Schroders

Annual Report and Accounts 2019

Schroder Investment Management Limited

Year Ended 31 December 2019

Registered Number: 01893220

Contents

Officers and professional advisers

Directors

Rory Bateman (appointed 24 June 2019)
Lance DeLuca (appointed 1 January 2020)
Nigel Drury (appointed 1 January 2020)
James E Grant (appointed 1 January 2020)
John Griffiths (appointed 1 January 2020)
Emma E Holden (appointed 1 January 2020)
Richard J Keers
Charles C Prideaux (appointed 1 January 2020)

Company Secretary

Schroder Corporate Services Limited

Registered Office

1 London Wall Place
London
EC2Y 5AU

Independent Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Strategic report

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

Results and review of the business

The profit after tax was £105.8 million (2018: £187.4 million). This represents a return on net assets of 25% (2018: 40%).

The Company's investment and operating principles are expected to remain unchanged in 2020.

The principal activities of the Company are investment management and investment advisory services, which are provided to both subsidiaries of the Schroders plc Group (the 'Group') and to third parties. The Company is authorised and regulated by the Financial Conduct Authority and is one of the principal investment management companies in the Group. It is also the main employing entity of UK employees for the Group.

Net income decreased by £73.9 million to £653.5 million (2018: £727.4 million), principally due to lower net operating revenue £66.3 million and distributions from subsidiaries and associates in the year £5.1 million. Net gains on financial instruments and other income decreased £2.5 million to £9.4 million (2018: £11.9 million) due to foreign exchange losses. Operating expenses increased by £32.4 million to £524.3 million driven mainly by higher employee compensation costs.

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 as yet unclear, the Group's structure provides it with flexibility in deciding how best to respond and continue to service its 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;
- 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 made a number of key decisions on behalf of the Company during the year, including those discussed below. The impact on the Company's stakeholders was, and continues to be, considered throughout the Board's decision making process.

In light of the implementation of the Financial Conduct Authority's Senior Managers & Certification Regime in December 2019 and in seeking to maintaining high standards of governance for stakeholders, the Board gave detailed consideration

Strategic report (continued)

to its composition during the year, changing the majority of the executive directors and agreeing the appointment of two independent non-executives. The Board considers the introduction of independent directors as an important development in fostering diversity of thought as well as independent challenge of the executive.

The Board further considered the transfer to the Company of the South African branch of another entity within the Group. The transfer was considered beneficial due to the operational efficiencies that would be brought about by taking advantage of the Company's existing presence in South Africa. In agreeing to the transfer, the Board took into account the likely long-term consequences of its decision and the interests of all stakeholders. in particular, customers and suppliers in South Africa and the transfer of staff.

The Board also considered acceptance of the role of investment manager to the Woodford Patient Capital Investment Trust plc, which was specifically considered by the Board due to its risk profile. In considering whether the Company should take on the role, the Board assessed the long-term consequences of its decision and its impact on stakeholders: in particular, the possible reputational, operational and regulatory risks of running a combined private/public mandate, intense media scrutiny on the fund due to performance issues and operational complexity. In reaching its decision, the Board took into account the fact that further expansion into the Private Assets sector was a major focus for the Group and that managing the mandate would enable the Group to offer a broader range of products to clients.

The Board also approved the payment of a dividend by the Company to its parent. The directors considered the long term consequences of paying up from its distributable reserves, noted that the resulting regulatory capital position of the Company would remain within its capital management policy limits, and considered that the payment was in the best interests of it stakeholders as a whole

Due to the structure of the Schroders Group, stakeholder engagement also took place using Group resources, in line with agreed delegations. For details of engagement that took 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, the principal risks and uncertainties are integrated with the principal risks of Schroders plc's other subsidiary undertakings which, with Schroders plc, form the Schroders plc 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 plc annual report and accounts for the year ended 31 December 2019 (the Schroders Report). The Schroders Report does not form part of this report.

Key performance indicators

The Directors of the Group manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, is discussed in the "Strategic report" in the Schroders Report. The Schroders Report does not form part of this report.

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

Louise Richard, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
4 March 2020

Directors' report

The Directors present their report and the audited financial statements 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.

Future developments

In preparation for the United Kingdom's planning withdrawal from the European Union, effective 1 January 2019 the Company transferred the businesses of it's French and Spanish branches to a related party in the Schroders Group, Schroder Investment Management Europe S.A. domiciled in Luxembourg ("SIM Europe"). SIM Europe issued 1,256 shares to the Company in consideration for the net assets related to the French branch and 1,000 shares in consideration for the net assets related to the Spanish branch. The transfer resulted in no gain/(loss) for the Company.

The Company continues to operate a branch office in Dubai. During the first half of 2020 a South Africa branch is expected to transfer from another group company, at fair value.

Dividends

During the year, the Directors declared a dividend of £160.0 million in respect of the year ended 31 December 2018, which was paid on 27 March 2019.

The Directors have declared a dividend in respect of the year ended 31 December 2019 totalling £77.0 million payable on 27 March 2020 to the shareholder on the register of members on that date.

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 17 to the financial statements. The Schroders Report does not form part of this report.

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 financial statements, there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' report (continued)

Directors

The Directors of the Company who have served throughout the year, except where listed below, are set out on page one. Between 1 January 2019 and 4 March 2020 the following changes have taken place:

Director	Appointed	Resigned
Rory Bateman	24 June 2019	
Lance DeLuca	1 January 2020	
Nigel Drury	1 January 2020	
James E Grant	1 January 2020	
John Griffiths	1 January 2020	
Emma E Holden	1 January 2020	
Charles C Prideaux	1 January 2020	
Stewart Carmichael		8 December 2019
Peter Harrison		8 December 2019
Nicola J Richards		8 March 2019
John A Troiano		8 December 2019

Directors' liability insurance

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

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.

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 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. 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.

Independent Auditors and disclosure of information to independent Auditors

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, Ernst & Young LLP 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 the Company's auditors are 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 auditors are aware of such information.

Directors' report (continued)

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.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 financial statements; and
- prepare the financial statements on a 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 financial statements 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.

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

Louise Richard, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
4 March 2020

Registered Office:
1 London Wall Place
London
EC2Y 5AU
Registered in England and Wales No 01893220

Independent auditors' report to the member of Schroder Investment Management Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Schroder Investment Management Limited (the 'Company') 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, the Cash flow statement and the related notes 1 to 23, 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 ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view 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 IFRSs as adopted by the European Union; 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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Annual Report and Accounts, 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

Independent auditors' report to the member of Schroder Investment Management Limited (continued)

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 directors' responsibilities statement set out on page 6, 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.

Independent auditors' report to the member of Schroder Investment Management Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's 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
4 March 2020

Income statement

for the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Revenue	2	685.7	747.9
Cost of sales	3	(57.3)	(53.2)
Net operating revenue		**628.4**	694.7
Net gains on financial instruments and other income	4	9.4	11.9
Distributions received from subsidiaries and associates	5	15.7	20.8
Net income		**653.5**	727.4
Operating expenses	6	(524.3)	(491.9)
Profit before income tax		**129.2**	235.5
Income tax expense	7	(23.4)	(48.1)
Profit after tax		**105.8**	187.4

Statement of comprehensive income

for the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	105.8	187.4
Total comprehensive income for the year, net of tax	**105.8**	187.4

Statement of financial position

At year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Assets			
Cash and cash equivalents	9	0.8	7.3
Trade and other receivables	10	546.4	602.0
Current tax		8.5	2.8
Financial assets		0.1	0.1
Property, plant and equipment	11	13.3	13.9
Investments	12	27.9	19.9
Intangible assets	13	105.4	113.4
Deferred tax	14	36.6	30.7
Total assets		**739.0**	790.1
Liabilities			
Trade and other payables	15	321.3	319.2
Provisions	16	-	2.0
Total liabilities		**321.3**	321.2
Net assets		**417.7**	468.9
Total equity		**417.7**	468.9

The notes on page 14 to 43 form an integral part of the financial statements.

The financial statements on pages 10 to 43 were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

Richard J Keers
Director

Statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital[1] £m	Retained earnings[2] £m	Total equity £m
At 1 January 2019		155.0	313.9	468.9
Total comprehensive income for the year net of tax		-	105.8	105.8
Tax credit on items taken directly to equity	7	-	3.0	3.0
Transactions with shareholders:				
Dividends	8	-	(160.0)	(160.0)
At 31 December 2019		**155.0**	**262.7**	**417.7**

for the year ended 31 December 2018	Note	Share capital[1] £m	Retained earnings[2] £m	Total equity £m
At 1 January 2018		155.0	288.3	443.3
Restatement on adoption of IFRS 9		-	(0.5)	(0.5)
At 1 January 2018 (restated)		155.0	287.8	442.8
Total comprehensive income for the year net of tax		-	187.4	187.4
Tax charge on items taken directly to equity	7	-	(2.3)	(2.3)
Transactions with shareholders:				
Dividends	8	-	(159.0)	(159.0)
At 31 December 2018		155.0	313.9	468.9

[1] Share capital represents issued and fully paid ordinary shares at a par value of £1 each.

[2] Retained earnings represents accumulated comprehensive income for the year and prior periods together with transactions with shareholders.

Cash flow statement

for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Operating activities			
Profit before income tax		**129.2**	235.5
Depreciation and amortisation		29.0	30.8
Decrease in trade and other receivables		55.7	30.9
(Decrease)/increase in trade and other payables		(8.6)	4.8
(Decrease) in provisions		(2.0)	(11.2)
Net foreign exchange differences		1.3	(1.5)
Adjustments for which the cash effects are investing activities:			
Dividends received		(15.7)	(20.8)
Interest received		(1.6)	(1.5)
Cash flows from operating activities		**187.3**	267.0
United Kingdom corporation tax paid		(23.1)	(35.0)
Overseas tax received/(paid)		0.2	(3.4)
Group relief paid		(3.0)	(4.0)
Net cash inflow from operating activities		**161.4**	224.6
Investing activities			
Transfer of intangible assets to Group companies		67.3	-
Net impact of branch disposals		(3.5)	-
Purchase of intangible assets		(82.3)	(60.8)
Purchase of property, plant and equipment		(6.7)	(10.2)
Dividends received		15.7	20.8
Interest received		1.6	1.5
Net cash (outflows) from investing activities		**(7.9)**	(48.7)
Financing activities			
Dividend paid		(160.0)	(159.0)
(Decrease) in loans from related parties		-	(16.4)
Net cash (outflows) from financing activities		**(160.0)**	(175.4)
Net (decrease)/increase in cash and cash equivalents		**(6.5)**	0.5
Opening cash and cash equivalents		7.3	6.8
Net (decrease)/increase in cash and cash equivalents		(6.5)	0.5
Closing cash and cash equivalents	9	**0.8**	7.3

Notes to the financial statements

for the year ended 31 December 2019

1. Presentation of the financial statements

Financial information for the year ended 31 December 2019 is presented in accordance with International Accounting Standard ('IAS') 1 Presentation of Financial Statements.

At 31 December 2019, the Company was a wholly owned subsidiary of Schroders Plc, a company incorporated in England and Wales that publishes group consolidated accounts. In accordance with Section 400 of the Companies Act 2006, the Company is therefore not required to produce consolidated accounts. 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.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ('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 financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and financial liabilities that are held at fair value through profit or loss or financial assets that are available-for-sale.

The Company's principal accounting policies have been consistently applied. The preparation of financial statements 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 financial statements, are disclosed within the notes below.

New accounting standards and interpretations

The Company has applied IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) from 1 January 2019. The nature and effect of these changes are disclosed below**:**

(i) IFRS 16 Leases

On adoption of IFRS 16, the Company has calculated the ROU asset as if the standard had always been applied but based on an incremental borrowing rate at 1 January 2019. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the appropriate discount rate at the adoption date. Comparative information has not been restated as the Company has applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recorded as an adjustment to the opening profit and loss reserve at 1 January 2019.

The Company has applied the optional exemption contained within IFRS 16, which permits the cost of short-term (less than 12 months) leases to be expensed on a straight-line basis over the lease term. These lease arrangements are not material to the Company.

Notes to the financial statements

for the year ended 31 December 2019

1. Presentation of the financial statements (continued)

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB issued IFRIC 23 which became effective on 1 January 2019. The interpretation provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. The adoption of IFRIC 23 has had no impact on the Company's financial statements.

Future accounting developments

The Company did not implement the requirements of any other Standards or Interpretations that 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.

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 before 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 before 31 December 2020. This will be available at www.schroders.com/cbcr.

Estimates and judgements

The preparation of the financial statements 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. Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will seldom equal the related actual results.

The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are set out in the following note:

Note 13	Intangible assets	Note 16	Provisions
Note 14	Deferred tax	Note 21	Share-based payments

2. Revenue

The Company's primary source of revenue is fee income from investment management activities. The fees are generally based on an agreed percentage of the valuation of the assets under management and are recognised as the service is provided and it is probable that the fee will be received.

Performance fees are earned from some clients when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised at the end of these performance periods, when a reliable estimate can be made and it is almost certain that it will be received.

Other fees are earned through incidental operational activity performed by the Company. They primarily consist of Transfer Agency fees and marketing related fees which are recognised as the services are provided.

Notes to the financial statements

for the year ended 31 December 2019

2. Revenue (continued)

	2019 £m	2018 £m
Management fees	586.0	654.5
Performance fees	20.6	11.0
Other fees	79.1	82.4
Revenue	**685.7**	**747.9**

3. Cost of sales

Cost of sales principally comprises commissions, investment management and distribution fees payable to third parties and other Group companies, recognised over the period for which the service is provided.

4. Net gains on financial instruments and other income

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the year-end date and transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction.

Other income includes revenue generated in respect of support services provided to other group and other miscellaneous income.

Net gains taken to the income statement in respect of financial assets and liabilities are:

	2019 £m	2018 £m
Property rental income	-	0.1
(Losses)/gains on foreign exchange	(1.3)	1.5
Interest income	1.6	1.5
Other income	9.1	8.8
Net gains on financial instruments and other income	**9.4**	11.9

5. Distributions received from subsidiaries and associates

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

	2019 £m	2018 £m
Dividends received	**15.7**	20.8

Notes to the financial statements

for the year ended 31 December 2019

6. Operating expenses

Operating expenses are recognised on an accruals basis as services are provided. Included within the employee benefits expense are employee share-based payments and deferred cash awards. Deferred cash awards take the form of notional investments in funds operated by the Group and the liability is recorded at fair value.

The deferred cash awards are accounted for as a financial liability. These awards are charged to 'Operating expenses' within the income statement over the performance period and the vesting period of the awards. The cost recorded in each year is based on the proportion of time elapsed and the initial fair value of the award. The resulting liability is revalued each year-end based on the proportion of the awards that have been charged to the income statement in the current or previous years and not yet settled. Awards that lapse are credited to the income statement, again within 'Operating expenses', in the year which they lapse. The accounting policy in respect of employee share-based payments is set out in note 21.

Pension costs are determined in accordance with IAS 19 requirements and are explained in note 20.

Operating expenses include:

	2019 £m	2018 £m
Salaries, wages and other remuneration	350.9	341.9
Social security costs	45.7	35.3
Other pension costs (note 20)	19.5	18.2
Employee benefit expenses	**416.1**	395.4
Fees payable for the audit of the Company	0.2	0.2
Fees payable for other assurance services	0.5	0.4
Audit and non-audit fees	**0.7**	0.6
Other operating expenses	107.5	95.9
Operating expenses	**524.3**	491.9

The employee benefit expenses incurred by the Company are for employees that were substantially engaged in the Company's business for the year.

The monthly average number of staff employed by the Company during the year was 2,254 (2018: 2,128) of which 165 (2018: 153) employees were assigned to other Group companies.

Operating expenses include £12.1m (2018: £29.1m) of exceptional costs relating to a targeted cost reduction programme.

Notes to the financial statements

for the year ended 31 December 2019

6. Operating expenses (continued)

Director emoluments

The amounts set out below are in respect of 4 (2018: 3) Directors whose emoluments were charged either in part or in full to the Company during the year. The 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 2 (2018: 2) Directors employed by and paid for either in part or in full by the ultimate parent company are included in the financial statements of that entity. These emoluments are deemed to be wholly attributable to their services to the ultimate parent company. The Directors paid for in full by the ultimate parent company receive no emoluments for their services to the Company.

	2019 £m	2018 £m
Aggregate emoluments	2.2	2.1

In addition to the emoluments detailed, deferred amounts conditionally receivable by Directors were £1,038,884 (2018: £1,136,388).

Retirement benefits have accrued to no (2018: none) Directors under a defined benefit scheme and to no (2018: none) Directors under a defined contribution pension scheme.

During the year, 4 (2018: 3) Directors became entitled to shares under the Equity Compensation Plan, 4 (2018: none) Directors became entitled to shares under the Deferred Award Plan and 1 (2018: none) Director became entitled to shares under the Equity Incentive Plan.

Total compensation for loss of office payable to Directors was £nil (2018: £nil).

In respect of the highest paid Director, the aggregate emoluments and the amounts (excluding shares) received under the deferred incentive plans were £1,568,200 (2018: £1,400,200). In 2019, the Director did (2018: did) become entitled to shares under the Group's Equity Compensation Plan. The Director did (2018: did not) become entitled to share under the Group's Deferred Award Plan. The accrued annual pension under the Schroders Retirement Benefits Scheme, a defined benefit scheme, at the end of the year was £nil (2018: £nil). The contribution to a defined contribution scheme was £nil (2018: £nil).

Notes to the financial statements

for the year ended 31 December 2019

7. Income tax expense

The Company is based in the UK and pays taxes according to the rates applicable in the jurisdictions in which it operates. Most taxes are recorded in the income statement (see part (a) of this note below) and relate to profits earned in the reporting period (current tax) but there are also amounts relating to timing differences between the accounting recognition of profits and the tax recognition (deferred tax). Deferred tax is explained in note 14. 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).

(a) Analysis of charge in the year	**2019 £m**	2018 £m
Current tax:		
UK corporation tax on profits for the year	27.3	39.2
Foreign tax - current	-	3.7
Withholding tax	0.5	2.2
Adjustments in respect of prior years	(0.1)	(0.2)
Total current tax	**27.7**	**44.9**
Deferred tax:		
Origination and reversal of temporary differences	(8.1)	2.7
Adjustments in respect of prior years	1.6	0.5
Effect of changes in UK corporation tax rate	2.2	-
Total deferred tax	**(4.3)**	**3.2**
Total tax charge for the year	**23.4**	**48.1**

(b) Analysis of (credit)/charge reported in equity	**2019 £m**	2018 £m
Current income tax (credit) on deferred compensation awards	(1.0)	(1.5)
Deferred tax (credit)/charge on deferred compensation awards	(2.2)	3.8
Deferred tax effect of changes in UK corporation tax rate	0.2	-
Tax (credit)/charge reported in equity	**(3.0)**	2.3

Notes to the financial statements

for the year ended 31 December 2019

7. Income tax expense (continued)

(c) Factors affecting tax charge for the year

The UK standard rate of corporation tax is 19% (2018: effective tax rate of 19%). The tax charge for the year is lower (2018: higher) than the UK standard rate of corporation tax for the period of 19%.

The differences are explained below:

	2019 £m	2018 £m
Profit before income tax	129.2	235.5
Profit before tax income multiplied by corporation tax at the standard UK rate of 19% (2018: rate of 19%)	24.6	44.7
Effects of:		
Non-taxable income net of non-deductible expenses	(2.4)	5.2
Foreign tax suffered net of double tax relief	0.5	1.8
Non-taxable income from Group companies	(3.0)	(4.0)
Impact of changes in UK corporate tax rate	2.2	-
Adjustments in respect of prior years:		
Foreign tax - prior year	-	(0.2)
Deferred tax - prior year	1.6	0.5
UK tax and group relief - prior year	(0.1)	0.1
Total tax charge for the year	**23.4**	48.1

8. Dividends payable

Final dividends payable are recognised when the dividend is approved by the shareholder. Interim dividends payable are recognised when the dividend is paid.

	2019		2018	
	£m	**Pence per share**	£m	Pence per share
Dividends paid	**160.0**	**103.2**	159.0	102.6

Notes to the financial statements

for the year ended 31 December 2019

9. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank	**0.8**	7.3

As part of the Group's process to manage surplus cash and investment returns effectively, surplus cash of £300.3 million (2018: £431.0 million) was swept to a central bank account held by Schroder Financial Services Limited, a related party. These balances are shown in note 10 trade and other receivables within amounts owed by related parties.

10. Trade and other receivables

Trade receivables are recorded initially at fair value and subsequently at amortised cost. Apart from prepayments, this represents amounts the Company is due to receive from third parties, including related parties, in the normal course of business. These receivables are derecognised on receipt of cash or on recognition of a provision if the receivable is in doubt. Trade and other receivables are stated after the deduction of provisions for bad and doubtful debts. Prepayments arise where the Company pays cash in advance for services not yet received. As the service is provided, the prepayment is recorded in the income statement as an operating expense.

	2019			2018		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Financial assets:						
Fee debtors	-	21.9	21.9	-	21.3	21.3
Accrued income	0.2	55.7	55.9	0.3	52.1	52.4
Amounts owed by related parties (note 22)	-	433.3	433.3	-	498.4	498.4
Other debtors	-	9.8	9.8	-	11.4	11.4
	0.2	520.7	520.9	0.3	583.2	583.5
Non financial assets:						
Prepayments	-	25.5	25.5	-	18.5	18.5
	0.2	**546.2**	**546.4**	0.3	601.7	602.0

Gross carrying value for trade and other receivables is £546.8 million (2018: £602.5 million) and expected credit losses are £0.4 million (2018: £0.5 million). Expected credit losses as a percentage of gross carrying value is 0.07% (2018: 0.08%).

The carrying amount of interest and non-interest bearing trade and other receivables approximate their fair value. Recoverability of the Company's fee debtors is set out in note 17 (Financial risk management).

Notes to the financial statements

for the year ended 31 December 2019

11. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Cost includes both the original purchase price of the asset and any costs directly attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on the cost less the estimated residual value at the end of its useful economic life. It is charged on a straight-line basis over periods of between three and five years. Depreciation rates and methods, as well as the residual values at the end of the useful life, 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 operating expense.

	2019			2018		
	Office equipment, computers and cars £m	**Leasehold improvements £m**	**Total £m**	Office equipment, computers and cars £m	Leasehold improvements £m	Total £m
Cost						
At 1 January	36.8	1.5	38.3	34.8	33.7	68.5
Additions	6.7	-	6.7	10.0	0.2	10.2
Disposals	(1.8)	(1.5)	(3.3)	(8.0)	(32.4)	(40.4)
At 31 December	**41.7**	**-**	**41.7**	36.8	1.5	38.3
Accumulated depreciation						
At 1 January	(23.2)	(1.2)	(24.4)	(24.1)	(32.9)	(57.0)
Depreciation charge for the year	(6.7)	-	(6.7)	(7.1)	(0.7)	(7.8)
Disposals	1.5	1.2	2.7	8.0	32.4	40.4
At 31 December	**(28.4)**	**-**	**(28.4)**	(23.2)	(1.2)	(24.4)
Net book value as at 31 December	**13.3**	**-**	**13.3**	13.6	0.3	13.9

The Company has no future commitments to purchase property, plant and equipment (2018: none).

Notes to the financial statements

for the year ended 31 December 2019

12. Investments

Investments in subsidiaries and other investments are stated at cost less any impairment.

Associates comprise those undertakings where there is significant influence but not control over the financial and operating policy decisions of the investee requiring unanimous consent. Investment in associates are stated at cost less any impairment.

Movements in investments:

	Investments in subsidiaries	**Investments in associates**	**Other investments**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2019	15.7	4.2	-	19.9
Additions	-	-	8.0	8.0
At 31 December 2019	**15.7**	**4.2**	**8.0**	**27.9**

	Investments in subsidiaries	Investments in associates	Other investments	Total
	£m	£m	£m	£m
At 1 January 2018	15.7	4.2	-	19.9
At 31 December 2018	**15.7**	**4.2**	**-**	**19.9**

The Directors believe that the carrying value of investments are supported by their underlying assets.

Information on investments in subsidiaries and associates

The following information is given in respect of all direct and indirect investments in subsidiary and associate undertakings of the Company. With the exception of Bank of Communications Schroder Fund Management Co. Limited and PT Schroder Investment Management Indonesia, all direct holdings are wholly-owned subsidiary undertakings of the Company and their issued share capital consists of equity shares and other classes of shares where indicated. Unless otherwise stated the companies are registered in England.

Information on other investments

Schroder Investment Management (Europe) S.A ("SIM Europe") issued 2,256 shares for a total value of £8.0m to the Company in consideration for the net assets related to the French and Spanish branches, which were transferred out during 2019.

Notes to the financial statements

for the year ended 31 December 2019

12. Investments (continued)

Subsidiaries and associates

a) Direct holdings

Schroder Investment Management North America Limited, 1 London Wall Place, London EC2Y 5AU

Schroder Nominees Limited, 1 London Wall Place, London EC2Y 5AU

Schroder Real Estate Investment Management Limited, 1 London Wall Place, London EC2Y 5AU

Schroders Korea Limited (registered in Korea), 26th Floor 136 Sejong-daero. Seoul Finance Centre, Seoul 100-768, Republic of (South) Korea

PT Schroder Investment Management Indonesia (registered in Indonesia) (99 per cent. holding), Indonesia Stock Exchange Building, Tower 1 30th Floor, Jalan Jend. Sudirman Kav 52-53 Jakarta 12190 Indonesia

Bank of Communications Schroder Fund Management Company Limited (registered in China) (30 per cent. associate holding), 2nd Floor, Bank of Communications Tower, 188 Middle Yincheng Road, Pudong New Area, Shanghai

b) Indirect holdings

Bank of Communications Schroder Asset Management Co., Ltd** (registered in China), Room 432, Building No.2, 738 Guangji Road, Shanghai

BOCOM Schroder Asset Management (Hong Kong) Company Limited** (registered in Hong Kong), Suite 3208, 32/F Champion Tower, 3 Garden Road, Central, Hong Kong

** wholly owned by Bank of Communications Schroder Fund Management Company Limited

Notes to the financial statements

for the year ended 31 December 2019

13. Intangible assets

The costs of purchasing 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 on a straight-line basis. The amortisation charge is recorded as an operating expense.

During the year certain intangibles assets were transferred to another group company at net book value.

	2019		2018	
	Software £m	**Total £m**	Software £m	Total £m
Cost				
At 1 January	170.3	170.3	126.8	126.8
Additions	82.3	82.3	60.8	60.8
Transfer to Group companies	(97.5)	(97.5)	-	-
Disposals	(4.6)	(4.6)	(17.3)	(17.3)
At 31 December	**150.5**	**150.5**	170.3	170.3
Accumulated amortisation				
At 1 January	(56.9)	(56.9)	(51.2)	(51.2)
Amortisation for the year	(22.3)	(22.3)	(23.0)	(23.0)
Transfer to Group companies	30.2	30.2	-	-
Disposals	3.9	3.9	17.3	17.3
At 31 December	**(45.1)**	**(45.1)**	(56.9)	(56.9)
Carrying amount				
At 31 December	**105.4**	**105.4**	113.4	113.4

The Company has future commitments to purchase software with a value of £nil (2018: £nil).

Notes to the financial statements

for the year ended 31 December 2019

14. 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. The movement on the deferred tax asset is as shown below.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate which reflects the rate expected to be applicable at the time the net deferred tax asset is realised.

Deferred tax assets	**Temporary timing differences including bonuses £m**	**Accelerated capital allowances £m**	**Total £m**
At 1 January 2019	28.0	2.7	30.7
Credited to income statement	6.7	(0.2)	6.5
Effect of changes in UK tax rates - income statement charge	(2.2)	-	(2.2)
Credited to equity	2.2	-	2.2
Effect of changes in UK corporation tax rate - equity	(0.2)	-	(0.2)
Business combinations	(0.4)	-	(0.4)
At 31 December 2019	**34.1**	**2.5**	**36.6**

Deferred tax assets	Temporary timing differences including bonuses £m	Accelerated capital allowances £m	Total £m
At 1 January 2018	35.5	2.3	37.8
Charged to income statement	(3.7)	0.4	(3.3)
Charged direct to equity	(3.8)	-	(3.8)
At 31 December 2018	28.0	2.7	30.7

Notes to the financial statements

for the year ended 31 December 2019

15. Trade and other payables

Trade payables, other than deferred cash awards, are recorded initially at fair value and subsequently at amortised cost. Deferred cash awards are recorded at fair value.

	2019			2018		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Financial liabilities at amortised cost:						
Accruals	20.5	161.2	181.7	20.4	172.8	193.2
Amounts owed to related parties (note 22)	-	5.5	5.5	-	11.2	11.2
Social security	15.5	32.4	47.9	12.2	29.6	41.8
Trade creditors and other liabilities	-	9.2	9.2	-	7.7	7.7
Financial liabilities at fair value:						
Deferred cash awards	42.2	34.8	77.0	33.3	32.0	65.3
	78.2	**243.1**	**321.3**	65.9	253.3	319.2

The carrying amount of the financial liabilities at amortised cost approximates their fair value. Deferred cash awards derive their value from the fair value of units in funds to which the employee award is linked (fund awards).

The Company's financial liabilities at are expected to mature in the following time periods:

	2019 £m	2018 £m
Less than a year	243.1	253.3
1-2 years	30.4	29.8
2-3 years	25.6	21.9
3-4 years	22.1	14.1
More than 4 years	0.1	0.1
	78.2	65.9
	321.3	319.2

Notes to the financial statements

for the year ended 31 December 2019

16. Provisions

Provisions are liabilities where there is uncertainty over the timing or amount of settlement and therefore usually require the use of estimates. They are recognised when three conditions are fulfilled: when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Company will incur a loss in order to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. They are recorded at the Company's best estimate of the cost of settling the obligation. Any differences between those estimates and the amounts for which the Company actually becomes liable are taken to the income statement as additional charges where the Company has underestimated and credits where the Company has overestimated.

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Company's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the statement of financial position.

Estimates and judgements

The timing and amount of settlement of each legal and constructive obligation is uncertain. The Company has performed an assessment of the timing and amount and periodically reviews this assessment. For certain provisions, including the provision for onerous leases, there is greater certainty as the cash flows have largely been determined. However, the onerous lease provision also includes an assessment of potential cash inflows (where these are not contractually binding) from sub-letting arrangements. The Company makes periodic assessment of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. The Company has made provisions based on a reasonable expectation of likely outflows. However, the results of negotiations may result in different settlement.

	Dilapidations and onerous leases
	£m
At 1 January 2019	2.0
Provision utilised	(0.5)
Provision released	(1.5)
At 31 December 2019	**-**
Current - 2019	-
Non-current - 2019	-
At 31 December 2019	**-**
Current - 2018	1.8
Non-current - 2018	0.2
At 31 December 2018	2.0

Notes to the financial statements

for the year ended 31 December 2019

16. Provisions (continued)

The provisions are expected to mature in the following periods:

	2019	2018
	£m	£m
Less than 1 year	-	1.8
1-2 years	-	0.2
2-3 years	-	-
	-	0.2
	-	2.0

The provision for dilapidations and onerous leases covers lease commitments of 0 years (2018: 0 years).

There are no contingent liabilities at 31 December 2019 (2018: none).

17. Financial risk management

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 the Business review section and in the Schroders Report. Sensitivities are measured against market risk movements which the Group believes could reasonably occur within the next calendar year.

The Company's specific risk exposures are explained below.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause the Company financial loss by failing to discharge an obligation.

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's counterparties are predominately its related parties and therefore there is limited credit risk exposure outside the Group on these balances. The balances are monitored regularly and historically, default levels have been nil.

Fee debtors are monitored regularly. Historically default levels have been insignificant and, unless a client has withdrawn funds, there is an on-going relationship between the Company and the client. Although the Company is usually managing client cash representing a large multiple of the amount owed to the Company by the client, the Company does not hold any of the assets it invests on behalf of its clients as collateral.

The Company's related party receivables and fee debtors that are past due but are not considered to be impaired as at 31 December 2019 are presented later in this note. Factors considered in determining whether impairment has taken place include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a debtor's ability to repay an amount due.

Notes to the financial statements

for the year ended 31 December 2019

17. Financial risk management (continued)

	2019	2018
	£m	£m
Older than 30 days not older than 45 days	1.5	4.0
Older than 45 days not older than 60 days	2.7	3.0
Older than 60 days not older than 90 days	4.7	1.7
Older than 90 days not older than 120 days	1.1	1.0
Older than 120 days not older than 180 days	2.7	1.2
Older than 180 days	4.4	0.5
	17.1	11.4

The Company's cash and cash equivalents is invested primarily in current accounts and on deposit with an A+ rated UK and overseas banks (2018: A+ rated).

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company has access to sufficient liquid funds to cover normal operating requirements. Outside the normal course of business the Company can request to borrow through intra-Group loans to maintain sufficient liquidity. Overall liquidity of the Group's capital (and for each entity) is monitored on a regular basis.

Capital management

The Company holds capital required to meet the Company's regulatory and working capital requirements. The Financial Conduct Authority (FCA) oversees the activities of the Company and imposes minimum capital requirements. The policy of the Company is to hold sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. Where this is surplus to immediate working capital requirements it is managed by the Group Treasury function and may be distributed to the shareholder.

The Company is authorised and regulated by the FCA. Its last submitted capital resources were £187.2 million (31 December 2018: £156.3 million) and the minimum capital requirement was £130.2 million (31 December 2018: £82.7 million).

The Company has complied at all times with all of the externally imposed regulatory capital requirements.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Company has interest bearing assets and liabilities, which comprise of cash and Group loan balances. The Company's cash and Group loan balances are monitored by the Group Treasury function.

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17. Financial risk management (continued)

At 31 December 2019, if Bank of England interest rates had been 75 basis points higher or 50 basis points lower (2018: 100 basis points higher or 50 basis points lower) with all other variables held constant, it has been estimated that the post-tax profit for the year would have been £1.8 million higher / £1.2 million lower (2018: £3.5 million higher / £1.8 million lower), mainly as a result of higher / lower net interest income on intercompany balances and cash balances; other components of equity would have been unaffected.

The underlying assumption made in the model used to calculate the effect on post-tax profits is that the fair values of assets and liabilities will not be affected by a change in interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's policy in relation to revenue and expenditure currency exposure is not to hedge as this is considered part of the business. The Company currently does not hedge its investment in foreign operating companies but reconsiders its position from time to time.

The Company has assets and liabilities denominated in US dollars. At 31 December 2019, if the US dollar had strengthened by 10 per cent. / weakened by 10 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase / decrease by £0.3 million / £0.2 million. At 31 December 2018, if the US dollar had strengthened by 15 per cent. / weakened by 20 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase / decrease by £2.7 million / £2.6 million.

The Company has assets and liabilities denominated in euros. At 31 December 2019, if the euro had strengthened by 8 per cent. / weakened by 8 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase/decrease by £0.3 million / £0.1 million. At 31 December 2018, if the euro had strengthened by 7 per cent. / weakened by 10 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase/decrease by £0.4 million / £2.2 million.

Pricing risk

Pricing risk is the risk that future cash flows will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. The Company's fee income is principally determined on basis points of the fair value of assets under management. This risk cannot be easily mitigated but is addressed to some extent by on-going net sales.

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for the year ended 31 December 2019

18. Share capital

Share capital represents the number of issued ordinary shares multiplied by their par value of £1 each.

	2019 Number	2018 Number	**2019 £m**	2018 £m
Issued and fully paid:				
Ordinary shares of £1 each	**155,000,000**	155,000,000	**155.0**	155.0

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held.

The company does not have a limited amount of authorised capital.

19. Commitments under IT service agreements

At 31 December 2019, the Company had outstanding commitments for future aggregate minimum contractual payments under non-cancellable contracts under IT service agreements which fall due as follows:

	2019 £m	2018 £m
Not later than 1 year	-	13.4
1 year and over but less than 5 years	-	4.0
	-	17.4

20. Retirement benefit obligations

The Company makes contributions on behalf of its staff 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 'Operating expenses' to the income statement in the accounting period in which they arise.

The charge for retirement benefit costs is as follows:

	2019 £m	2018 £m
Pension costs - defined contribution plans	19.5	18.2

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

Notes to the financial statements

for the year ended 31 December 2019

20. Retirement benefit obligations (continued)

(i) Profile of the Scheme

The Scheme is administered by a trustee company, Schroder Pension Trustee Limited (the Trustee). The board of the Trustee 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.

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: none) 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

(ii) 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.

(iii) 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.

Notes to the financial statements

for the year ended 31 December 2019

20. Retirement benefit obligations (continued)

(iii) 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 an LDI portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund and a Strategic Beta 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.

Notes to the financial statements

for the year ended 31 December 2019

20. Retirement benefit obligations (continued)

(iv) 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

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 is 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 Group estimates the carrying value of the Scheme by applying judgement to determine the assumptions as set out on page 36 to determine the valuation of the pension obligation using member data and applying the Scheme rules. The Scheme assets are mainly quoted in an active market. The sensitivity to those assumptions is set out below. 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. An additional adjustment, an “A parameter” set to 0.5% per annum, introduced this year, allows for the typically higher rate of mortality improvement among members of the Scheme compared to general population statistics.

Notes to the financial statements

for the year ended 31 December 2019

20. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2019 (continued)

Mortality tables for male pensioners are scaled back by 2.5% (2018: 5)% and female pensioners are scaled back by 7.5% (2018: 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.
The sensitivity of the Scheme pension liabilities to changes in assumptions is as follows:

The sensitivity of the Scheme pension liabilities to changes in assumptions is 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	Reduce 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	Reduce 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

Notes to the financial statements

for the year ended 31 December 2019

20. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2019 (continued)	**2019 £m**	2018 £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 gains/(losses) due to change in financial assumptions	(90.4)	36.3
Actuarial (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.

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	643.2	-	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	(7.8)	(8.1)	(5.7)	(4.2)
Cash	20.5	-	38.8	-
Total	**1,001.5**	**(2.0)**	951.2	16.5

Notes to the financial statements

for the year ended 31 December 2019

21. Share-based payments

The Company makes share-based payments to key employees through awards over 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 over ordinary shares made under the Group's Long-Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares at the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year-end date of the extent to which the performance conditions are expected to be met.

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 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.

Notes to the financial statements

for the year ended 31 December 2019

21. Share-based payments (continued)

2010 Long Term Incentive Plan: Under this scheme, eligible employees receive awards over ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest provided the employee continues to be employed within the Group and performance targets relating to the earning per share growth and absolute net new business are met over the four year measurement period.

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 £28.5 million (2018: £32.7 million) arising from share-based payment transactions during the year. These schemes are mainly equity settled share based payments and are settled through payments to Schroders plc or another Group company.

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

	2019	2018
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	2,176,726	2,913,876
Granted / shares in lieu of dividends	295,437	264,616
Forfeited	(18,457)	(27,468)
Exercised	(812,904)	(971,228)
Transfers	(59,905)	(3,070)
Rights outstanding at 31 December	1,580,897	2,176,726
Vested	871,808	1,073,741
Unvested	709,089	1,102,985
Weighted average fair value of shares granted (£)	25.49	33.23
Weighted average share price at dates of exercise (£)	29.05	33.17

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 £5.7 million (2018: £8.0 million) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2019

21. Share-based payments (continued)

(b) Deferred Award Plan

	2019	2018
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	807,228	-
Granted / shares in lieu of dividends	1,100,953	831,371
Forfeited	(43,250)	(24,143)
Exercised	(179,632)	-
Transfers	(7,049)	-
Rights outstanding at 31 December	1,678,250	807,228
Vested	80,502	-
Unvested	1,597,748	807,228
Weighted average fair value of share granted (£)	26.34	33.47
Weighted average share price at date of exercise (£)	27.39	-

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 £19.1 million (2018: £19.6 million) was recognised during the financial year.

(c) 2008 Equity Incentive Plan

	2019	2018
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	1,141,154	1,183,069
Granted / shares in lieu of dividends	94,526	96,611
Forfeited	(60,974)	(71,582)
Exercised	(381,021)	(66,944)
Transfers	(30,101)	-
Rights outstanding at 31 December	763,584	1,141,154
Vested	281,809	334,565
Unvested	481,775	806,589

Notes to the financial statements

for the year ended 31 December 2019

21. Share-based payments (continued)

(c) 2008 Equity Incentive Plan (continued)

Weighted average fair value of share granted (£)	32.34	26.81
Weighted average share price at date of exercise (£)	31.22	23.88

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 £2.3 million (2018: £3.8 million) was recognised during the financial year.

(d) 2010 Long Term Incentive Plan

	2019	2018
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	-	2,349
Exercised	-	(2,349)
Rights outstanding at 31 December	-	-
Weighted average share price at dates of exercise (£)	-	34.48

The weighted average exercise price per share is nil.

No charge was recognised during the financial year (2018: nil).

(e) 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 51,475 ordinary shares were granted (2018: 45,586), at a weighted average share price of £28.92 (2018: £30.84). A charge of £1.4 million (2018: £1.3 million) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2019

22. Related party transactions

(a) Transactions between related parties

Transactions between the Company, its own subsidiaries and its fellow subsidiaries, which are related parties of the Company, together with details of transactions between the Company and other related parties are disclosed below.

	2019					
	Revenues £m	Cost of sales £m	Net expenses recoverable £m	Dividends paid £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Ultimate parent	0.7	-	16.2	-	9.6	-
Parent	-	-	-	(160.0)	-	-
Subsidiaries	88.0	0.9	12.6	-	12.8	(1.4)
Other related companies	385.1	56.1	76.9	-	410.9	(4.1)

	2018					
	Revenues £m	Cost of sales £m	Net expenses recoverable £m	Dividends paid £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Ultimate parent	0.9	-	18.1	-	-	(4.8)
Parent	-	-	-	(159.0)	-	-
Subsidiaries	90.2	1.3	10.8	-	8.9	-
Other related companies	443.5	51.3	73.0	-	489.5	(6.4)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Key management personnel remuneration

The Company has determined that the Board of Directors of the Company are the key management personnel of the Company.

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

Notes to the financial statements

for the year ended 31 December 2019

22. Related party transactions (continued)

	2019 £m	2018 £m
Short-term employee benefits	2.4	2.3
Share-based payments	1.8	2.1
Other long-term benefits	2.0	2.5
	6.2	6.9

Included in the accounts of other subsidiaries of the Group are amounts owed to related parties of £652,000 (2018: £1,934,000), net interest and fee income of £116,000 (2018: £25,000), loans of £425,000 (2018: £nil) and net interest and fee expenses of £4,000 (2018: £4,000).

23. Ultimate and immediate parent company

The Company's immediate parent company is Schroder International Holdings Limited (incorporated in England and Wales).

The ultimate parent company and ultimate controlling party continues to be Schroders plc (incorporated in England and Wales).