements to manage client funds. Where such assets can be identified, they are recorded as intangible assets arising from business combinations and charged to the income statement over time. The contractual agreements to manage client funds in relation to the acquired Wealth Management business of C. Hoare & Co. and Lloyds Banking Group's ('LBG') UK discretionary, advisory, financial planning, execution, and associated investment services business are amortised over their useful life of seven years on a straight-line basis.

The recoverable amount of acquired intangible assets is the greater of fair value less costs to sell and the updated discounted valuation of the remaining net residual income stream. Any impairment is recognised immediately in the income statement but may be reversed if relevant conditions improve.

Consideration paid to acquire the business in excess of the acquisition date fair value of net tangible and intangible assets is known as goodwill. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from that business combination. Goodwill is not charged to the income statement unless its value has diminished.

After acquisition, the business acquired is integrated fully into the existing Company. Assessment of whether goodwill has become impaired is therefore based on the expected future returns of the Company as a whole. In relation to the acquired Wealth Management business of C. Hoare & Co. and LBG's UK discretionary, advisory, financial planning, execution, and associated investment services business the Company has therefore determined that there is one CGU, that of the Company. The recoverable amount of the CGU is determined from value-in-use calculations applying a discounted cash flow model. The key assumptions on which the Company's 5 year cash flow projections are based include long-term market growth rates of 2 per cent. per annum, a discount rate of 8 per cent., expected fund flows and expected changes to margins. A post tax discount rate that is equal to the Schroders cost of capital has been used to calculate a present value of the future earnings and a terminal growth rate of 2% has been applied which may be considered prudent relative to historical growth and future expectations. Any impairment is recognised immediately in the income statement and cannot be reversed. The results of the calculation indicate that goodwill for the CGU is not impaired.

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in estimating the recoverable amounts of the CGU is small. This is due to the amount of goodwill allocated to the CGU relative to the size of the Company's future profitability estimate. Movements in the growth rate and/or the discount rate of 1 per cent. would not lead to any impairment.

Software purchased and internally developed for use in the business is also referred to as an intangible asset. The costs of purchasing, developing and implementing software, together with associated relevant expenditure, are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Company and the cost of the assets can be measured reliably. Software is recorded initially at cost and then amortised over its useful life of three or five years on a straight-line basis.

At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use. Where intangible software assets are not yet available for use, an assessment of whether the carrying values exceed the estimated recoverable amount is made irrespective of whether there is any indication of impairment. Internally developed software with a carrying amount of £2,378,000 was written off in 2018 as a result of a revised programme being agreed. Due to the changes made to the programme sufficient justification could no longer be made to support this carrying value.

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15. Deposits by banks

	2019 £'000	2018 £'000
Nostro accounts	24,217	10,216
Interbank deposits	68,616	8,979
Margin accounts	5,042	300
	97,875	19,495

Deposits by banks are initially recognised at the fair value of the consideration received net of any directly attributable transaction costs incurred. After initial recognition, the liabilities are accounted for at amortised cost using the effective interest method taking into account any attributable transaction costs.

Nostro accounts include £24,217,000 (2018: £8,177,000), interbank deposits include £68,616,000 (2018: £nil) and margin accounts include £5,042,000 (2018: £300,000) placed by other banks in the Group.

16. Customer accounts

	2019			2018		
	Measured at amortised cost £'000	**Designated as at fair value through profit or loss £'000**	**Total £'000**	Measured at amortised cost £'000	Designated as at fair value through profit or loss £'000	Total £'000
Current accounts	1,638,718	-	1,638,718	1,706,559	-	1,706,559
Term deposits	222,384	-	222,384	234,931	-	234,931
	1,861,102	**-**	**1,861,102**	1,941,490	-	1,941,490

A maturity analysis of customers' accounts is disclosed under note 13.

Customer accounts are initially recognised at fair value. After initial recognition, where the liabilities are not economically hedged, they are accounted for at amortised cost using the effective interest method; where the liabilities are economically hedged, they are recorded at fair value through profit or loss to avoid an accounting mismatch.

Customer accounts include £2,342,000 (2018: £33,612,000) placed by related parties.

The Directors consider that the carrying amount of customer accounts held at amortised cost is approximately equal to their fair value.

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17. Trade and other payables

	2019 £'000	2018 £'000
VAT payable	5,042	4,883
Settlement accounts	1,339	3,027
Other	-	17
	6,381	7,927

Trade payables, other than long-term employee benefits (see note 25), are recorded initially at fair value, subsequently at amortised cost and are current liabilities. The Directors consider that as a result of their short-term nature, the fair value of trade and other payables held at amortised cost approximates their carrying value.

The Company's policy and practice is to agree the terms of payment with suppliers at the time of contract and to make payment in accordance with those terms subject to satisfactory performance. The Company does not follow any code or standard on payment practice, but has adopted the UK Prompt Payment Code in 2013. Most suppliers' terms of settlement are in the range of 30 to 60 days. At 31 December 2019 the amount owed to the Group's trade creditors in the UK represented approximately 21 days average purchases from suppliers (2018: 43 days).

18. Dividends paid

A dividend of £62,600,000 was paid during the year (2018: £45,000,000).

19. Total equity

(a) Share capital

Share capital represents 132,500,000 (2018: 132,500,000) issued and fully paid ordinary shares at par value of £1 each.

(b) Fair value reserve

The fair value reserve represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at the date of reclassification or impairment) and the fair value of financial assets that are classified as fair value through other comprehensive income.

(c) Net exchange difference reserve

The net exchange difference reserve has been generated by the translation of euro denominated balances relating to the German branch office. As part of the disposal of the German branch office, this reserve has been recycled through the Statement of Comprehensive Income.

(d) Retained earnings

Retained earnings represent profits brought forward, the profits for the year together with certain other amounts recognised directly in other comprehensive income and transactions with shareholders.

for the year ended 31 December 2019

20. Guarantees

The Company may issue guarantees to third parties at the request of its clients. At the year end there were no guarantees (2018: £nil).

On 7 March 2011 the Company purchased Schroder & Co. (Asia) Limited (SCAL). The Company has provided a letter of responsibility to the Monetary Authority of Singapore that it will provide financial or other support to SCAL in maintaining a sound liquidity and financial position. The letter itself does not create any new legal obligations however it is deemed that a potential obligation has been created and an outflow of resources is possible in this regard.

21. Commitments

Formal standby facilities, credit lines and other commitments to lend:

	2019 £'000	2018 £'000
1 year or less	-	1,145
More than 1 year	7,806	16,985
	7,806	18,130

22. Assets pledged as collateral security

As at 31 December 2019 there were no assets pledged as collateral security (2018: £31,354,000). The balance in 2018 reflects the value of instruments that the Company was required to hold with clearing agents in order to support the execution of the Company's security transactions.

for the year ended 31 December 2019

23. Notes to the cash flow statement

	2019 £'000	2018 £'000
Operating activities		
Profit before tax	52,784	60,417
Adjustments for:		
- Depreciation of property, plant and equipment	4	33
- Amortisation of intangible assets	6,061	3,933
- Write-down of intangible assets	-	2,378
- Net losses on financial instruments	(107)	38
- Fx recycled through income statement	810	-
	59,552	66,799
Changes in operating assets and liabilities:		
- Net decrease/(increase) in loans and advances to customers	4,249	(1,368)
- Net (increase)/decrease in positive replacement values of Derivatives	(8,564)	3,892
- Net (increase)/decrease in trade and other receivables	(1,765)	534
- Net increase in prepayments and accrued income	(4,922)	(3,751)
- Net increase/(decrease) deposits from banks	78,380	(64,454)
- Net (decrease)/increase in amounts due to customers	(80,387)	432
- Net increase in negative replacement values of derivatives	7,031	2,480
- Net decrease/(increase) trade and other payables	(1,546)	2,517
- Net increase/(decrease) in accruals and deferred income	5,584	(8,166)
- Net increase in deferred tax liability	706	-
Cash generated from operations	**58,318**	(1,085)
Income taxes paid	(12,590)	(12,330)
Net cash generated/(used in) from operating activities	**45,728**	(13,415)

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24. Related party transactions

Transactions between the Company, its parent, its subsidiaries and its fellow Group undertakings, which are related parties of the Company, together with details of transactions between the Company and other related parties are disclosed below:

	2019					
	Net income £'000	**Administrative expenses £'000**	**Amounts owed by related parties £'000**	**Loans and advances to related parties £'000**	**Amounts owed to related parties £'000**	**Loans and advances from related parties £'000**
Parent	-	60	550	-	7	-
Subsidiaries	(100)	-	-	-	8	-
Other related	23,306	40,316	6,811	4,617	11,354	33,798
Key management personnel	85	9	1	-	-	4,281
	23,291	**40,385**	**7,362**	**4,617**	**11,369**	**38,079**

Included in the accounts of other subsidiaries of the Group are loans and advances from related parties of £2,156,000 and expenses of £32,000.

	2018					
	Net income £'000	Administrative expenses £'000	Amounts owed by related parties £'000	Loans and advances to related parties £'000	Amounts owed to related parties £'000	Loans and advances from related parties £'000
Parent	-	10	-	-	8	-
Subsidiaries	(114)	-	8	-	114	-
Other related	24,296	40,072	3,731	10,853	7,224	34,757
Key management personnel	56	-	-	-	-	3,006
	24,238	40,082	3,739	10,853	7,346	37,763

In relation to key management personnel, included in the year ended 31 December 2018 accounts of other subsidiaries of the Group are loans and advances from related parties of £2,335,000 and fee expenses of £20,000.

Loans to and guarantees on behalf of Directors and Directors' transactions

Under the Companies Act 2006, the Company is permitted as a banking company to make loans and to issue guarantees on behalf of Directors of the Company. No loans to Directors were outstanding at 31 December 2019 (2018: £nil).

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24. Related party transactions (continued)

Key management personnel remuneration

The Company has determined that the Board of Directors of the Company and members of its management committee are the key management personnel of the Company.

The remuneration of key management personnel during the year was as follows:

	2019 £'000	2018 £'000
Short-term employee benefits	7,759	8,977
Share-based payments	2,150	1,821
Other long-term benefits	2,114	1,686
Termination benefits	94	-
Post-employment benefits	92	149
	12,209	12,633

25. Retirement benefit obligations

The Company makes contributions on behalf of its employees to the Schroders Retirement Benefits Scheme (the Scheme) which is administered by a Trustee company, Schroder Pension Trustee Limited. It is a funded scheme comprising a defined benefit (DB) and a defined contribution (DC) section; all current employees are members of the DC section.

Pension contributions are charged as 'Administrative expenses' to the income statement in the accounting period in which they arise.

The income statement charge for retirement benefit costs is as follows:

	2019 £'000	2018 £'000
Pension costs – defined contribution plans	51.7	47.9
Pension costs – defined benefit plans	(7.7)	(2.5)
Other post-employment	0.2	0.2
	44.2	45.6

The following disclosures relate mainly to the DB section of the Scheme as a whole and are not specific to this Company's contribution to the Scheme.

(a) Profile of the Scheme

The Scheme is administered by a Trustee company, Schroder Pension Trustee Limited (the Trustee). The board of the Trustee company comprises an independent chairman, three directors appointed by the employer and two directors elected by the Scheme members. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for setting the investment strategy and for the day-to-day administration of the benefits. The Trustee's investment committee comprises four of the Trustee directors and two representatives of the Group. This committee, which reports to the Trustee board, is responsible for making investment strategy recommendations to the board of the Trustee and for monitoring the performance of the investment manager.

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25. Retirement benefit obligations (continued)

(a) Profile of the Scheme (continued)

Under the scheme, employees are entitled to annual pensions on retirement based on a specified percentage of their final pensionable salary or, in the case of active members at 30 April 2011 (the date the DB section of the Scheme closed for future accrual), actual pensionable salaries at that date, for each year of service. These benefits are adjusted for the effects of inflation, subject to a cap of 2.5% for pensions accrued after 12 August 2007 and 5.0% for pensions accrued before that date.

As at 31 December 2019, there were no active members in the DB section (2018: nil) and 2,127 active members in the DC section (2018: 1,973). The weighted average duration of the Scheme's DB obligation is 18 years (2018: 18 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2019	2018
Number of deferred members	1,251	1,327
Total deferred pensions (at date of leaving Scheme)	£9.4m per annum	£10.0m per annum
Average age (deferred)	53	52
Number of pensioners	885	849
Average age (pensioners)	70	70
Total pensions in payment	£20.4m per annum	£19.6m per annum

(b) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2017. The funding level at that date was 115% on the technical provisions basis and no contribution to the Scheme was required (2017: nil). The next triennial valuation is due as at 31 December 2020 and will be performed in 2021.

(c) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy that aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme.

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25. Retirement benefit obligations (continued)

(c) Risks of the Scheme (continued)

The most significant risks that the Scheme exposes the Group to are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will reduce the surplus or may create a deficit. The Group manages this risk by holding 64% (2018: 51.6%) of Scheme assets in a liability-driven investment ('LDI') portfolio. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but that can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Credit risk

The assets of the Scheme include LDI and other fixed income instruments that expose the Group to credit risk. A significant amount of this exposure is to the UK Government as a result of holding gilts and bonds guaranteed by the UK Government. Other instruments held include derivatives, which are collateralised daily to cover unrealised gains or losses. The minimum rating for any derivatives counterparty is BBB.

Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio, which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2019, the LDI portfolio was designed to mitigate 83% (2018: 77%) of the Scheme's exposure to changes in gilt yields.

Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. However, in most cases, caps on the level of inflationary increases are in place. The majority of the growth assets are either unaffected by or not closely correlated with inflation, which means that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2019, the LDI portfolio was designed to mitigate 83% (2018: 77%) of the Scheme's exposure to inflation risk.

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

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25. Retirement benefit obligations (continued)

(d) Reporting at 31 December 2019

The principal financial assumptions used for the Scheme were as listed below.

	2019	2018
	%	%
Discount rate	2.1	2.9
RPI inflation rate	3.1	3.3
CPI inflation rate	2.2	2.2
Future pension increases (for benefits earned before 13 August 2007)	3.0	3.2
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.2
Average number of years a current pensioner is expected to live beyond age 60:		
Men	28	28
Women	29	29
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	29	29
Women	30	30

The net interest income is determined by applying the discount rate to the opening net surplus in the Scheme. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality, long-dated corporate bonds that are denominated in the currency in which the benefits will be paid.

Estimates and judgements

The most significant judgemental assumption relates to mortality rates which are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.0% (2018: 1.0%) per annum. Mortality tables for male pensioners are scaled back by 2.5% and female pensioners are scaled back by 7.5% to reflect the history of longer life expectancy of the Group's employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2019.

for the year ended 31 December 2019

25. Retirement benefit obligations (continued)

(d) Reporting at 31 December 2019 (continued)

The sensitivity of the Scheme pension liabilities to changes in assumptions are as follows:

		2019	
Assumption	**Assumption change**	**Estimated (increase)/ reduction in pension liabilities £m**	**Estimated (increase)/ reduction in pension liabilities %**
Discount rate	Increase by 0.5% per annum	71.7	8.3
Discount rate	Decrease by 0.5% per annum	(84.0)	(9.7)
Expected rate of pension increases	Increase by 0.5% per annum	(65.3)	(7.5)
Expected rate of pension increases	Decrease by 0.5% per annum	67.3	7.8
Life expectancy	Increase by one year	(37.9)	(4.4)
Life expectancy	Reduce by one year	37.5	4.3

		2018	
Assumption	Assumption change	Estimated (increase)/ reduction in pension liabilities £m	Estimated (increase)/ reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	65.8	8.3
Discount rate	Decrease by 0.5% per annum	(72.1)	(9.1)
Expected rate of pension increases	Increase by 0.5% per annum	(56.3)	(7.1)
Expected rate of pension increases	Decrease by 0.5% per annum	52.6	6.6
Life expectancy	Increase by one year	(32.3)	(4.1)
Life expectancy	Reduce by one year	33.5	4.2

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25. Retirement benefit obligations (continued)

(d) Reporting at 31 December 2019 (continued)

Movements in respect of the assets and liabilities of the Scheme are:

	2019	2018
	£m	£m
At 1 January	951.2	1,029.2
Interest on assets	27.1	26.1
Remeasurement of assets	54.6	(56.8)
Benefits paid	(31.4)	(47.3)
Fair value of plan assets	**1,001.5**	951.2
At 1 January	(795.6)	(866.3)
Interest cost	(22.6)	(21.9)
Actuarial gains due to change in demographic assumptions	6.4	18.3
Actuarial losses due to change in financial assumptions	(90.4)	36.3
Actuarial gains/(losses) due to experience	5.6	(9.3)
Benefits paid	31.4	47.3
Present value of funded obligations	**(865.2)**	(795.6)
Net asset	**136.3**	155.6

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2019, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

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25. Retirement benefit obligations (continued)

(d) Reporting at 31 December 2019 (continued)

The fair value of the Scheme assets at the year end date is analysed as follows:

	2019		2018	
	Value £m	**Of which not quoted in an active market £m**	Value £m	Of which not quoted in an active market £m
Liability-driven investments	643.3	-	491.3	12.9
Bonds (excluding those held as part of the liability-driven portfolio)	-	-	78.8	-
Portfolio funds	345.6	6.1	348.0	7.8
Exchange-traded futures and over the counter derivatives	(7.9)	(8.1)	(5.7)	(4.2)
Cash	20.5	-	38.8	-
Total	**1,001.5**	**(2.0)**	951.2	16.5

26. Directors' emoluments

The amounts set out below are in respect of 8 (2018: 9) Directors whose emoluments were charged either in part or in full to the Company during the year. These Directors received no remuneration in respect of their services as Directors, but received the following remuneration in connection with the management of the affairs of the Company. The emoluments of 1 (2018: 1) Director employed by and paid for by the ultimate parent company are included in the financial statements of that entity. Their emoluments are deemed to be wholly attributable to their services to the ultimate parent company. This Director therefore receive no incremental emoluments for their services to the Company.

	2019 £'000	2018 £'000
Aggregate emoluments	3,018	3,696
Company pension contribution to the defined contribution pension scheme	15	26
	3,033	3,722

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors were £595,000 (2018: £861,000).

Retirement benefits have accrued to no (2018: no) Directors under a defined benefit scheme and to 2 (2018: 2) Directors under a defined contribution pension scheme.

During the year, 6 (2018: 6) Directors became entitled to shares under the Group's Equity Compensation Plan, 3 (2018: n/a) Directors became entitled to shares under the Group's Deferred Award Plan and 1 Director (2018: none) became entitled to shares under the Group's Equity Incentive Plan.

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26. Directors' emoluments (continued)

In respect of the highest paid Director, the aggregate emoluments and the amounts (excluding shares) received under the deferred incentive plans were £1,076,000 (2018: £1,052,000). In 2019 and 2018 the Director did become entitled to shares under the Group's Equity Compensation Plan and in 2019 did not become entitled to shares under the Group's Deferred Awards Plan (2018: n/a). The accrued annual pension under the Schroders Retirement Benefits Scheme, a defined benefits scheme, at the end of the year was £nil (2018: £nil). The contribution to a defined contribution scheme was £nil (2018: £nil).

27. Share-based payments

The Company makes share-based payments to key employees through awards over ordinary and non-voting ordinary shares of Schroders plc.

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. For the 2000 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares at the date of grant, discounted for the dividends forgone over the average holding period of the award. For the 2011 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting period of the awards. Awards are structured as nil-cost options.

Awards over ordinary shares made under the Group's Deferred Award Plan are charged at fair value as 'Operating expenses' in the income statement. The fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting periods of the awards. Typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date. Awards are structured as nil-cost options.

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value to the income statement over a five year vesting period. Fair value is determined at the date of grant and is equal to the market value at that time. Awards are structured as nil-cost options.

Awards that lapse or are forfeited result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Company has the following share-based payment arrangements:

- **2000 Equity Compensation Plan and 2011 Equity Compensation Plan:** Under these schemes, key employees receive deferred bonus awards over either ordinary or non-voting ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the third anniversary provided the participant continues to be employed within the Group.
- **Deferred Award Plan:** Under this scheme, certain employees receive deferred bonus awards over ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date provided the participant continues to be employed within the Group.
- **2008 Equity Incentive Plan:** Under this scheme, eligible employees receive awards of ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the fifth anniversary of the grant, provided the employee continues to be employed within the Group.

27. Share-based payments (continued)

- **Share Incentive Plan:** Under this scheme approved by HM Revenue & Customs, eligible individuals can purchase ordinary shares in Schroders plc. each month up to £1,800 per taxation year from their gross salary. The Group matches employee share purchases up to £100 per month. These matching shares are effectively free shares awarded to the individual subject to their remaining in employment for one year.

All of the above share-based payment arrangements involve a maximum term of ten years for each option granted and are settled through the transfer of equity instruments of its ultimate parent, Schroders plc to its employees.

The Company recognised total expenses of £3,889,000 (2018: £3,663,000) arising from share-based payment transactions during the year.

(a) 2000 Equity Compensation Plan and 2011 Equity Compensation Plan

	2019	2018	
	Ordinary shares Number	Ordinary shares Number	Non-voting ordinary shares Number
Rights outstanding at 1 January	354,804	348,410	97,579
Granted/Shares in lieu of dividends	67,013	62,752	-
Forfeited	(2,593)	(596)	-
Exercised	(124,306)	(55,762)	(97,579)
Transfers	(869)	-	-
Rights outstanding at 31 December	**294,049**	354,804	-
Vested	103,333	139,557	-
Unvested	190,716	215,247	-
Weighted average fair value of shares granted (£)	25.41	33.47	-
Weighted average share price at dates of exercise (£)	29.73	30.48	23.72

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £1,551,000 (2018: £1,807,000) was recognised during the financial year.

27. Share-based payments (continued)

(b) Deferred Award Plan

	2019 Ordinary shares Number	2018 Ordinary shares Number
Rights outstanding at 1 January	46,968	-
Granted / Shares in lieu of dividends	59,834	46,968
Exercised	(10,403)	-
Rights outstanding at 31 December	**96,399**	46,968
Vested	5,232	-
Unvested	91,167	46,968
Weighted average fair value of shares granted (£)	25.41	33.47
Weighted average share price at date of exercise (£)	27.79	33.47

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £1,592,000 (2018: £1,035,000) was recognised during the financial year.

(c) 2008 Equity Incentive Plan

	2019 Ordinary shares Number	2018 Ordinary shares Number
Rights outstanding at 1 January	110,209	94,753
Granted/Shares in lieu of dividends	20,030	15,456
Forfeited	(5,661)	-
Exercised	(27,352)	-
Rights outstanding at 31 December	**97,226**	110,209
Vested	16,470	7,353
Unvested	80,756	102,856
Weighted average fair value of shares granted (£)	31.07	26.81
Weighted average share price at dates of exercise (£)	31.68	-

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £419,000 (2018: £501,000) was recognised during the financial year.

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27. Share-based payments (continued)

(d) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase of shares up to a maximum of £100 per month. Pursuant to these plans 12,215 ordinary shares were granted (2018: 11,007), at a weighted average share price of £28.94 (2018: £30.89). A charge of £327,000 (2018: £320,000) was recognised during the financial year.

28. Business combinations

The acquisition of businesses is accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed. Costs incurred as part of the acquisition are expensed in the income statement.

As part of the overall wealth partnership agreement between Schroders plc and Lloyds Banking Group ('LBG'), LBG agreed to sell its discretionary, advisory, financial planning, execution, and associated investment services business in the UK to S&Co. for a consideration of £16.3 million. The consideration was used to acquire the customer book, contributing £0.6 billion of Wealth Management AUM. The £16.3 million consideration was represented by £11.4 million of goodwill, £4.1 million of intangible assets and liability (including deferred tax) of £0.8 million.

29. Ultimate and immediate parent company

The Company's immediate parent company is Schroder Wealth Holdings Limited (incorporated in England and Wales), whose ultimate parent company and ultimate controlling party is Schroders plc (incorporated in England and Wales).

The results of the Company are consolidated in the Annual Report and Accounts of Schroders plc, copies of which can be obtained from www.schroders.com.

The Company has taken advantage of the exemption not to prepare consolidated accounts, provided by Section 400 of the Companies Act 2006, as the Company is included in the consolidated accounts of a larger group.

30. Events after the year end

There have been no material events after the year end date.