Schroders

Annual Report and Accounts 2020

Schroder Financial Services Limited

Year Ended 31 December 2020

Registered Number: 01899690

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Schroders

Officers and professional advisers

Directors

James Grant
Tim McCann
Nicholas Taylor

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 Financial Services Limited (the Company) for the year ended 31 December 2020.

Results and Review of the business

The profit for the year after tax was £0.2 million (2019: £19.1 million profit after tax).

The Company's cash management services business continued during the year. The Company's investment and operating principles are expected to remain unchanged in 2021.

The Directors consider the results and the Company's financial position at 31 December 2020 to be satisfactory.

The Covid-19 pandemic had an effect on nearly every aspect of our lives, impacting investor sentiment and leading to market volatility. The response of the Schroders plc Group (the 'Group') demonstrated the resilience of its employees, the strength of the infrastructure supporting its business processes and its business model. There was no significant impact on business operations despite 99% of staff working remotely. The effects of the pandemic are likely to be felt for a number of years and the Company as part of the Schroders Group is well placed to weather those challenges.

The UK left the European Union (EU) on 31 January 2020 and entered a 'transition period' while the UK Government negotiated its future relationship with the EU. On 24 December 2020, both parties announced that they had reached agreement on a free trade agreement, the UK-EU Trade and Cooperation Agreement, with its terms taking effect immediately after the transition period concluded on 31 December 2020. As widely anticipated, the trade agreement does not make provision for financial services firms in the UK to continue to access the EU single market and, as a result, those firms lost their passporting rights.

The Group was well positioned for such a no deal scenario for financial services. The Group's diversified business model and significant presence in the EU means that it is well placed to respond to any challenges arising without making significant changes to its operating models. The Group continues to closely monitor future negotiations and regulatory developments with respect of financial services including any frameworks for regulatory cooperation between the UK and the EU that might affect its business or clients. The Company is well placed to weather these challenges and adapt to ongoing changes in the political, economic and regulatory environment.

Directors' duties – compliance with section 172 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's principal decision during the year was the approval of amendments to the Company's Revolving Credit Facility ('Facility'). The Board considered the liquidity of the Group in making its decision as the Facility is an eligible liquidity resource in relation to the Group's liquidity requirements, which enables the Group to free up low-yielding cash or liquid assets that would otherwise have to be held as an eligible resource. The amendments considered by the Board included the accession of an additional lender which increased the size of the Facility by £85 million to £595 million and to give effect to the replacement of LIBOR with SONIA.

Strategic report (continued)

Directors' duties – compliance with section 172 of the Companies Act 2006 (continued)

Due to the structure of the Schroders Group, stakeholder engagement also took place using Group resources, in line with agreed delegations. 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 2020 ('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 Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the 'Key risks and mitigations' section of 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.

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:

Matthew Buckland,
Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
11 March 2021

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020. 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

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

Dividends

During the year no dividends were paid or proposed (2019: nil).

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 the 'Key risk and mitigations' section 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 12 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 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 financial statements.

Directors

The Directors of the Company who have served during the year and up to the date of signing are listed on page one.

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.

Employment policy

The Company had no employees during the year.

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 auditor, Ernst & Young LLP ('EY'), is 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.

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 accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Matthew Buckland,
Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
11 March 2021

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No: 01899690

Independent auditor's report to the members of Schroder Financial Services Limited

Opinion

We have audited the financial statements of Schroder Financial Services Limited (the 'Company') for the year ended 31 December 2020 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 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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. 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 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for twelve months from the date the Annual Report and Accounts is signed.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained with the Annual Report and Accounts.

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.

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 course of 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 themselves. 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.

Independent auditor's report to the members of Schroder Financial Services Limited

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 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 5, 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the international accounting standards adopted in conformity with the requirements of the Companies Act 2006 and relevant tax compliance regulations.

Independent auditor's report to the members of Schroder Financial Services Limited

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

- We understood how Schroder Financial Services Limited is complying with those frameworks by making enquiries of management. We corroborated our understanding through our review of board meeting minutes.
- 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 considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, including in a remote-working environment; and how management monitors these controls.
- 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 and enquiries of management.

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

Date:

Income statement

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Net (losses) / gains on financial instruments and other income	3	(661)	2,723
Operating expenses	3	(1,708)	(1,778)
Operating (loss) / profit		**(2,369)**	**945**
Finance income	3	11,114	39,897
Finance charges	3	(8,224)	(17,268)
Net finance income		2,890	22,629
Profit before tax		**521**	**23,574**
Tax charge	4 (a)	(284)	(4,505)
Profit after tax		**237**	**19,069**

Statement of comprehensive income

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Profit after tax	**237**	**19,069**
Profit and total comprehensive income for the year, net of tax	**237**	**19,069**

Statement of financial position

as at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Cash and cash equivalents	5	133,345	157,403
Trade and other receivables	6	2,321,211	2,279,078
Financial assets	7	195,719	130,452
Total assets		**2,650,275**	**2,566,933**
Liabilities			
Corporation tax		283	4,489
Trade and other payables	9	2,475,185	2,386,881
Financial liabilities	10	5,133	6,126
Total liabilities		**2,480,601**	**2,397,496**
Net assets		**169,674**	**169,437**
Total Equity		**169,674**	**169,437**

The notes on pages 9 to 28 form an integral part of the financial statements.

The financial statements on pages 9 to 28 were approved by the Board of Directors on 11 March 2021 and were signed on its behalf by:

James Grant
Director

Registered Number: 01899690

Statement of changes in equity

for the year ended 31 December 2020

	Share[1] capital £'000	Profit and[2] loss reserve £'000	Total £'000
At 1 January 2020	61,625	107,812	169,437
Profit for the year	-	237	237
Total comprehensive income for the year, net of tax	**-**	**237**	**237**
At 31 December 2020	**61,625**	**108,049**	**169,674**

for the year ended 31 December 2019

	Share[1] capital £'000	Profit and[2] loss reserve £'000	Total £'000
At 1 January 2019	61,625	88,743	150,368
Profit for the year	-	19,069	19,069
Total comprehensive income for the year, net of tax	**-**	**19,069**	**19,069**
At 31 December 2019	**61,625**	**107,812**	**169,437**

[1]Share capital represents issued and fully paid ordinary shares at a par value of £1 each. See note 13 to the financial statements.

[2]The profit and loss reserve represents the profit or loss for the year and relevant transactions with shareholders.

Cash flow statement

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Operating (loss) / profit		(2,369)	945
Increase in trade and other receivables		(43,574)	(78,003)
Increase in trade and other payables		89,668	51,146
Purchase of financial instruments		(275,000)	(150,000)
Proceeds from sale of financial instruments		210,000	233,156
Net (gains) / losses on financial instruments held at fair value through profit or loss		(1,260)	4,826
		(22,535)	62,070
Tax paid		(4,490)	(5,728)
Net cash (used in) / generated from operating activities		**(27,025)**	**56,342**
Investing activities			
Interest received		12,555	42,197
Interest paid		(9,588)	(17,128)
Net cash from investing activities		**2,967**	**25,069**
Net (decrease) / increase in cash and cash equivalents		**(24,058)**	**81,411**
Opening cash and cash equivalents		157,403	75,992
Net (decrease) / increase in cash and cash equivalents		(24,058)	81,411
Closing cash and cash equivalents	5	**133,345**	**157,403**

Notes to the financial statements

for the year ended 31 December 2020

1. Presentation of financial statements

Financial information for the year ended 31 December 2020 is presented in accordance with International Accounting Standard ('IAS') 1 Presentation of Financial Statements.

Basis of preparation

The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 liabilities that are held at fair value through profit or loss.

The Company is a wholly-owned subsidiary of Schroder Financial Holdings Limited (incorporated in England and Wales) and is included in the consolidated financial statement of Schroders plc (incorporated in England and Wales) which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company's principal accounting policies have been consistently applied. The preparation of financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

The Company did not implement the requirements of any Standards and Interpretations which were in issue and which were not required to be implemented at the year-end date.

No other Standards or Interpretations issued, and not yet effective, are expected to have an impact on the Company’s financial statements.

Notes to the financial statements

for the year ended 31 December 2020

2. Estimates and judgements

The preparation of the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 in determining whether certain assets and liabilities should be recorded or an impairment recognised.

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 may differ from the related actual results.

The estimates and judgements that could have a significant effect on the carrying amounts of the assets and liabilities are set out in note 7, 'Financial assets', and note 12, 'Financial instrument risk management'.

3. Revenue and expenses

Net (losses) / gains on financial instruments and other income

Gains or losses on investments held at fair value through profit or loss, together with transaction costs, are recognised within 'Net (losses) / gains on financial instruments and other income' in the income statement.

Foreign currency translation

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the year end date and any exchange differences arising are taken to the income statement within 'Net (losses) / gains on financial instruments and other income'.

Operating expenses

Operating expenses are recognised on an accruals basis as services are provided.

Net finance income and charges

Net finance income comprises amounts receivable on the Company's cash held with banks and amounts due from / (owing to) related parties. Interest receivable and payable is recognised using the effective interest method and is recorded in the income statement within 'Net finance income / charges', as appropriate.

Dividends

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

Notes to the financial statements

for the year ended 31 December 2020

3. Revenue and expenses (continued)

	2020 £'000	2019 £'000
Included in net (losses) / gains on financial instruments and other income:		
Net (losses) / gains on foreign exchange	(13,178)	20,596
Net gains / (losses) on financial assets and liabilities held at fair value through profit or loss	12,498	(17,951)
Other income	19	78
	(661)	**2,723**

	2020 £'000	2019 £'000
Included in operating expenses:		
Fees payable for the audit of the Company	25	25
	25	**25**

	2020 £'000	2019 £'000
Included in finance income:		
Interest receivable on cash and cash equivalents	432	813
Interest receivable on balances due from Group companies	10,682	39,084
	11,114	**39,897**

	2020 £'000	2019 £'000
Included in finance charges:		
Finance charges payable on loan facility with third parties	(822)	(553)
Interest payable on cash and cash equivalents	(53)	-
Interest payable on balances owing to Group companies	(7,349)	(16,715)
	(8,224)	**(17,268)**

Notes to the financial statements

for the year ended 31 December 2020

3. Revenue and expenses (continued)

Directors' emoluments

The amounts set out below are in respect of one (2019: one) Director whose emoluments were charged either in part or in full to the Company during the year. This Director has a contract of service with and receive their emoluments from another Group company. A charge is made by that Group Company in respect of the services it provides to the Company. The emoluments of two (2019: three) Directors employed by and paid for by another Group company are included in the financial statements of that entity. Their emoluments are deemed to be wholly attributable to their services to these companies. These Directors therefore receive no incremental emoluments for their services to the Company.

	2020 £'000	2019 £'000
Aggregate emoluments	357	357
Company pension contributions to the defined contribution scheme	10	10
	367	**367**

In addition to the emoluments detailed, deferred amounts conditionally receivable by the Director was £nil (2019: £nil).

Retirement benefits have accrued to no (2019: none) Directors under a defined benefit scheme and to one (2019: one) Director under a defined contribution pension scheme.

During the year, one (2019: one) Director became entitled to shares under the Group's Equity Compensation Plan.

In respect of the highest paid Director, the aggregate emoluments and the amounts (excluding shares) received under the deferred incentive plans were £357,000 (2019: £357,000). In 2020, the Director did become entitled to shares under the Group's Equity Compensation Plan (2019: did become entitled). The accrued annual pension under the Schroders Retirement Benefits Scheme, a defined benefits scheme, at the end of the year was £nil (2019: £nil). The contribution to a defined contribution scheme was £10,000 (2019: £10,000).

Key management personnel compensation

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:

	2020 £'000	2019 £'000
Short-term employee benefits	408	408
Share-based payments	22	21
Other long-term benefits	(4)	5
Post-employment benefits	10	10
	436	**444**

Notes to the financial statements

for the year ended 31 December 2020

4. Tax charge

The Company pays taxes according to the rates applicable in the countries in which it operates. Most taxes are recorded in the income statement and relate to taxes payable for the reporting period (current tax).

(a) Analysis of tax charge reported in the income statement

Major components of the income tax charge for the years ended 31 December 2020 and 31 December 2019:

	2020 £'000	2019 £'000
Current tax:		
Current tax charge - corporation tax	283	4,489
Adjustments in respect of prior years	1	16
Tax charge reported in the income statement	**284**	**4,505**

(b) Factors affecting the tax charge for the year

The UK standard rate of corporation tax for the year was 19% (2019: 19%).

The tax charge for the year is higher (2019 : higher) than the UK standard rate of corporation tax for the year of 19% (2019 : 19%). The differences are explained below:

	2020 £'000	2019 £'000
Profit before tax	**521**	**23,574**
Profit before tax multiplied by corporation tax at the UK standard rate of 19% (2019: 19%)	99	4,479
Effects of:		
Disallowed expenses	184	10
Adjustments in respect of prior years	1	16
Total tax charge for the year	**284**	**4,505**

Notes to the financial statements

for the year ended 31 December 2020

5. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, money market funds and short-term deposits with an original maturity of three months or less. Where the Company considers that such items are not to be used for settling its liabilities, for example securities with short maturity dates that will be rolled over as part of an investment portfolio, they are classified as financial assets rather than cash and cash equivalents.

	2020 £'000	2019 £'000
Cash at bank and in hand	**133,345**	**157,403**

6. Trade and other receivables

Trade receivables are recorded initially at fair value and subsequently measured at amortised cost after the provision for bad and doubtful debts, and the deduction of provision for any impairment.

Trade and other receivables are all current. The carrying amount of interest and non-interest bearing trade and other receivables at amortised cost approximates their fair value.

	2020 £'000	2019 £'000
Accrued income	2	98
Amounts owed by related parties (see note 14)	2,321,209	2,278,980
	2,321,211	**2,279,078**

Gross carrying value for trade and other receivables is £2,323,069,000 (31 December 2019: £2,280,903,000) and expected credit losses are £1,858,000 (31 December 2019: £1,825,000). Expected credit losses as a percentage of gross carrying value is 0.08% (31 December 2019: 0.08%). Note 12 sets out the basis of the expected credit loss calculation.

Notes to the financial statements

for the year ended 31 December 2020

7. Financial assets

Items included within this caption on the face of the statement of financial position principally comprise investments in debt securities and derivatives. It excludes financial assets that are recorded under the following headings:

- Trade and other receivables;
- Cash and cash equivalents; and
- Trade and other payables.

Separate accounting policies are presented in respect of these excluded items.

Financial assets are classified at fair value through profit or loss. Financial assets are all current.

Recognition and measurement

All purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. All financial assets held at fair value through profit or loss, are classified as held for trading.

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.

For investments in financial assets that are actively traded in organised financial markets, fair value is determined by reference to official quoted market bid prices at the close of business on the year end date. For investments that are not actively traded in organised financial markets, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

	2020	2019
	Fair value through profit or loss £'000	Fair value through profit or loss £'000
Pooled investment vehicles	195,705	130,446
Derivative contracts (see note 11)	14	6
	195,719	**130,452**

Notes to the financial statements

for the year ended 31 December 2020

7. Financial assets (continued)

Estimates and judgements - Fair value measurements

The Company holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments may require some judgement or may be derived from readily available sources. The degree of judgement involved is reflected in the fair value measurements section below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

Each instrument has been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. 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 and principally comprise debt securities;
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data included within Level 1 for the asset or liability and principally comprise foreign exchange contracts. Valuation techniques may include using a broker quote in an inactive market, an evaluated price based on compilation of primarily observable market information or industry standard calculations, utilising vendor fed data and information readily available via external sources; 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.

	2020		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**
Financial assets:			
Pooled investment vehicles	195,705	-	195,705
Derivative contracts	-	14	14
	195,705	**14**	**195,719**

	2019		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**
Financial assets:			
Pooled investment vehicles	130,446	-	130,446
Derivative contracts	-	6	6
	130,446	**6**	**130,452**

No financial assets were transferred from level 1 to level 2 during 2020 or 2019. No financial assets were transferred from level 2 to level 1 during 2020 or 2019. There were no level 3 investments in 2020 or 2019.

Notes to the financial statements

for the year ended 31 December 2020

8. Interests in unconsolidated structured entities

The Company holds interests in structured entities through its ownership of units in investment funds managed and operated by third parties and related parties. These investments entitle the Company to investment returns.

The main risk the Company faces from its interests in unconsolidated structured entities is capital losses arising from a decrease in the value of its investments. The following table summarises the carrying values recognised in the statement of financial position, which also represent the maximum exposure to loss, in respect of the Company's interests in unconsolidated structured entities:

	2020 £'000	2019 £'000
Cash equivalents	92,000	119,003
Financial assets (see note 7)	195,705	130,446
Total	**287,705**	**249,449**

9. Trade and other payables

Trade payables are recorded initially at fair value and subsequently at amortised cost.

Trade and other payables are all current. Trade and other payables include interest bearing loans from other Group companies. Interest applied to the loans is in line with current market rates. All other trade and other payables are non interest bearing. The carrying amount of interest and non interest bearing trade and other payables is at amortised cost which approximates their fair value.

	2020 £'000	2019 £'000
Accruals	203	1,743
Amounts owed to related parties (see note 14)	2,474,982	2,385,138
	2,475,185	**2,386,881**

Notes to the financial statements

for the year ended 31 December 2020

10. Financial liabilities

Financial liabilities are held at fair value through profit or loss and held for trading. Gains and losses on derivative contracts are recognised within 'Net gains on financial instruments and other income' in the income statement.

	2020 £'000	2019 £'000
Derivative contracts (see note 11)	**5,133**	**6,126**

Fair value measurements

The Company holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are based on the degree to which the fair value is observable and are defined in note 7.

All derivative contracts within Schroder Financial Services Limited are categorised as level two in 2020 and 2019.

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for the year ended 31 December 2020

11. Derivative contracts

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 statement of financial position date between willing parties. All contracts held at the year end are current.

Where derivatives are held for risk management purposes, the Company monitors the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. The Company actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Company or the Group. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By purchasing or selling derivative contracts, the Company is able to mitigate or eliminate such exposures. The principal risk the Company faces through such use of derivative contracts is one of credit risk only.

Currency forwards represent commitments to sell or purchase foreign and domestic currency. Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

	Assets	Liabilities
2020	**£'000**	**£'000**
Forward foreign exchange contracts	14	5,133

	Assets	Liabilities
2019	**£'000**	**£'000**
Forward foreign exchange contracts	6	6,126

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market indices or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Notes to the financial statements

for the year ended 31 December 2020

12. Financial instrument 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 'Key risks and mitigation' section and the 'Risk management and internal control' section within the Governance report and in note 20 in the Schroder Report. The Company's specific risk exposures are explained below.

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. Except for the debt securities and cash and cash equivalents the Company's counterparties are predominately its related parties and therefore there is no credit risk exposure outside the Group on these balances. Forward foreign exchange positions generally have a maturity of up to three months. Intercompany and cash balances are monitored regularly and historically default levels have been nil. The Company does not have any receivables that are either past due or impaired.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. A breakdown of the Group's relevant financial assets held with rated and unrated counterparties is set out below:

	Cash and cash equivalents	
	2020	2019
	%	%
Credit rating		
AAA	69	76
A+	31	9
A	-	15
	100	**100**

[1] The 2019 comparatives have been re-presented to reflect information received which changed the reference of the credit ratings.

Expected credit losses are calculated in accordance with International Financial Reporting Standards (IFRS) 9 on all of 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. The gross carrying values are adjusted to reflect these credit losses.

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, twelve month 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 based on lifetime expected credit losses and no assessment is done of the different stages.

Notes to the financial statements

for the year ended 31 December 2020

12. Financial instrument risk management (continued)

Estimates and judgements – impairment of financial assets

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 trade and other receivables, 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.

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.

The expected credit loss on cash and cash equivalents is immaterial.

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 Company'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 currently maintains a large surplus of cash which is invested chiefly in short-term securities. The Company would be able to request a call on this surplus to meet any unexpected demand for liquidity.

The Company has a committed revolving credit facility of £595 million (2019: £510.0 million), which expires on 4 October 2024. The facility was undrawn at 31 December 2020 (31 December 2019: undrawn).

Market risk

(a) Interest rate risk

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

Interest rate risk is limited. Assets and liabilities attracting interest rates are cash balances and intercompany loans, both of which are at floating rate, therefore outright interest rate risks arise mainly from the decision to allow a mismatch between the cash flows.

At 31 December 2020, if Bank of England interest rates had been 15 basis points higher or 35 basis points lower with all other variables held constant, post-tax profit for the year would have been £23,000 lower or £53,000 higher, mainly as a result of higher / lower net interest income on cash balances and interest bearing intercompany loans, payables and receivables. At 31 December 2019, if Bank of England interest rates had been 75 basis points higher or 50 basis points lower with all other variables held constant, post-tax profit for the year would have been £196,000 higher or £130,000 lower.

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

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for the year ended 31 December 2020

12. Financial instrument risk management (continued)

(b) 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. Foreign exchange risk arises when transactions are denominated in a currency that is not the entity's functional currency. The Company is exposed to foreign exchange risk arising from currency exposures to US Dollars, Hong Kong Dollars and Euros.

As at 31 December 2020, if the US Dollar had weakened 10%. / strengthened by 10%. against the sterling, with all other variables held constant, the Company's post-tax profit for the year would increase by £20,000 / decrease by £20,000.

As at 31 December 2019, if the US Dollar had weakened 10%. / strengthened by 10%. against the sterling, with all other variables held constant, the Company's post-tax profit for the year would increase by £19,000 / decrease by £19,000.

As at 31 December 2020, if the Euro had weakened 8%. / strengthen by 8%. against the sterling with all other variables held constant, the Company's post-tax profit for the year would decrease by £10,000 / increase by £10,000.

As at 31 December 2019, if the Euro had weakened 8%. / strengthen by 8%. against the sterling with all other variables held constant, the Company's post-tax profit for the year would decrease by £9,000 / increase by £9,000.

As at 31 December 2020, the exposure to Singapore Dollars was immaterial.

As at 31 December 2019, if the Singapore Dollar had weakened 10%. / strengthen by 10%. against the sterling with all other variables held constant, the Company's post-tax profit for the year would decrease by £5,000 / increase by £5,000.

As at 31 December 2020, if the Hong Kong Dollar had weakened 10%. / strengthen by 10%. against the sterling with all other variables held constant, the Company's post-tax profit for the year would increase by £21,000 / decrease by £21,000.

As at 31 December 2019, the exposure to Hong Kong Dollars was immaterial.

(c) Pricing risk

Pricing risk is the market risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices.

At 31 December 2020, if market prices had been 20% higher / lower (2019: 20% higher / lower) with all other variables held constant, it has been estimated that the effect on post-tax profit for the year would have been an increase / decrease of £31,704,000 respectively (2019 : £21,132,000 respectively).

The underlying assumption made in the model used to calculate the effect on post-tax profits is that changes to the FTSE All Share Index correlate to changes in the Company's investment in debt securities.

Capital management

The Company has capital that is not required for the working capital requirements of the business. It is invested in debt securities, cash and intercompany balances. The objectives are to maintain a high level of liquidity and to optimise the return on investments while minimising the risk of capital losses.

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for the year ended 31 December 2020

13. Share capital

	2020 Number	2019 Number	2020 £'000	2019 £'000
Issued and fully paid:				
Ordinary share of £1 each	61,625,000	61,625,000	61,625	61,625

14. Related party transactions

Transactions between related parties

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

	2020				
	Interest receivable £'000	Interest payable £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent	-	(4,119)	-	-	(1,476,871)
Immediate parent	46	(28)	(11)	-	(654)
Other related companies within the Schroders Group	10,636	(3,202)	(1,531)	2,321,209	(997,457)
Total	**10,682**	**(7,349)**	**(1,542)**	**2,321,209**	**(2,474,982)**

	2019				
	Interest receivable £'000	Interest payable £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent	-	(8,498)	-	-	(1,445,076)
Immediate parent	142	(6)	(11)	-	(272)
Other related companies within the Schroders Group	38,942	(8,211)	(1,651)	2,278,980	(939,790)
Total	**39,084**	**(16,715)**	**(1,662)**	**2,278,980**	**(2,385,138)**

Transactions with Directors are described in note 3. The ultimate and immediate parent company is disclosed in note 16.

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.

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15. Commitments

In 2019, the Company entered into a revolving credit facility agreement with Schroder GAIA II Specialist Private Equity Fund ('the fund') whereby the Company commits to make available to the fund a revolving credit facility of an amount up to the lower of USD 40,000,000 and 25% of the net asset value of the fund for a period of two years from the launch of the fund.

As at 31 December 2020 the facility had not been used.

16. Ultimate and immediate parent company

The Company's immediate parent company is Schroder Financial 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 at www.schroders.com.