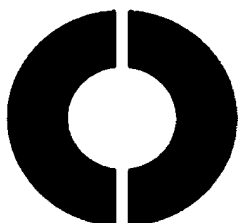


Schroders



Annual Report and Accounts 2018

**Schroder Financial Services
Limited**

Year Ended 31 December 2018



Registered Number: 01899690

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Officers and professional advisers

Directors

Tim McCann
Wayne Mepham
Nicholas Taylor

Secretary

Schroder Corporate Services Limited

Registered Office

1 London Wall Place
London
EC2Y 5AU

Independent Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Strategic report

The Directors present their Strategic report on Schroder Financial Services Limited (the Company) for the year ended 31 December 2018.

Results and Review of the business

The profit for the year after tax was £24.4 million (2017: £37.7 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 2019.

The Directors consider the results and the Company's financial position at 31 December 2018 to be satisfactory.

On 29 March 2017, the British government invoked Article 50 beginning the two year countdown to the United Kingdom withdrawing from the European Union. Negotiations continue but much uncertainty remains and there are a range of possible outcomes and timeframes for many aspects of the UK's exit. The Schrodgers Group (Group) is well positioned to manage the challenges that may arise as a result of Brexit. Whilst all the legal and regulatory challenges of Brexit are not yet clear, our structure provides us with flexibility in deciding how best to respond and continue to service our clients. We believe that the Company is well placed to weather these challenges and to adapt to ongoing changes in the political, economic and regulatory environment.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Schrodgers plc's other subsidiary undertakings which, with Schrodgers 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 Schrodgers plc annual report and accounts for the year ended 31 December 2018 (the 'Schrodgers Report'). The Schrodgers 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 Schrodgers Report. The Schrodgers 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 2019

Directors' report (continued)

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018. 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.

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 the foreseeable future, which is at least 12 months from the date the Annual Report and Accounts is signed. For this reason the Directors continue to adopt the going concern basis in preparing the 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 Auditors and disclosure of information to independent Auditors

During the year, Ernst & Young LLP ('EY') was appointed as external auditor of the Company in accordance with section 487 of the Companies Act 2006. 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, EY will be 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 Directors' responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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 2019

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No: 01899690

Independent auditors' report to the member 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 2018 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 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Reporting on other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

Schroders

Independent auditors' report to the member of Schroder Financial Services Limited

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 4, 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.

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: 14 March 2019



Income statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net gains / (losses) on financial instruments and other income	3	615	(250)
Dividends from subsidiary undertakings	3	-	14,300
Gain on liquidation of subsidiaries		-	3,850
Operating expenses	3	(2,154)	(539)
Operating (loss) / profit		(1,539)	17,361
Finance income	3	44,405	31,012
Finance charges	3	(12,805)	(6,023)
Net finance income		31,600	24,989
Profit before tax		30,061	42,350
Tax charge	4	(5,706)	(4,660)
Profit after tax		24,355	37,690

Statement of comprehensive income

for the year ended 31 December 2018

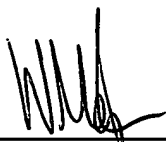
	2018 £'000	2017 £'000
Profit after tax	24,355	37,690
Profit and total comprehensive income for the year, net of tax	24,355	37,690

Statement of financial position

as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Cash and cash equivalents	5	75,992	188,538
Trade and other receivables	6	2,203,375	1,954,090
Financial assets	7	212,891	205,844
Total assets		2,492,258	2,348,472
Liabilities			
Corporation tax		5,712	4,658
Trade and other payables	9	2,335,595	2,214,979
Financial liabilities	10	583	1,142
Total liabilities		2,341,890	2,220,779
Net assets		150,368	127,693
Total Equity		150,368	127,693

The financial statements on pages 7 to 26 were approved by the Board of Directors on 11 March 2019 and were signed on its behalf by:



Wayne Mepham
Director

Registered Number: 01899690

Statement of changes in equity

for the year ended 31 December 2018

	Share ¹ capital £'000	Profit and ² loss reserve £'000	Total £'000
At 1 January 2018	61,625	66,068	127,693
Restatement on adoption of IFRS 9	-	(1,680)	(1,680)
At 1 January 2018 (restated)	61,625	64,388	126,013
Profit for the year	-	24,355	24,355
Total comprehensive income for the year, net of tax	-	24,355	24,355
At 31 December 2018	61,625	88,743	150,368

for the year ended 31 December 2017

	Share ¹ capital £'000	Profit and ² loss reserve £'000	Total £'000
At 1 January 2017	61,625	28,378	90,003
Profit for the year	-	37,690	37,690
Total comprehensive income for the year, net of tax	-	37,690	37,690
At 31 December 2017	61,625	66,068	127,693

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

²The 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 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Operating (loss) / profit		(1,539)	17,361
Increase in trade and other receivables		(250,058)	(329,729)
Increase in trade and other payables		122,057	287,332
Purchase of financial instruments		(657,000)	(402,000)
Gain on liquidation of subsidiary		-	(3,850)
Proceeds from sale of financial instruments		649,721	304,697
Adjustment for non-cash expenses		(1,680)	-
Net (gains) / losses on financial instruments held at fair value through profit or loss		(327)	2,221
		(138,826)	(123,968)
Tax paid		(4,652)	(4,187)
Net cash (used in) operating activities		(143,478)	(128,155)
Investing activities			
Disposal of subsidiaries		-	5,850
Interest received		45,178	29,367
Interest paid		(14,246)	(3,617)
Net cash from investing activities		30,932	31,600
Net decrease in cash and cash equivalents		(112,546)	(96,555)
Opening cash and cash equivalents		188,538	285,093
Net decrease in cash and cash equivalents		(112,546)	(96,555)
Closing cash and cash equivalents	5	75,992	188,538

Notes to the financial statements

for the year ended 31 December 2018

1. Presentation of financial statements

Financial information for the year ended 31 December 2018 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 Financial Reporting Standards ('IFRS'), which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and 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 conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes below.

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.

The Company has initially applied IFRS 9 from 1 January 2018. Due to the transition methods chosen by the Company in applying this new standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has applied IFRS 9 retrospectively, with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Comparatives were not restated.

The only standard or interpretation relevant to the Company that had been issued but not yet adopted at the year end was; IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. The Company has assessed the impact of IFRIC 23 and does not expect it to have a material impact when it becomes effective on 1 January 2019.

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

Schroders

Notes to the financial statements

for the year ended 31 December 2018

2. Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies 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 have 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 gains / (losses) 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 gains / (losses) 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 gains / (losses) 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 debt securities, 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 2018

3. Revenue and expenses (continued)

	2018 £'000	2017 £'000
Included in net gains / (losses) on financial instruments and other income:		
Net (losses) / gains on foreign exchange	(4,116)	5,188
Net gains / (losses) on financial assets and liabilities held at fair value through profit or loss	4,692	(5,438)
Other income	39	-
Net gains / (losses) on financial instruments and other income	615	(250)
Included in operating expenses:		
Fees payable for the audit of the Company	25	24
Included in finance income:		
Interest receivable on cash and cash equivalents	394	317
Interest receivable on financial assets at fair value through profit or loss	-	344
Interest receivable on balances due from Group companies	44,011	30,351
Finance income	44,405	31,012
Included in finance charges:		
Finance charges payable on loan facility with third parties	(546)	(1,224)
Interest payable on balances owing to Group companies	(12,259)	(4,799)
Finance charges	(12,805)	(6,023)

Directors' emoluments

The amounts set out below are in respect of one (2017: 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 (2017: two) 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.

	2018 £'000	2017 £'000
Aggregate emoluments	348	326
Company pension contributions to the defined contribution scheme	19	31
	367	357

Notes to the financial statements

for the year ended 31 December 2018

3. Revenue and expenses (continued)

In addition to the emoluments detailed, deferred amounts conditionally receivable by the Director was £nil (2017: £13,000).

Retirement benefits have accrued to no (2017: none) Directors under a defined benefit scheme and to one (2017: one) Director under a defined contribution pension scheme.

During the year, one (2017: one) Director became entitled to shares under the Group's Equity Compensation Plan and no (2017: no) Directors became entitled to shares under the Group's Equity Incentive Plan or Long Term Incentive Plan.

In respect of the highest paid Director, the aggregate emoluments and the amounts (excluding shares) received under the deferred incentive plans were £348,000 (2017: £339,000). In 2018 the Director did become entitled to shares under the Group's Equity Compensation Plan (2017: 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 (2017: £nil). The contribution to a defined contribution scheme was £19,000 (2017: £31,000).

Key management personnel compensation

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

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

	2018 £'000	2017 £'000
Short-term employee benefits	397	372
Share-based payments	15	15
Other long-term benefits	6	12
Post-employment benefits	19	31
	437	430

Notes to the financial statements

for the year ended 31 December 2018

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 2018 and 31 December 2017:

	2018 £'000	2017 £'000
Current tax:		
Current tax charge - corporation tax	5,712	4,658
Adjustments in respect of prior years	(6)	2
Tax charge reported in the income statement	5,706	4,660

(b) Factors affecting the tax charge for the year

The UK standard rate of corporation tax for the year was 19% (2017: effective rate of 19.25%).

The tax charge for the year is lower (2017: lower) than the UK standard rate of corporation tax for the year of 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before tax	30,061	42,350
Profit before tax multiplied by corporation tax at the UK standard rate of 19% (2017: 19.25%)	5,712	8,152
Effects of:		
Non-taxable UK dividend income	-	(2,753)
Other non-taxable income	-	(741)
Adjustments in respect of prior years	(6)	2
Total tax charge for the year	5,706	4,660

Notes to the financial statements

for the year ended 31 December 2018

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.

	2018 £'000	2017 £'000
Cash at bank and in hand	75,992	188,538

The book value of cash and cash equivalents approximates their fair value.

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.

	2018 £'000	2017 £'000
Accrued income	47	21
Amounts owed by related parties (see note 14)	2,203,328	1,954,069
	2,203,375	1,954,090

Gross carrying value for trade and other receivables is £2,205,139,000 (1 January 2018: £1,954,090,000) and expected credit losses are £1,764,000 (1 January 2018: £1,680,000). Expected credit losses as a percentage of gross carrying value is 0.08% (1 January 2018: 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 2018

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;
- Trade and other payables; and
- Investments in subsidiaries.

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.

	2018	2017
	Fair value through profit or loss £'000	Fair value through profit or loss £'000
Pooled investment vehicles	212,563	204,794
Derivative contracts (see note 11)	328	1,050
	212,891	205,844

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

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, certificates of deposits and commercial papers. 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.

	2018		
	Level 1 £'000	Level 2 £'000	Total £'000
Financial assets:			
Pooled investment vehicles	212,563	-	212,563
Derivative contracts	-	328	328
	212,563	328	212,891
	2017		
	Level 1 £'000	Level 2 £'000	Total £'000
Financial assets:			
Pooled investment vehicles	204,794	-	204,794
Derivative contracts	-	1,050	1,050
	204,794	1,050	205,844

No financial assets were transferred from level 1 to level 2 during 2018 or 2017. No financial assets were transferred from level 2 to level 1 during 2018 or 2017. There were no level 3 investments in 2018 or 2017.

Notes to the financial statements

for the year ended 31 December 2018

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 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:

	2018	2017
	£'000	£'000
Cash equivalents	57,000	171,191
Financial assets (see note 7)	212,563	204,794
Total	269,563	375,985

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 approximates their fair value.

	2018	2017
	£'000	£'000
Accruals	34	97
Amounts owed to related parties (see note 14)	2,335,561	2,214,882
	2,335,595	2,214,979

Notes to the financial statements

for the year ended 31 December 2018

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 / (losses) on financial instruments and other income' in the income statement.

	2018	2017
	£'000	£'000
Derivative contracts (see note 11)	583	1,142

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 2018 and 2017.

Notes to the financial statements

for the year ended 31 December 2018

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 year end are current.

Where derivatives are held for risk management purposes, the Company formally documents 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. 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
2018	£'000	£'000
Forward foreign exchange contracts	328	583

	Assets	Liabilities
2017	£'000	£'000
Forward foreign exchange contracts	1,050	1,142

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 2018

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 19 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 one month. 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	
	2018	2017
	%	%
Credit rating		
AA	55	-
AA-	-	38
A+	25	9
A	20	53
	100	100

From 1 January 2018, expected credit losses are calculated in accordance with IFRS 9 on all the Company's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. 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 2018

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.

In 2015, the Company entered into a revolving credit facility of £200 million. During 2017, the Company extended the amount of the facility to £510 million and in 2018 activated the clause to extend the loan facility by an additional year which now expires on 4 October 2023.

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 arises mainly from the decision to allow a mismatch between the cash flows.

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower with all other variables held constant, post-tax profit for the year would have been £400,000 lower or £200,000 higher, mainly as a result of lower / higher net interest income on cash balances and interest bearing intercompany loans, payables and receivables. At 31 December 2017, if Bank of England interest rates had been 50 basis points higher or 50 basis points lower with all other variables held constant, post-tax profit for the year would have been £292,000 lower or £292,000 higher.

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.

Notes to the financial statements

for the year ended 31 December 2018

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 and Euros.

As at 31 December 2018, if the US Dollar had weakened 20% / strengthened by 15% against the sterling, with all other variables held constant, the Company's post-tax profit for the year would decrease by £60,000 / increase by £45,000.

As at 31 December 2017, if the US Dollar had weakened 8% / strengthened by 10% against the sterling, with all other variables held constant, the Company's post-tax profit for the year would increase by £12,000 / decrease by £15,000.

As at 31 December 2018, if the Euro had weakened 10% / strengthen by 7% against the sterling with all other variables held constant, the Company's post-tax profit for the year would decrease by £13,000 / increase by £9,000.

As at 31 December 2017, if the Euro had weakened 6% / strengthen by 10% against the sterling with all other variables held constant, the Company's post-tax profit for the year would decrease by £2,000 / increase by £4,000.

(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 2018, if market prices had been 20% higher / lower (2017: same) 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 £34,435,000 respectively (2017: £33,074,000 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 debt instruments.

Capital management

The Company has capital that is not required for the regulatory or working capital requirements of the business. It is invested in debt 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.

Notes to the financial statements

for the year ended 31 December 2018

13. Share capital

	2018 Number	2017 Number	2018 £'000	2017 £'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.

	2018					
	Dividends received	Interest receivable	Interest payable	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000	£'000	£'000
Ultimate parent	-	-	(5,644)	-	-	(1,365,886)
Immediate parent	-	148	-	(11)	11,243	-
Other related companies within the Schroders Group	-	43,863	(6,615)	(1,981)	2,192,085	(969,675)
Total	-	44,011	(12,259)	(1,992)	2,203,328	(2,335,561)

	2017					
	Dividends received	Interest receivable	Interest payable	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000	£'000	£'000
Ultimate parent	-	-	(2,129)	-	-	(1,297,754)
Immediate parent	-	11	(5)	-	2,233	(697)
Subsidiaries	14,300	-	(26)	-	4	(28)
Other related companies within the Schroders Group	-	30,339	(2,639)	(515)	1,951,832	(916,403)
Total	14,300	30,350	(4,799)	(515)	1,954,069	(2,214,882)

Transactions with Directors are described in note 3 and the ultimate and immediate parent company is disclosed in note 1.

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.

Notes to the financial statements

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15. 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 from www.schroders.com.