Schroders

# Annual Report and Accounts 2021

## Schroder Pension Management Limited

Year ended 31 December 2021

**Registered Number: 05606609**

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# Officers and professional advisers

### Directors

Paul Forshaw
James Grant
David Heathcock
Stephen Reedy
Calum Thomson
Derek Wright

### 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

### Chief Actuary

John Hoskin
Barnett Waddingham
2 London Wall Place
123 London Wall
London
EC2Y 5AU

# Strategic report

The Directors present their Strategic report on Schroder Pension Management Limited (the 'Company') for the year ended 31 December 2021.

### Results and Review of the business

The profit for the year after tax was £888,000 (2020: £1,019,000).

In the year ended 31 December 2021 there was a decrease in revenue due to a change in the product mix of the business and operating expenses decreased due to a fall in expenses for asset management services rendered. This resulted in a profit before tax of £1,104,000 (2020: £1,259,000).

The principal activity of the Company is providing investment management services under life company regulations and a range of funds for institutional policyholders. Institutional policyholders comprise defined benefit and defined contribution occupational pension schemes.

The Company's investment and operating principles are expected to remain unchanged in 2022.

The Directors consider the results and the Company's financial position at 31 December 2021 to be satisfactory.

Economic uncertainty driven by the Covid-19 pandemic and the UK/EU relationship remained a risk in 2021. The Covid-19 pandemic continues to have an effect on many aspects of people's lives and continues to impact investor sentiment.

The Schroders plc Group ('the Group') has remained resilient throughout the pandemic and there has been no significant impact on business operations. While the ongoing effects of the pandemic are unclear, the Company as part of the Group remains well placed to weather future challenges.

### 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's principal decision during the year was to approve the payment of an interim 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 Solvency Coverage Ratio for the Company would remain within its capital management policy limits, and considered that the payment was in the best interests of its stakeholders as a whole.

During 2021, the Company was required to approve a Slavery and Human Trafficking statement. Following engagement, the Board agreed to approve the Group's statement rather than produce its own, in order to align with the Group approach and meet the standards of jurisdictions with the most stringent criteria.

# Strategic report

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 2021 (the 'Schroders Report').

### Principal risks and uncertainties

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

### Key performance indicators

The Director's 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 of 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:

Benjamin Hanley, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
10 March 2022

# Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2021. 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 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 the Directors declared an interim dividend of £1.0m (2020: £1.2m) which was paid to the member of the Company on 21 October 2021.

No final dividend in respect of the year ended 31 December 2021 is currently proposed (2020: £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 "Key risks and mitigations" in the Strategic report and "Risk and internal controls" within the Governance section of the Schroders Report. The Company's specific risk exposures to financial instruments are explained in note 13 to the 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 throughout the year are set out on page one. No changes to the directors took place between 1 January 2021 and 10 March 2022.

### 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 (2020: none).

# Directors' report (continued)

### 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, the current auditors, Ernst & Young LLP ('EY'), are deemed to be reappointed for the next financial year.

To the best of the Directors' knowledge, there is no relevant audit information of which EY is unaware. Each of the Directors has taken all reasonable steps that ought to have been taken by him or her as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of such information.

### Streamlined Energy and Carbon Reporting (SECR)

The Schroders Report includes the energy and carbon information for the Group, including the Company as a subsidiary undertaking under the SECR framework.

### Statement of corporate governance arrangements

As a subsidiary undertaking, the Company applies the UK Corporate Governance Code where applicable to support Schroders plc's overall compliance 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 in the United Kingdom.

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 UK-adopted international accounting standards. 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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK-adopted international accounting standards 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.

# Directors' report (continued)

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:

Benjamin Hanley, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
10 March 2022

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No.
05606609

# Independent auditors' report to the member of Schroder Pension Management Limited

## Opinion

We have audited the financial statements of Schroder Pension Management Limited (the 'Company') for the year ended 31 December 2021 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 (except for the capital management sections of note 13 which are marked as unaudited), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 ('FRC') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## Conclusions relating to going concern

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. To evaluate the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting, we have:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers 12 months from the date of approval of the financial statements;
- evaluated the assumptions used in management's forecast which forms the basis for management's going concern assessment and determined that the forecast provided an appropriate basis for management to assess the going concern of the company;
- evaluated the assumptions used in management's stress testing and assessed the conclusions reached;

# Independent auditors' report to the member of Schroder Pension Management Limited

- performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed minutes of meetings of the Board and its committees; and

- assessed the appropriateness of the going concern disclosures by comparing them to management's assessment for consistency and for compliance with the relevant reporting requirements.

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 approved.

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.

### Overview of our audit approach

| | |
|---|---|
| Key audit matter | • Risk of Management Override specifically around revenue recognition |
| Materiality | • Overall materiality of £518k which represents 2% of Net assets. |

### An overview of the scope of our audit

### Tailoring the scope

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

### Climate change

The Company has determined that the majority of its climate-related risk lies in the assets they manage on behalf of their clients. This is primarily explained on page 3 in the principal risks and uncertainties, which form part of the 'Other information'. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appear to be materially misstated.

# Independent auditors' report to the member of Schroder Pension Management Limited

As explained in Basis of preparation on page 20, climate risks have been considered in the preparation of the financial statements where management consider it appropriate. The principal area of consideration by management is the measurement of financial assets.

Our audit effort in considering climate change was focused on assessing whether the effects of potential climate risks have been appropriately reflected by management in the measurement of financial assets.

### Key audit matters

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

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Risk of Management Override specifically around revenue recognition (£38.4 million, 2020 £39.7 million)**<br><br>*Refer to Note 2 of the Financial* Statements *(page 20)*<br><br>The auditing standards, specifically ISA (UK) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements ('ISA (UK) 240'), mandate the consideration of the risk of management override of controls as a significant risk. Our assessment suggests that the areas in which management override of controls has the greatest risk of arising are in the recognition of revenue.<br><br>There is a risk that pressure to meet operational targets within Schroders Plc group of companies could increase the | As part of our audit procedures we have:<br><br>► Understood, assessed and tested the design and operating effectiveness of key controls in respect of the management recording of revenue, both at the Company and at the third party administrators, through the inspection of Service Organisation Controls ('SOC1') reports.<br><br>► Performed substantive testing procedures on a sample of management fee transactions and reconciled the fees charged to contracts.<br><br>► Performed substantive testing procedures on a sample of performance fees revenue by | Based on the results of our procedures performed we have not identified any issues related to management override over revenue recognition. Revenue, specifically management fees and performance fees, is recorded in line with the applicable accounting framework and is materially correct for the year ended 31 December 2021. |

# Independent auditors' report to the member of Schroder Pension Management Limited

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| risk of management override on revenue recognition. | reconciling the inputs used in the performance fee calculations to accounting records, third party sources and legal agreements; recalculating the value of the fee; and tracing the amounts invoiced to the recorded revenue.<br>► Performed revenue cut-off procedures to test, on a sample basis, whether revenue is recognised in the correct period.<br>► Performed journal entry testing to identify any unusual or significant journals impacting the recognised revenue.<br>► Performed testing on material manual entries to revenue, including policyholder activity, reconciling the total amount to a third-party report. | |

### Prior year comparison

There has been no change to our key audit matter in comparison with the prior year.

### Our application of materiality

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

# Independent auditors' report to the member of Schroder Pension Management Limited

### Materiality

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

We determined materiality for the Company to be £518k (2020: £525k), which is 2% (2020: 2%) of net assets. We believe net assets to be the GAAP measure that is the most appropriate basis to determine materiality for the Company

During the course of our audit, we reassessed initial materiality based on 31 December 2021 financial statement amounts and adjusted our audit procedures accordingly.

### Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that performance materiality was 75% (2020:75%) of our planning materiality, namely £389k (2020: £394k). We have set performance materiality at this level based on our understanding of the company and experience from the prior year audit as to the likelihood of misstatements and the effectiveness of the control environment and accounting processes.

### Reporting threshold

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

We agreed with the Board of Directors that we would report to them all uncorrected audit differences in excess of £26k (2020: £26k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

### Other information

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

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.

# Independent auditors' report to the member of Schroder Pension Management Limited

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 this gives rise to a material misstatement in the financial statements themselves 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 the 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 the 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.

# Independent auditors' report to the member of Schroder Pension Management Limited

### 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 Company 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 reporting framework (UK-adopted international accounting standards and the Companies Act 2006) and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the relevant Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') rules and regulations.

- We understood how the Company is complying with those frameworks by making enquiries of senior management. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by management to manage or influence the results. 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 senior management monitors these controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

# Independent auditors' report to the member of Schroder Pension Management Limited

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

### Other matters we are required to address

- We were appointed by the Company on 9 March 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 December 2018 to 31 December 2021.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

- The audit opinion is consistent with the Audit Results Report to Board.

# Independent auditors' report to the member of Schroder Pension Management Limited

### Use of our report

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 March 2022

# Income statement

## for the year ended 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| Revenue | 2 | 38,401 | 39,657 |
| Net gains on financial instruments and other income | 3 | 1,025,363 | 1,037,177 |
| **Net income** | | **1,063,764** | **1,076,834** |
| Operating expenses | 4 | (37,323) | (38,535) |
| Change in policyholder liabilities: investment contracts | 12(a) | (1,025,337) | (1,037,040) |
| **Operating profit and profit before tax** | | **1,104** | **1,259** |
| Income tax expense | 5(a) | (216) | (240) |
| **Profit after tax** | | **888** | **1,019** |

# Statement of comprehensive income

## for the year ended 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| Profit after tax for the year | | 888 | 1,019 |
| **Total comprehensive income for the year, net of tax** | | **888** | **1,019** |

# Statement of financial position

**as at 31 December 2021**

| | Note | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 381,219 | 278,266 |
| Trade and other receivables | 7 | 46,156 | 44,039 |
| Financial assets | | | |
| Financial assets held to cover investment contract liabilities | 8(a) | 10,062,983 | 9,453,113 |
| Other financial assets | 8(b) | 15,678 | 15,677 |
| Current tax asset | | 973 | 1,256 |
| **Total assets** | | **10,507,009** | **9,792,351** |
| **Liabilities** | | | |
| Trade and other payables | 9 | 37,735 | 36,684 |
| Deferred tax liability | 10 | 32 | 30 |
| Current tax liability | | 214 | 229 |
| Financial liabilities | | | |
| Investment contracts | 12(a) | 10,439,830 | 9,727,606 |
| Derivative contracts | 12(b) | 3,253 | 1,745 |
| **Total liabilities** | | **10,481,064** | **9,766,294** |
| **Net assets** | | **25,945** | **26,057** |
| **Total equity** | | **25,945** | **26,057** |

The financial statements on pages 15 to 41 were approved by the Board of Directors on 10 March 2022 and signed on its behalf by:

**James Grant**
Director

# Statement of changes in equity

## for the year ended 31 December 2021

| | 2021 | | |
|---|---|---|---|
| | **Share capital[1] £'000** | **Profit and loss reserve[2] £'000** | **Total equity £'000** |
| At 1 January | 20,500 | 5,557 | 26,057 |
| Profit for the year | - | 888 | 888 |
| **Total comprehensive income for the year net of tax** | **-** | **888** | **888** |
| Dividends | - | (1,000) | (1,000) |
| **Transactions with shareholder** | **-** | **(1,000)** | **(1,000)** |
| **At 31 December** | **20,500** | **5,445** | **25,945** |

| | 2020 | | |
|---|---|---|---|
| | Share capital[1] £'000 | Profit and loss reserve[2] £'000 | Total equity £'000 |
| At 1 January | 20,500 | 5,738 | 26,238 |
| Profit for the year | - | 1,019 | 1,019 |
| **Total comprehensive income for the year net of tax** | **-** | **1,019** | **1,019** |
| Dividends | - | (1,200) | (1,200) |
| **Transactions with shareholder** | **-** | **(1,200)** | **(1,200)** |
| **At 31 December** | **20,500** | **5,557** | **26,057** |

1 Share capital represents issued and fully paid ordinary shares at a par value of £1 each. See note 14 to the accounts.

2 The profit and loss reserve represents accumulated comprehensive income for the year and prior periods, and transactions with shareholders.

# Cash flow statement

**for the year ended 31 December 2021**

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 1,104 | 1,259 |
| **Adjustments for statement of financial position movements:** | | | |
| Increase in trade and other receivables | | (3,117) | (5,017) |
| Increase in financial assets held to cover investment contract liabilities[1] | | (609,870) | (15,076) |
| Increase/(decrease) in trade and other payables | | 1,051 | (6,632) |
| Increase/(decrease) in investment contract liabilities | | 712,224 | (86,500) |
| Increase/(decrease) in other financial liabilities | | 1,508 | (1,388) |
| Increase in other financial assets | | (1) | (71) |
| **Adjustments for which the cash effects are investing activities:** | | | |
| Interest received | | (21) | (61) |
| **Cash generated/(used in) from operating activities** | | **102,878** | **(113,486)** |
| Tax received | | 54 | 8,922 |
| **Net cash generated/(used in) from operating activities** | | **102,932** | **(104,564)** |
| **Investing activities** | | | |
| Loan repaid by another Group company | | 1,000 | 1,200 |
| Interest received | | 21 | 61 |
| **Net cash from investing activities** | | **1,021** | **1,261** |
| **Financing activities** | | | |
| Dividends paid | | (1,000) | (1,200) |
| **Net cash used in financing activities** | | **(1,000)** | **(1,200)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **102,953** | **(104,503)** |
| Opening cash and cash equivalents | | 278,266 | 382,769 |
| Net increase/(decrease) in cash and cash equivalents | | 102,953 | (104,503) |
| **Closing cash and cash equivalents** | 6 | **381,219** | **278,266** |

[1] Includes £12.6 million (2020: £12.6 million) of dividend income received and £10.5 million (2020: £11.3 million) of interest income received. Both of these amounts are attributable to policyholders.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 1. Presentation of the financial statements

Financial information for the year ended 31 December 2021 is presented in accordance with International Accounting Standard ('IAS') 1 Presentation of Financial Statements.

### Basis of preparation

The individual financial statements are prepared in accordance with UK-adopted international accounting standards.

The financial statements are presented in sterling (£) rounded to the nearest thousand except where otherwise stated. The Company's functional currency is the same as presentation currency.

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 financial instruments that are held at fair value through profit or loss. 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, which is at least 12 months from the date the Annual Report and Accounts is signed.

The Company's principal accounting policies have been consistently applied. The preparation of financial statements in accordance with UK-adopted international accounting standards 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.

Climate risks have been considered in the preparation of these financial statements where relevant. The principal area of focus relates to the valuation of financial instruments. The majority of the Company's financial assets are measured at fair value based on traded prices or market observable inputs that incorporate potential climate risks where appropriate. Unit-linked liabilities are measured at fair value with reference to the valuation of the underlying investments which include consideration of climate risk.

Schroder Pension Management Limited is a private limited company (No. 05606609) registered in England and Wales, limited by shares. The registered office is 1 London Wall Place, London EC2Y 5AU.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 1. Presentation of the financial statements (continued)

### Future accounting developments

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

## 2. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured. Management 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 arrangements when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised where there is deemed to be a low probability of a significant reversal in future periods. Performance fees are typically earned over one year and are recognised at the end of the performance period.

Revenue comprises:

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Management fees | 38,103 | 38,967 |
| Performance fees | 298 | 690 |
| | **38,401** | 39,657 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 3. Net gains on financial instruments and other income

*Gains and losses on financial instruments*
Gains or losses on investments held at fair value through profit or loss, together with transaction costs, are recognised within 'Net income' in the income statement. Such gains or losses include distributions from funds.

Interest comprises amounts due on the Company's investment capital and temporary surpluses in the Company's cash accounts held with banks. Interest receivable is recognised using the effective interest method.

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Realised gain on financial assets held for policyholders | 1,012,744 | 713,702 |
| Unrealised gain on financial assets held for policyholders | 12,593 | 323,338 |
| Unrealised gain on other investments | 5 | 76 |
| Interest received from the loan to Schroders plc | 21 | 58 |
| Bank interest receivable | - | 3 |
| | **1,025,363** | 1,037,177 |

## 4. Operating expenses

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

| | | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| Fees payable for the audit of the company | | 110 | 107 |
| Fees payable for audit-related assurance services | | 50 | 48 |
| **Audit and non-audit fees** | | **160** | 155 |
| Expenses for asset management services rendered | (see note 15) | 36,873 | 38,124 |
| Other operating expenses | | 290 | 256 |
| **Operating expenses** | | **37,323** | 38,535 |

The average number of staff employed during the year was nil (2020: nil).

# Notes to the financial statements

**for the year ended 31 December 2021**

## 4. Operating expenses (continued)

### Directors' emoluments

The emoluments set out below are in respect of 2 (2020: 2) Directors whose emoluments were charged in full to the Company during the year. The emoluments of 4 (2020: 4) 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 that company. These Directors therefore receive no incremental emoluments for their services to the Company.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Aggregate emoluments | **60** | 60 |

No retirement benefits have accrued to Directors under a defined benefit scheme nor under a money purchase pension scheme with respect of their services to the Company.

During the year, no (2020: none) Directors became entitled to shares under the Equity Compensation Plan, the Deferred Award Plan or Equity Incentive Plan, with respect to their services to the Company.

### 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:

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Short-term benefits | **69** | 69 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 5. 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 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).

### (a) Analysis of expense in the year

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| **Current tax:** | | |
| Current year charge | 214 | 229 |
| Adjustments in respect of prior years | - | 10 |
| **Total current tax expense for the year** | **214** | **239** |
| | | |
| **Deferred tax:** | | |
| Origination and reversal of temporary differences | (4) | (2) |
| Impact of changes in UK corporation tax rate | 6 | 3 |
| **Total deferred tax charge** | **2** | 1 |
| | | |
| **Total income tax expense for the year** | **216** | 240 |

### (b) Factors affecting tax charge for the year

The UK standard rate of corporation tax is 19 per cent (2020: 19 per cent.)
The tax charge for the year is higher (2020: higher) than the UK standard rate of corporation tax for the period of 19 per cent. The differences are explained below:

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| **Profit before income tax** | **1,104** | 1,259 |
| Profit before income tax multiplied by corporation tax at the UK effective rate of 19% (2020: 19%) | 210 | 239 |
| Non-taxable income net of disallowable expenses | - | (12) |
| Adjustments in respect of prior year | - | 10 |
| Impact of changes in UK corporation tax rate | 6 | 3 |
| **Total income tax expense for the year** | **216** | 240 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 6. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, including those related to policyholders.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents | **381,219** | 278,266 |

The amount of cash beneficially owned by policyholders and not available for use by the company is set out in note 8.

## 7. Trade and other receivables

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

These represent amounts the Company is due to receive from third parties in the normal course of business. This includes fees as well as settlement accounts (redemption proceeds due from funds or fund subscriptions due from investors). 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 net of impairment calculated under the expected loss model.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Fee debtors | 517 | 922 |
| Settlement accounts | 20,491 | 18,881 |
| Amounts owed by related parties (see note 15) | 2,835 | 3,932 |
| Accrued income | 22,307 | 20,299 |
| Other debtors | 6 | 5 |
| | **46,156** | 44,039 |

Gross carrying value for trade and other receivables is £46.2m (2020: £44.0m) and expected credit losses are £0.01m (2020: £0.01m).

The Company's trade and other receivables are all current. Further details on the Company's fee debtors is set out in note 13 (financial instrument risk management). The amount of trade and other receivables beneficially owned by policyholders is set out in note 8.

The interest-bearing loan to Schroders plc is classified at amortised cost and measured initially at fair value net of direct issue costs and subsequently at amortised cost using the effective interest rate net of impairment calculated under the expected loss model, and was £2.8 million at 31 December 2021 (31 December 2020: £3.8 million).

The carrying value of the Company’s trade and other receivables approximates their fair value.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 8. Financial assets

### (a) Financial assets – investments held to cover investment contract liabilities

**Financial assets**

Items included within this caption on the face of the Statement of financial position principally comprise investments in collective investment schemes, debt securities, equities and derivative instruments. It excludes financial assets held to cover investment contract liabilities that are recorded under the following headings:

- Trade and other receivables (Note 7) ; and
- Cash and cash equivalents (Note 6).

Separate accounting policies are presented in respect of these excluded items. The amount of these assets, gross of trade and other payables and financial liabilities beneficially owned by policyholders, are set out later in the note.

Information about, and the accounting policy for, derivative contracts is included within note 12(b). Financial assets are classified as fair value through profit or loss, and are considered 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.

Investments are initially recognised at fair value, being the consideration given. After initial recognition, the investments are measured at fair value at the year-end date.

Derivative contracts are included at fair value at the year-end date within ‘Financial assets’ or ‘Financial liabilities’.

For investments that are actively traded in organised financial markets, fair value is determined by reference to official quoted market 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.

**Estimates and judgements**

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.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 8. Financial assets (continued)

### (a) Financial assets – investments held to cover investment contract liabilities (continued)

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Financial assets backing unit linked policyholders liabilities | 10,052,041 | 9,441,146 |
| Derivative contracts: forward foreign exchange contracts | 4,648 | 6,204 |
| Equity derivative contracts | 6,294 | 5,763 |
| **Financial assets held to cover investment contract liabilities** | **10,062,983** | 9,453,113 |

As is common practice in the industry, the Company has granted floating charges over its long-term insurance assets to its reinsured policyholders (i.e. other insurance companies). The floating charges convert into fixed charges in the event of the insolvency of the Company. The charge ensures that such policyholders rank equally with direct policyholders in the event of the insolvency or wind-up of the Life Company.

The Company provides investment products through a life assurance wrapper. The investment products do not provide cover for insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities.

Other assets and liabilities held to cover investment contract liabilities are included within the statement of financial position in the relevant financial statement line items.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents | 370,903 | 269,346 |
| Trade and other receivables | 24,945 | 22,924 |
| Financial assets held to cover investment contract liabilities | 10,062,983 | 9,453,113 |
| Trade and other payables | (15,748) | (16,032) |
| Other financial liabilities | (3,253) | (1,745) |
| **Total net assets held to cover investment contract liabilities** | **10,439,830** | 9,727,606 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 8. Financial assets (continued)

### (b) Other financial assets not beneficially owned by policyholders

| | 2021 | |
|---|---|---|
| | **Fair value through profit or loss £'000** | **Total £'000** |
| Investment in authorised unit trust and other investments | **15,678** | **15,678** |

| | 2020 | |
|---|---|---|
| | **Fair value through profit or loss £'000** | **Total £'000** |
| Investment in authorised unit trust and other investments | 15,677 | 15,677 |

### (c) Fair value measurements

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities, daily priced funds, gilts and exchange-traded derivatives;
- 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 not included within Level 1 for the asset or liability and principally comprise corporate bonds and foreign exchange contracts. Valuation techniques may include using a broker quote in an inactive market, an evaluated price based on a compilation of primarily observable market information or industry standard calculations, utilising vendor fed data and information readily available via external sources. For funds not priced on a daily basis, e.g. real estate funds, the net asset value which is issued monthly or quarterly is used; 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 data.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 8. Financial assets (continued)

### (c) Fair value measurements (continued)

The Company regularly reviews the pricing basis for unquoted financial instruments. Changes to the pricing basis are used to determine whether transfers between levels of the fair value hierarchy have occurred. There were no transfers between levels during the period.

The Company's financial instruments at the year-end date are analysed as follows:

| **2021** | **Level 1 £'000** | **Level 2 £'000** | **Total £'000** |
|---|---|---|---|
| **Financial assets:** | | | |
| Backing unit linked policyholders liabilities | 9,845,544 | 206,497 | 10,052,041 |
| Derivative contracts | 6,294 | 4,648 | 10,942 |
| Other financial assets | 15,678 | - | 15,678 |
| | **9,867,516** | **211,145** | **10,078,661** |

| 2020 | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Financial assets: | | | |
| Backing unit linked policyholders liabilities | 9,371,916 | 69,230 | 9,441,146 |
| Derivative contracts | 5,763 | 6,204 | 11,967 |
| Other financial assets | 15,677 | - | 15,677 |
| | **9,393,356** | **75,434** | **9,468,790** |

The company did not hold any Level 3 financial assets during the year (2020: same).

# Notes to the financial statements

**for the year ended 31 December 2021**

## 9. Trade and other payables

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

These represent amounts the Company is due to pay to third parties in the normal course of business. This includes expenses as well as settlement accounts (subscription proceeds due to funds or fund redemptions due to investors). These payables are derecognised on payment of cash.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Settlement accounts | 20,673 | 19,092 |
| Trade creditors | 13,619 | 13,679 |
| Amounts owed to related parties (see note 15) | 3,172 | 3,674 |
| Accrued expenses | 271 | 239 |
| | **37,735** | 36,684 |

The Company's trade and other payables are all current and their carrying value approximates fair value. The amount of trade and other payables attributable to policyholders is set out in note 8.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 10. Deferred Tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They generally arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded in the accounts. A deferred tax asset represents a tax reduction that is expected to arise in a future period. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction.

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 year end date.

The UK corporation tax rate is currently 19%. The UK Chancellor announced in the March 2021 budget that the rate will increase to 25% from April 2023. The rate increase was substantively enacted in May 2021 and the UK deferred tax balances have been revalued accordingly.

The movement on the deferred tax account is as shown below:

### Deferred Tax Liabilities

| | **Temporary differences £'000** | **Total £'000** |
|---|---|---|
| **At 1 January 2021** | 30 | 30 |
| Charge to the income statement | (4) | (4) |
| Impact of changes in UK corporation tax rate | 6 | 6 |
| **At 31 December 2021** | **32** | **32** |

| | Temporary differences £'000 | Total £'000 |
|---|---|---|
| At 1 January 2020 | 29 | 29 |
| Charged to income statement | (2) | (2) |
| Impact of changes in UK corporation tax rate | 3 | 3 |
| At 31 December 2020 | 30 | 30 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 11. Interests in unconsolidated structured entities

The Company has interests in structured entities as a result of its principal activity, the management of assets on behalf of its unit-linked policyholders and through investments made for other purposes. The Company earns fees from managing assets which are held within structured entities, typically unitised vehicles, which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units by the Company on behalf of its policyholders. The management fees earned are based on a percentage of the entity's net asset value. Where contractually agreed, a performance fee, based on outperformance against predetermined benchmarks, may also be earned by the Company. The business activity of all structured entities is the management of assets in order to maximise investment returns from capital appreciation and/or investment income. Details of the size of interests in unconsolidated structured entities is included within note 28 of the Schroders Report.

The main risk the Company faces from its interests in unconsolidated structured entities is the loss of fee income as a result of the withdrawal of funds by policyholders, or a reduction in the net asset value of assets managed through market movements. Outflows from funds are largely dependant on market sentiment and asset performance. Except for other investments which are held for capital management purposes, the Company has no exposure to capital losses in relation to its holding in units in funds as the risks and rewards associated with its investments are borne by the third party unit-linked policyholders.

The following table summarises the carrying values recognised in the statement of financial position of the Company's interests in unconsolidated structured entities:

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Financial assets held to cover investment contract liabilities | 8,481,194 | 8,275,286 |
| Other investments | 15,678 | 15,677 |
| **Total** | **8,496,872** | 8,290,963 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 12. Financial liabilities

### (a) Investment contracts

The Company's products are classified for accounting purposes as investment contracts as they do not transfer significant insurance risks and therefore do not meet the insurance contract definition under IFRS 4 Insurance Contracts. The Company's investment contracts are unit-linked contracts. Unit-linked liabilities are measured at fair value by reference to the unit price of the Company's unitised investment funds at the year-end date. Accordingly the assets and liabilities attributable to investment contract liabilities are both recorded at fair value, with gains and losses recorded in the income statement in the year in which they arise.

Amounts collected as premiums are not included in the income statement but are reported as contributions to investment contract liabilities in the statement of financial position. Claims are not included in the income statement but are deducted from investment contract liabilities.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Unit-linked liabilities | **10,439,830** | 9,727,606 |

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| **At 1 January** | 9,727,606 | 9,814,106 |
| Premiums received | 3,225,669 | 1,963,835 |
| Claims | (3,512,078) | (3,057,752) |
| Investment return | 1,025,337 | 1,037,040 |
| Management charges | (26,704) | (29,623) |
| **At 31 December** | **10,439,830** | 9,727,606 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 12. Financial liabilities (continued)

### (b) Derivative contracts

Derivatives are held for risk management purposes. The Company actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Company. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. All derivative liabilities of £3.3m (31 December 2020: £1.7m) were held in respect of unit-linked liabilities (see note 8) and the investment returns associated with these contracts are borne by third party unit-linked policyholders.

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 of credit risk.

Equity contracts are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchase in consideration for the assumption of equity risk. As the fair value of the contracts are derived from quoted prices, these are classified as Level 1 financial liabilities.

Forward foreign exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The maximum exposure to credit risk is represented by the fair value of the contracts. The prices used to derive the fair value are not traded in an active market, therefore these contracts are classified as Level 2 financial liabilities.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Equity contracts | 701 | 103 |
| Forward foreign exchange contracts | 2,552 | 1,642 |
| | **3,253** | 1,745 |

Financial liabilities are recorded at the fair value of the liability. As with financial assets, the financial liabilities are categorised within one of three levels using a fair value hierarchy; the definitions for the three levels are set out in note 8(c).

The Company's financial liabilities at the year-end date are analysed as follows:

| **2021** | **Level 1** **£'000** | **Level 2** **£'000** | **Total** **£'000** |
|---|---|---|---|
| **Financial liabilities:** | | | |
| Investment contracts | 10,439,830 | - | 10,439,830 |
| Derivative contracts | 701 | 2,552 | 3,253 |
| | **10,440,531** | **2,552** | **10,443,083** |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 12. Financial liabilities (continued)

| 2020 | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Financial liabilities: | | | |
| Investment contracts | 9,727,606 | - | 9,727,606 |
| Derivative contracts | 103 | 1,642 | 1,745 |
| | **9,727,709** | **1,642** | **9,729,351** |

The Company did not hold any Level 3 financial liabilities during the year (2020: same).

Amounts under investment contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolios to enable liabilities to policyholders to be met as they fall due. Accordingly a maturity analysis has not been presented.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 13. 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 Governance section and in note 20 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 holdings in assets other than those allocated to the investment contracts where the risk is that a counterparty will be unable to pay in full amounts when due. The Company has negligible exposure to credit risk in relation to financial assets allocated to the investment contracts as the risk is principally borne by policyholders. Additionally the Company has fee debtor balances, cash and other investments. These are monitored regularly. Historically there have been no defaults.

Fee debtors are monitored regularly and unless a client has withdrawn funds, there is an ongoing relationship between the Company and the client. The Company's fee debtors that are past due as at 31 December 2021 are presented below.

| | **2021**<br>**£'000** | 2020<br>£'000 |
|---|---|---|
| Older than 30 days not older than 45 days | - | - |
| Older than 45 days not older than 60 days | 71 | 749 |
| Older than 60 days not older than 90 days | - | - |
| Older than 90 days not older than 120 days | - | - |
| Older than 120 days not older than 180 days | - | 148 |
| Older than 180 days | 4 | 6 |
| | **75** | 903 |

The credit risk attributable to settlement accounts is 100% of the nominal amount involved. However, the period of exposure is very short and the majority of the counterparties are unit trusts managed by the Schroders Group.

The Company may liquidate its investments on demand. The Company has negligible exposure to credit risk in relation to the investments beneficially owned by policyholders as the risks and rewards associated with its investments are borne by the third party unit-linked policyholders and not by the Company itself.

The Company's own cash and cash equivalents are held with institutions which are at least A rated (2020: A rated).

# Notes to the financial statements

**for the year ended 31 December 2021**

## 13. Financial instrument risk management (continued)

### 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 reasonable demand for liquidity. The Company has invested some of its capital in current asset investments that could be liquidated to meet unexpected demands for liquidity. The Company has a £2.8 million loan to its ultimate parent undertaking which is repayable on demand.

Liquidity risk in relation to the financial instruments of the life fund is principally borne by policyholders. When policyholders withdraw funds from the Company and, if in the Company's reasonable opinion it is required, the Company may delay payment by up to 30 days.

The financial liabilities of £10,443.1m (31 December 2020: £9,729.4m) are all due to mature within one year (2020: same).

### Interest rate risk

Interest rate risk is the market risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. Sensitivity analysis is provided below applying reasonably likely changes in interest rates.

At 31 December 2021, if Bank of England interest rates had been 100 basis points higher or 75 basis points lower (2020: 15 basis points higher or 35 basis points lower) with all other variables held constant, it has been estimated that the post-tax profit for the year would have been £230,000 higher / £173,000 lower (2020: £43,000 higher / £99,000 lower), mainly as a result of higher/lower interest income on cash balances and the intercompany loan. Other components of equity would have been unaffected.

The following underlying assumption was made in the model used to calculate the effect on post-tax profits:

- The fair values of assets and liabilities will not be affected by a change in interest rates.
- Funds will be reinvested in similar variable interest bearing debt securities on maturity.

### Foreign exchange risk

The Company holds financial instruments in foreign currencies relating to the life funds which are completely matched by the investment contracts. In addition, the Company has some minimal foreign currency exposure through its other financial assets holdings and trade and other payables. Therefore the Company has no material exposure in this area.

# Notes to the financial statements

**for the year ended 31 December 2021**

## 13. Financial instrument risk management (continued)

### Pricing risk

Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than those arising from interest rate or currency risk. The Company holds financial instruments relating to the life funds which are completely matched by the investment contracts and therefore do not represent a financial instrument risk to the Company.

The Company holds a financial asset investment that is unhedged, however this is a money market fund and accordingly the Company is not exposed to material price risk on this investment at 31 December 2021 (2020: same).

### Capital management (unaudited)

The Company has capital in excess of that required for the regulatory requirements of the business. It is invested in investment securities and cash. The objectives are to maintain a high level of liquidity and to optimise the return on investments while minimising the risk of capital losses.

The Company is authorised by the Prudential Regulation Authority (PRA) and is regulated by the PRA and Financial Conduct Authority (FCA). The FCA oversees the activities of the Company and the PRA ensures that the firm meets its Solvency II 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. The Group's Capital Committee regularly reviews this.

With effect from 1 January 2016 the Company was subject to regulatory capital requirements determined under the Solvency II regulations. The Company's draft capital resources at 31 December 2021 were £25.8 million (2020: £25.8million) and the draft solvency capital requirement was £7.1 million (2020: £7.1 million). The Company has complied at all times with all of the externally imposed regulatory capital requirements.

## 14. Share capital

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

| Issued and fully paid: | **2021 Number** | 2020 Number | **2021 £'000** | 2020 £'000 |
|---|---|---|---|---|
| At 1 January | 20,500,000 | 20,500,000 | 20,500 | 20,500 |
| **At 31 December** | **20,500,000** | 20,500,000 | **20,500** | 20,500 |

# Notes to the financial statements

**for the year ended 31 December 2021**

## 15. Related party transactions

### (a) Transactions between related parties

Transactions between the Company 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.

| | **2021** | | | |
|---|---|---|---|---|
| | **Income £'000** | **Expenses £'000** | **Amounts owed by related parties £'000** | **Amounts owed to related parties £'000** |
| **Ultimate parent** | 21 | - | 2,817 | - |
| **Other related companies within the Schroders Group** | 164 | (36,873) | 18 | (3,172) |

| | 2020 | | | |
|---|---|---|---|---|
| | Income £'000 | Expenses £'000 | Amounts owed by related parties £'000 | Amounts owed to related parties £'000 |
| Ultimate parent | 57 | - | 3,830 | - |
| Other related companies within the Schroders Group | 35 | (38,124) | 102 | (3,674) |

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. No expected credit loss (2020: none) has been recognised in respect of the amounts owed by related parties.

### (b) Other related party transactions

The Company operates Life funds which hold assets in unit trusts that are controlled by the Schroders Group. At 31 December 2021 the Company's investments in unit trusts controlled by the Schroders Group was £5,438,463,000 (2020: £6,731,471,000).

At 31 December 2021 the fair value of amounts due to related parties was £127.8 million (2020: £136.4 million).

# Notes to the financial statements

**for the year ended 31 December 2021**

## 16. Related undertakings

### (a) Ultimate parent company

The Company's immediate parent company is Schroder International Holdings Limited (incorporated in England and Wales), whose ultimate parent company and ultimate controlling party is Schroders plc (incorporated in England and Wales). The results of the Company are consolidated in the Annual Report and Accounts of Schroders plc, copies of which can be obtained from www.schroders.com.

### (b) Related undertakings arising from the Company's interests in structured entities

The Company's related undertakings also include funds in which it holds investments as a result of its principal activity, the management of assets on behalf of its unit-linked policyholders. Due to the number of share classes or unit classes that can exists in these vehicles, a significant holding in a single share class or unit class is possible without that undertaking being classified as a subsidiary or associate.

# Notes to the financial statements

## for the year ended 31 December 2021

At 31 December 2021 the Company had a significant holding in the following funds:

| | Share/Unit Class | Holding in under-taking share/ unit class | Total holding in undertaking via share unit/class |
|---|---|---|---|
| **UK[1]** | | | |
| Schroder Global Equity | I Accumulation | 36% | 1% |
| Schroder Institutional Pacific | I Accumulation | 22% | 2% |
| Schroder European Fund | I Income | 34% | 0% |
| Schroder Institutional Pacific | I Income | 5%, | 1% |
| Schroder QEP Global Core | I Accumulation | 39% | 3% |
| Schroder Global Emerging Markets | A Accumulation | 62% | 39% |
| Schroder Long Dated Corporate Bond | I Accumulation | 46% | 12% |
| Schroder All Maturities Corporate Bond | I Accumulation | 22% | 2% |
| Schroder Sterling Broad Market Bond | I Accumulation | 38% | 4% |
| Schroder QEP Global Active Value | I Accumulation | 98% | 27% |
| Schroder Dynamic Multi Asset | Z Accumulation | 63% | 58% |
| Schroder Diversified Growth | I Accumulation | 93% | 93% |
| Schroder Institutional UK Smaller Companies | X Accumulation | 100% | 5% |
| Schroder Global Energy Transition | S Accumulation | 47% | 2% |
| Schroder Sustainable Multi-Factor Equity | X Accumulation | 87% | 69% |
| Schroder Institutional Pacific | I Accumulation GBP Hedged | 100 | 61% |
| Schroder UK Multi-Cap Income Fund | X Accumulation | 9% | 8% |
| Schroder QEP Global Emerging Markets | I Accumulation | 92% | 90% |
| Schroder ISF Carbon Neutral Credit | I Accumulation GBP Hedged | 100 | 41% |
| Schroder Global Sovereign Bond Tracker Component Fund | X Accumulation | 65% | 24% |
| Schroder Global Sovereign Bond Tracker Component Fund | I Accumulation | 40% | 25% |
| Schroder Global Corporate Bond Managed Credit Component Fund | X Accumulation | 43% | 9% |
| Schroder Global Corporate Bond Managed Credit Component Fund | I Accumulation | 18% | 14% |
| Schroder Global Equity Component Fund | X Accumulation | 89% | 89% |
| Schroder Multi Asset Total Return | X Accumulation | 99% | 66% |
| **Luxembourg[2]** | | | |
| Schroder ISF European Sustainable Equity | I Accumulation | 42% | 33% |
| Schroder ISF Global Sustainable Convertible Bond | I Accumulation | 17% | 12% |
| Schroder ISF Global Sustainable Growth | I Accumulation GBP | 60% | 8% |
| Schroder ISF Emerging Markets Equity Impact | I Accumulation | 46% | 45% |
| Schroder ISF Global Sustainable Food and Water | I Accumulation | 10% | 9% |
| Schroder ISF BlueOrchard Emerging Markets Climate Bond | I Accumulation | 20% | 18% |

**Registered office:**
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