State Street Trustees Limited

Registered No. 02982384

Annual Report and Financial Statements

31 December 2019

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Information Classification: Limited Access

Registered No. 02982384

Directors
B S Allis
S Craig
D Money
V A Muir (Non-executive, Director)
R I Stansbury (Non-executive, Chairman)

Auditors
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Registered office
20 Churchill Place
Canary Wharf
London
E14 5HJ

Registered No. 02982384

Strategic Report

The directors present their strategic report for State Street Trustees Limited ("the Company") for the year ended 31 December 2019.
The purpose of the Strategic Report is to inform members of the Company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the Company).

Review of the business

The Company's key financial and other performance indicators during the year were as follows:

	2019	2018	Change
Turnover	£27,356,119	£27,159,436	+0.7%
Operating profit before other items	£21,978,195	£22,240,055	-1.2%
Profitability *	80.3%	81.9%	-1.9%
Shareholder's funds	£111,462,132	£114,916,744	-3.0%
Average number of employees	24	34	-10

* Profitability is operating profit as a percentage of turnover

Turnover increased due to stock market movements and organic growth from existing clients. Operating profit before other items decreased due to increase in operating expenses. Shareholder funds decreased due to the dividend payment of £25,000,000 to parent entity State Street Europe Limited which offsets the increase in profit after tax during the year £21,545,388. Shareholders fund is well in excess of regulatory requirements.

Capital management

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and meet its regulatory obligations. There have been no changes to the Company's management of capital during the period.

Principal risks and uncertainties

The Board regularly monitors the Company's operational and financial performance and key business risks. The Company has quarterly Board meetings at which risk management is reviewed and discussed. The principal risks and uncertainties can be summarised as:

Credit risk
The Company is exposed to credit risk from its operating activities (trade receivables) and from its financing activities, including deposits with banks and financial institutions. State Street Corporation manages its counterparty credit risk centrally to optimise the use of credit availability and to avoid excessive risk concentration. Counterparties are reviewed prior to acceptance to ensure they meet the necessary standard. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk.

Liquidity risk
As part of the management of liquidity risk arising from financial liabilities, the Company's policy is to consistently maintain sufficient cash reserves to meet liquidity requirements.

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Strategic Report (continued)

Regulatory risk

The Company is authorised and regulated by the Financial Conduct Authority ("FCA"). The risk is mitigated by regular communications with the FCA, active monitoring and adherence to regulatory policies as implemented by State Street Group compliance and risk functions.

Competitive market

The Company operates in an intensive and competitive market with competitors able to offer similar product and strategy solutions to clients. To maintain our competitive position we aim to continually deliver on our client service and competitive pricing.

Market

The Company faces exposure to market risk in that the primary driver of revenues is the value of assets serviced. Revenue is therefore subject to fluctuations in market levels. The Company produces regular financial projections, monitors its profitability and takes active steps to address underperformance when deemed appropriate.

Political Risk

EU referendum

The UK held a referendum on 23 June 2016 on whether it should remain a member of the EU. This resulted in a vote in favour of leaving the EU. The UK left the EU on 31 January 2020 and a transition period is in place until 31 December 2020 during which the current trading and regulatory status is maintained.

The long-term nature of the UK's relationship with the EU is unclear and is dependent on the UK and the EU agreeing a future economic relationship. There is a risk of uncertainty for both the UK and the EU resulting from a no-trade deal arrangement, which could adversely affect the economy of the UK and the other economies in which we operate. The potential risks associated with a no-trade deal exit from the EU have been carefully considered by the Board and include:

Market risk: Potential for continued market volatility (notably FX and interest rates) given political uncertainty which could affect the value of the Company's revenue stream and related portfolios.

Operational risk: i) The UK's withdrawal from the EU has resulted in the loss of the passport for firms accessing the EU from the UK and this has required the firm to realign some limited aspects of its operating model.

ii) Uncertainty over the UK's future approach to EU freedom of movement could have some impact the Company's access to the EU talent pool.

Legal risk: Whilst at this stage, the UK's regulatory regime is aligned with the EU, it is conceivable and to be expected that there will be regulatory divergence between the EU and the UK in the future. The nature and impact of such divergence at this stage is uncertain and we monitor all relevant developments to this effect.

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Strategic Report (continued)

Political risk (continued)

Risks related to the current COVID-19 pandemic

The worldwide Covid-19 outbreak has impacted global financial markets as a result of concerns over the future impact of the pandemic on the macro-economic environment and uncertainty about the immediate outlook for many companies. This has had a consequential impact on the value of assets under management. The FTSE All-World Index has fallen substantially since the year end and as of 30 March 2020 was more than 21% below values at 31 December 2019. While the short-term outlook is uncertain due to the coronavirus and the subsequent impact on global financial markets, the Company believes explanation of longer term outlook, business resiliency and sustainable business model stands it in good stead to come out of this pandemic in a positive position.

SSTL have continued to carry on business as usual during the pandemic. All staff have successfully managed to work from home with minimal impact on client deliverables and no impact on regulatory deliverables directly resulting from the disruption caused. Furthermore, no anticipated or actual losses have been recorded either. The Company's Business Continuity Plan has been and is continuing to be executed effectively and it will continue to evaluate and monitor market-conditions and its client base for impacts.

On behalf of the Board

Stephen Craig, Director

22 *April 2020*

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Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation, amounted to £21,545,388 (2018: profit £18,467,704). A dividend payment of £25,000,000 was proposed, approved and paid during the year (2018: nil).

Principal activities

The Company's principal activity during the year was the provision of trustee services to unit trusts and acting as a depositary for open ended investment companies ("OEICS") and alternative investment funds ("AIFMD funds"). The Company operates in Edinburgh and London and this geographical spread provides access to the entire UK market. The Company is authorised and regulated by the FCA.

Future Developments

The directors aim to maintain the management policies which have resulted in the Company's successful performance over recent years. They consider the growth prospects from existing clients as strong, and are confident that the Company will achieve healthy profitability in 2020.

Directors and their interests

The directors of the Company who held office during and subsequent to the year ended 31 December 2019 were as follows:

B S Allis	
S Craig	(appointed 14 February 2020)
D Money	
V A Muir	(Non-executive Director)
R I Stansbury	(Non-executive Chairman)
L McMahon	(resigned 14 January 2019)
G Stark	(resigned 21 November 2019)
M Westwell	(resigned 31 December 2019)

None of the directors had a disclosable interest in the shares of the Company during the period.

Directors' liabilities

The Company's ultimate parent, State Street Corporation, maintains external insurance in respect of claims brought by third parties against the Company's directors and this insurance remains in force at the date of approving the Directors' Report.

Going Concern

In assessing the broader operational and economic impact analysis of the ongoing COVID-19 outbreak situation on the Company, the directors have considered the following;

Continuity of operations:

The broader State Street management has taken appropriate steps in order to maintain the continuity of the operations and client delivery. The Company's business continuity plan has been implemented and is being monitored closely. No significant operational incident has been reported in relation to the client servicing.

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Directors' Report (continued)

Going Concern (continued)

Impact of changes in AUM:

The fall in markets has impacted the overall value of the AUM. Based on the most recent and available data, AUM have fallen by approx.14% in 2020. This has coincided with a fall in Revenues of 9% in Q1 2020. In the event of a 20% fall in revenues the expected cash balance will be £90.07m, which is sufficient to cover the Company's total 2020 budgeted expenses 17 times over. The minimum fees requirements within the fee schedules for some clients ensure the Company maintains a profitable margin. As part of the UCITS V implementation, clients that did have minimum fees were reviewed and in some cases they have been uplifted.

Liquidity and capital consideration

The majority of the Company's assets represent cash held on interest bearing deposits. There is a strong liquidity base in the Company and it is sufficiently resourced to weather any arising economic crisis created by the Covid-19 pandemic. The cash flows of the entity have been stressed given the current volatility of the markets. The Company's approved budgets have been reviewed in light of the current stressed environment and continue to be resilient against this crisis. These market movements, while large, are within the limits of the entity's current capital and liquidity stress scenarios. The current stress scenarios also assume prolonged supressed market levels and potential materialisation of significant outflows, which has not materialised to date. Reverse stress testing is also included in the assessments of the current stress scenarios. These assumptions, however remote and severe in nature, demonstrate that the risk management framework and financial resources of the firm are resilient.

The Board has considered the going concern assessments and concluded that there are no material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for twelve months from the date the financial statements are available to be issued. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Events since the balance sheet date

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the weeks leading up to that date and subsequently there has been material volatility in global financial markets as a result of concerns over the future impact of the pandemic on the macro-economic environment and uncertainty about the immediate outlook for many companies. This volatility may have an impact on the Company's revenue base but it is a resilient business, with an effective overall risk management programme and business continuity plan in place. The Company will continue to evaluate and monitor market conditions and its client base for ongoing impacts. COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019.

Other than this there have been no events since balance sheet date which necessitate revision of the figures included in the financial statements.

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Directors' Report (continued)

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Re-appointment of auditors

In accordance with sections 485 and 487 of the Companies Act 2006 Ernst & Young LLP are re-appointed as the auditor of the Company.

On behalf of the Board

Stephen Craig, Director

22 *April 2020*

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Directors' responsibilities Statement

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 financial position of the Company and of the profit and loss of the Company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 to 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.

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Independent auditor's report

to the members of State Street Trustees Limited

Opinion

We have audited the financial statements of State Street Trustees Limited for the year ended 31 December 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Emphasis of matter – Impact of COVID-19

We draw attention to Notes 1.3 and 18 of the financial statements, which describes the economic disruption the company is facing as a result of COVID-19, which is impacting financial markets and personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

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.

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Independent auditor's report

to the members of State Street Trustees Limited (continued)

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

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Independent auditor's report

to the members of State Street Trustees Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Poppy Proborespati (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 April 2020

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Income Statement
for the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover	3	27,356,119	27,159,436
Operating expenses	4	(5,377,924)	(4,919,381)
Operating profit		21,978,195	22,240,055
Interest receivable and similar income	7	664,789	558,561
Profit on ordinary activities before taxation		22,642,948	22,798,616
Tax on profit on ordinary activities	8	(1,097,596)	(4,330,912)
Profit for the financial year		21,545,388	18,467,704

The Company has no recognised gains or losses in the current or preceding financial year other than those shown above. The Company does not have any other comprehensive income/(loss). The net profit for the year disclosed above represents the Company's total comprehensive income.

All amounts are in respect of continuing activities.

The accompanying notes are an integral part of the financial statements.

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Balance Sheet

at 31 December 2019

	Note	2019 £	2018 £
Non-current assets			
Deferred tax asset	8	51,803	24,686
Current assets			
Debtors	9	8,374,401	5,496,100
Cash and cash equivalents	10	104,369,321	112,345,948
Total current assets		112,743,722	117,842,048
Current liabilities			
Creditors	11	1,049,141	2,924,920
Total current liabilities: amounts falling due within one year		1,049,141	2,924,920
Net current assets		111,694,581	114,917,128
Total assets less current liabilities		111,746,385	114,941,814
Provision for liabilities and charges	12	284,253	25,070
Net assets		111,462,132	114,916,744
Capital and reserves			
Called up share capital	14	100	100
Capital contribution		23,665,326	23,665,326
Profit and loss account		87,796,706	91,251,318
Shareholders' funds		111,462,132	114,916,744

These financial statements were approved by the Board of Directors on this 22 day of April 2020 and were signed on its behalf by Stephen Craig.

22 April 2020

Stephen Craig
Director

Company registered number: 02982384

The accompanying notes are an integral part of the financial statements.

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Statement of Changes in Equity

As at 31 December 2019

	Called up Share capital	Capital contribution	Profit and loss account	Total equity
	£	£	£	£
Balance at 1 January 2018	100	23,665,326	72,783,614	96,449,040
Profit or loss	-	-	18,467,704	18,467,704
Balance at 31 December 2018	100	23,665,326	91,251,318	114,916,744
Profit or loss	-	-	21,545,388	21,545,388
Dividend			(25,000,000)	(25,000,000)
Balance at 31 December 2019	100	23,665,326	87,796,706	111,462,132

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Notes to financial statements

At 31 December 2019

1 Accounting policies

State Street Trustees Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2018/19 Cycle) issued in July 2019 and effective immediately have been applied in these financial statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The presentation currency of these financial statements is British Sterling (£). All amounts in the financial statements have been rounded to the nearest £ (unless stated otherwise). No cash flow statement is presented for the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements are prepared on the historical cost basis.

The Company's ultimate parent undertaking, State Street Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of State Street Corporation are prepared in accordance with US Generally Accepted Accounting Principles ("US GAAP") and are available to the public and may be obtained from Financial Centre, 1 Lincoln Street, Boston Commonwealth of Massachusetts, United States of America.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- Disclosures in relation to related party transactions;
- An additional balance sheet required by IAS1 for the beginning of the earliest comparative period following the retrospective change in accounting policy, the correction of error, or the reclassification of items in the financial statements; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements to the ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 16.

1.1 Changes in accounting policies

The Company adopted IFRS 16 Leases (as issued by the IASB in January 2016) on 1 January 2019. The Company has applied IFRS 16 using a modified retrospective approach, with no restatement of comparative information which continues to be reported under IAS 17 and IFRIC 4.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. The requirements for lessor accounting have remained largely unchanged.

The adoption of the standard does not have a material impact on our Income Statement or our Balance Sheet.

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Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.1 Changes in accounting policies (continued)

IFRIC 23:

The Company adopted IFRIC 23 *Uncertainty over Income Tax Treatments* (as issued by the IASB in May 2017) on 1 January 2019. There was no impact on the measurement of taxes as a result of the adoption of IFRIC 23.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 Going concern

The Company's business activities, together with the factors likely to affect its future development and the key business risks such as credit risk, liquidity risk, competitive market and market driven revenues are described in the Principal Risks and Uncertainties section of the Strategic report.

On January 30, 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.
The full extent to which the COVID-19 pandemic may impact Company's results, operations or liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Company, the asset management industry and the economies in which the Company operates. The company has considered the impact of the current situation in relation to existing analysis that modelled a number of adverse scenarios to assess the potential impact on Company's operations, AUM, liquidity, solvency and regulatory capital position as well as a reverse stress test to assess the stresses the balance sheet has to endure before there is a breach of the relevant regulatory capital requirement and including an assessment of any relevant mitigations management have within their control to implement.

The most likely expected financial impact is in respect of the Company's future servicing fee income as this is calculated based on a percentage of assets under management and this has fallen since the year end due to the impact of Covid-19 on listed global equity and debt markets. It is not possible to quantify the overall impact of Covid-19 as financial markets continue to react to developments and management have a number of actions that there are able to take to protect profitability and solvency.

Having performed this analysis management believes regulatory capital requirements continue to be met and have sufficient liquidity to meet its liabilities for the for the next 12 months and that the preparation of the financial statements on a going concern basis remains appropriate as the company expects to be able to meet its obligations as and when they fall due for the foreseeable future.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency, British Sterling, at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

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Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.5 Financial assets and liabilities

Measurement methods

Initial recognition and measurement

Financial assets and liabilities are recognised when the entity becomes party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the profit or loss. Immediately after recognition, an expected credit loss ("ECL") is recognised for financial assets measured at amortised cost and investment securities measured at FVOCI, which may result in an accounting loss being recognised when an asset is newly originated.

Financial assets – classification and subsequent measurement

From 1 January 2018, the Company has applied IFRS 9 and classified financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit or loss ("FVTPL").

The classification of debt instruments is described below.

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, bonds and trade receivables. The classification and subsequent measurement of debt instruments depend on:

(i) The Company's business model for managing the asset

The business model reflects how the Company manages the assets in order to generate cash flows. The Company's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.

- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.

- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

Factors considered by the Company in determining the business model for a group of assets include past experience of how the cash flows for these assets were collected and how risks are assessed and managed.

(ii) The cash flow characteristic of the asset

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and for sale, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., interest includes only consideration for the time value of money, credit risk, other lending risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets is classified and measured at FVTPL.

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Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.5 Financial assets and liabilities (continued)

Based on these factors, the Company classifies its debt instruments into one of the following measurement categories.

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described below.

- Fair value through other comprehensive income: financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and are not designated as FVTPL. Movements in fair value are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchanges gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

- Fair value through profit or loss: assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss.

Financial assets – impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised costs and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Company recognises a loss allowance for such losses at each reporting date. The Company measures ECL on each balance sheet date according to a three stage ECL impairment model:

- Stage 1 – from initial recognition of the financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is equal to the credit loss expected to result from default occurring over 12 months following the reporting date.

- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.

- Stage 3 – when the financial asset is considered to be credit impaired, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset. Interest and revenue is calculated based on the gross carrying amount of the asset, net of the loss allowance.

The measurement of the ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets – derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.5 Financial assets and liabilities (continued)

Financial assets – derecognition (continued)

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as pass through transfers that result in derecognition if the Company:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has the obligation to remit any cash it collects from the assets without material delay.

Collateral furnished to the Company under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Company retains substantially all the risk and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities – classification and measurement

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied. Financial liabilities are derecognised when they are extinguished.

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at the initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. When the Company revises the estimated cash flows, the carrying amount of the respective financial assets or liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.6 Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Other receivables are primarily accruals for income earned but not yet invoiced. Where the time value of money is material, receivables are carried at amortised cost. Provision is made for any receivables that are uncollectible for more than 180 days. Balances are written off when the probability of recovery is remote. Trade and other receivables are non-derivative financial instruments.

1.7 Trade and other creditors

Trade and other creditors comprise primarily other taxes and accrued operating expenses. They are non-derivative financial instruments held at fair value and all falling due within 3 months of year end.

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Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.8 Employee benefits

The Company's employees are members of both defined contribution and defined benefit schemes operated by State Street Bank & Trust Company for UK employees.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the income statement. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Company's employees are members of the State Street UK Pension & Life Assurance Scheme, a defined benefit pension plan operated by State Street Bank & Trust Company for certain of its UK subsidiaries and branches. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is State Street Bank and Trust Company, London Branch, another member of the group. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined pro-rata with their allocation of normal service costs at the point immediately prior to the closure of the scheme to future accrual, adjusted for certain specific arrangements where the group has been restructured. Contributions to the defined contribution scheme are recognised in the income statement as they become payable.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.8 Employee benefits (continued)

Share based payments benefits

From time to time, employees are awarded deferred stock under the ultimate parent Company's (State Street Corporation) Equity-Based Compensation Plan. Deferred stock awards issued under the plan vest over two, three or four year periods. The Company does not have an obligation to settle the Parent awards with its employees and as such measures this benefit as equity settled share-based payment transaction.

The cost of equity-settled share-based awards to employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense on a straight-line basis over the period in which employees perform services to which the awards relate, or over the period of the tranches for those awards delivered in tranches. For awards delivered in tranches, each tranche is considered a separate award and the related expense is amortised separately. Fair value is determined by reference to the market price at grant date, adjusted to take account of the fact that awards are not eligible for dividends during the vesting period. Estimates of expected forfeitures are periodically adjusted in the event of actual forfeitures or for changes in expectations.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

1.9 Provisions for liabilities and charges

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.10 Revenue recognition

Revenue from contracts with customers

The amount of revenue recognised is measured based on the consideration specified in contracts with customers, and excludes taxes collected from customers subsequently remitted to government authorities. Revenue is recognised when a performance obligation is satisfied over time as the services are performed or at a point in time depending on the nature of the services provided as further discussed below.

All turnover is attributable to the continuing activities of the provision of trustee services to unit trusts and that of depositary to OEICS and AIFMD funds. Revenue from contracts with customers related to these servicing fees is recognised over time as our customers benefit from the services as they are performed. At contract inception no revenue is estimated as the fees are dependent on assets under trustee/depositary which are susceptible to market factors outside of our control.

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Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.10 Revenue recognition (continued)

Therefore, revenue is recognised using a time-based output method as the customers benefit from the services over time and as the assets are known or determinable during each reporting period based on contractual fee schedules.

As of 31 December 2019, net receivables of £7,279,437 (2018: £5,368,848) were included in Trade Debtors and Accrued Income, representing amounts billed or currently billable to or due from our customers related to revenue from contracts with customers. As performance obligations are satisfied, the Company has an unconditional right to payment following which billing is generally performed monthly or quarterly and therefore does not give rise to significant contract assets or liabilities. No adjustments are made to the promised amount of consideration for the effects of a significant financing component as the period between when we transfer a promised service to a customer and when the customer pays for that service is expected to be one year or less. Provision is made for any receivables that are uncollectible for more than 180 days.

1.11 Interest income

Interest income is recognised in the income statement as the income accrues.

1.12 Operating expenses

Operating expenses are recognised on an accrual basis.

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Tax credits may be recognised in respect of taxable losses when sufficient taxable profits are available for offset within other group undertakings in the same tax group.

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Notes to financial statements

At 31 December 2019

1 Accounting policies (continued)

1.14 Future accounting developments

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3 Definition of a business
- Amendments to IAS 1 and IAS 8 Definition of material
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods.

2. Dividends paid

	2019	2018
	£	£
Declared and paid during the year :		
Final dividend for 2018	25,000,000	-
Dividend paid	25,000,000	-

3. Turnover

All turnover is attributable to the continuing activities of the provision of trustee services to unit trusts and that of depositary to OEICS and AIFMD funds.

All turnover derives from services provided to customers in the United Kingdom.

4. Expenses and auditor's remuneration

Included in the Operating profit are the following:

	2019	2018
	£	£
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of the Company	44,753	44,753
Audit -related assurance services	20,257	20,257

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5. Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2019	2018
Office and management	24	34

The aggregate payroll costs of these persons were as follows:

	2019 £	2018 £
Wages and salaries	1,536,707	1,707,498
Share based payments	65,782	7,168
Social security costs	181,547	200,957
Redundancy costs	268,097	260,112
Contribution to defined contributions plans	115,176	134,206
Other costs	64,930	65,035
	2,232,239	2,374,976

6. Directors' remuneration

	2019 £	2018 £
Directors' remuneration	314,207	210,352
Amounts receivable under long term incentive schemes	97,733	5,692
Company contributions to money purchase pension plans	17,760	8,018

The aggregate remuneration of the highest paid director was £226,348 (2018: £70,542), compensation for loss of office was £NIL (2018: £NIL) and company pension contributions of £17,760 (2018: £6,352) were made to a money purchase scheme on their behalf. During the year, the highest paid director received shares under a long term incentive scheme.

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Notes to financial statements

At 31 December 2019

6. Directors' remuneration (continued)

Certain directors were employed and remunerated as directors or executives of State Street Corporation and its subsidiaries ("the Group") in respect of their services to the Group as a whole and their remuneration has been paid by other Group entities. It is estimated that the remuneration for their services to the Company in the year totalled £68,000 (2018: £38,333) and this is included in the Emoluments total above.

	Number of directors 2019	2018
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	2
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	1	2

7. Interest receivable and similar income

	2019 £	2018 £
Interest income on unimpaired financial assets	664,789	558,561
Total interest income on financial assets not at fair value through profit or loss	664,789	558,561
Total interest receivable and similar income	664,789	558,561

Interest receivable and similar income includes income from group undertakings of £480,125 (2018: £409,388).

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Notes to financial statements

At 31 December 2019

8. Taxation

(a) Analysis of charge in period

	2019	*2018*
	£'000	*£'000*
Current tax:		
UK corporation tax on profits of the period	4,287,755	4,321,933
Adjustment in respect of previous periods	(3,163,042)	(2,494)
Total current tax	1,124,713	4,319,439
Deferred Tax:		
Origination and reversal of temporary differences	-	16,158
Decelerated capital allowances	(26,259)	1,786
Impact of tax rate reduction	2,764	(1,889)
Adjustment in respect of prior periods	(3,623)	(4,582)
Total deferred tax	(27,118)	11,473
Tax on profit on ordinary activities	1,097,596	4,330,0912

(b) Factors affecting tax charge for period

	2019	*2018*
	£'000	*£'000*
Profit on ordinary activities before tax	22,642,984	22,798,616
Profit on ordinary activities multiplied by the rate of corporation tax in the United Kingdom of 19% (2018:19%)	4,302,167	4,331,737
Effect of:		
Expenses deductible for tax purposes	(40,670)	8,140
Adjustments in respect of prior years	(3,166,665)	(7076)
Impact of tax rate reduction	2,764	(1,889)
Total tax	1,097,596	4,330,912

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Notes to financial statements

At 31 December 2019

8. Taxation (continued)

(c) Deferred tax

	2019 *£'000* *Recognised*	*2018* *£'000* *Recognised*
Deferred tax asset at start of year	24,686	36,159
Deferred tax (charge) in profit and loss account for the year	27,118	(11,473)
Deferred tax asset at end of year	51,803	24,686
The balance at the year end comprises:		
Decelerated capital allowances	6,271	8,319
Other temporary differences	45,532	16,367
	51,803	24,686

The main rate of corporation tax for the current financial year is 19%. At the balance sheet date, a reduction in the main rate to 17% as from 1 April 2020 had been enacted in the UK law. Thus, deferred tax has been calculated based on a 17% rate. However, in March 2020, the UK government resolved to retain the main rate of corporation tax at 19% from 1 April 2020. If the deferred tax asset had been calculated at the 19% rate, this would have increased the deferred tax asset by £6,095.

9. Debtors

Amounts due within a year:

	2019 £	2018 £
Trade debtors	1,358,021	1,626,777
Amount due from group undertakings	20,491	-
Accrued income	5,881,366	3,742,071
Interest receivable	19,829	37,845
Prepayments	102,428	89,407
Income tax receivable	992,267	-
	8,374,401	5,496,100

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Notes to financial statements

At 31 December 2019

10. Cash and cash equivalent

	2019	2018
	£	£
Cash at bank and in hand	35,361,101	32,535,674
Intercompany deposit account	69,008,220	79,810,274
Cash and cash equivalents	104,369,321	112,345,948

11. Creditors

Amounts falling due within one year:

	2019	2018
	£	£
Trade creditors	12,986	759
Amount due to group undertakings	32,178	23,091
Other taxes and social securities	768,826	441,920
Accruals and deferred income	235,151	294,266
Income tax payable	-	2,164,884
	1,049,141	2,924,920

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Notes to financial statements

At 31 December 2019

12. Provision for liabilities and charges

	Provision for restructuring £
At 1 January 2019	25,070
Arising during the year	284,253
Utilised	(25,070)
At 31 December 2019	284,253

The restructuring provision recognised in 2017 and 2018 for the severance costs was fully utilised in 2019. A new provision was established during the year to recognise the future expected employee restructuring and severance costs.

13. Employee benefits

Pensions

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2019 £000s	2018 £000s
Defined benefit asset	242,596	223,388
Total defined benefit asset	242,596	223,388
Total defined benefit liability	(208,324)	(181,290)
Net asset for defined benefit obligations (see following table)	34,272	42,098

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Notes to financial statements

At 31 December 2019

13. Employee benefits (continued)
Pensions (continued)

Movements in net defined benefit asset/ liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	2019	2018	2019	2018	2019	2018
	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 January	181,290	217,303	223,388	242,352	(42,098)	(25,049)
Included in profit or loss*	-	-	-	-	-	-
Current service cost	-	-	-	-	-	-
Past service cost and gains and losses arising from settlements	-	175	-	-	-	175
Interest cost/(income)	5,175	5,455	6,387	6,096	(1,212)	(641)
	5,175	5,630	6,387	6,096	(1,212)	(466)
Included in OCI*						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from	-	-	-	-	-	-
- Changes in demographic assumptions	-	(2,150)	-	-	-	(2,150)
- Change in financial assumptions	27,527	(9,847)	-	-	27,527	(9,847)
- Experience adjustment	-	(14,670)	-	-	-	(14,670)
Return on plan assets excluding interest income	-	-	19,101	(9,265)	(19,101)	9,265
Effect of movements in exchange rates	-	-	-	-	-	-
	27,527	(26,667)	19,101	(9,265)	8,426	(17,402)
Other						
Contributions paid by the employer	-	-	-	-	-	-
Administration expenses of plan	-	-	(612)	(819)	612	819
Benefits paid	(5,668)	(14,976)	(5,668)	(14,976)	-	-
Payments in respect of settlements	-	-	-	-	-	-
Pension scheme assumed on acquisition/transferred on disposal	-	-	-	-	-	-
Balance at 31 December	208,324	181,290	242,596	223,388	(34,272)	(42,098)

*Although it is not specifically required by IAS 19 Revised, the pro forma accounts have disclosed the subtotal of items recognised in profit or loss and OCI.

The Company expects to realise the surplus through a refund assuming the gradual settlement of the plan liabilities over time until all members have left the plan.

Notes to financial statements

At 31 December 2019

13. Employee benefits (continued)

Pensions (continued)

Plan assets

	2019	2018
	£000s	£000s
Cash and cash equivalents	6,789	8,576
Equity instruments	-	15,586
	6,789	24,162
Debt instruments	200,119	183,320
Diversified alternatives	35,688	15,906
Total	242,596	223,388

All equity securities and debt instruments have quoted prices in active markets. All other plan assets are not quoted in an active market.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2019	2018
Discount rate at 31 December	2.1%	2.9%
Future salary increases	n/a	n/a
Future pension in payment increases	2.7%	3.0%
Future pension in deferment increases	2.1%	2.1%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 24.3 years (male), 25.4 years (female).
- Future retiree (currently aged 45) upon reaching 65: 26.0 years (male), 27.1 years (female).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions.

	2019	2018
	£000s	£000s
Discount rate +0.25% (2018 +0.25%)	(11,492)	(9,698)
Future salary increases	n.a.	n.a.
Inflation (RPI, CPI) +0.25% (2018 +0.25%)	10,826	10,176

In valuing the liabilities of the Scheme at 31 December 2019, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the scheme were one year younger, the value of the reported liabilities at 31 December 2019 would have increased by £6,610,000 before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 August 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the Scheme, it does provide an approximation to the sensitivity of the assumptions shown.

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At 31 December 2019

13. Employee benefits (continued)

Funding

The scheme is fully funded by State Street Bank and Trust Company, as sponsoring employer, and other participating employers of the scheme. The funding requirements are based on the Scheme's actuarial measurement framework set out in the funding policies of the Scheme.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2018: 22 years).

Historically, some of the Group's (defined as State Street's UK participating entities) employees participated in a pension scheme operated by State Street Bank and Trust Company ('SSB&T') for United Kingdom employees – the State Street UK Pension & Life Assurance Scheme ("the Scheme"). The Scheme has both defined benefit and defined contribution sections. Both the defined benefit section and the defined contribution section of the Scheme are closed to future accrual of benefits, the defined benefit section since 30 April 2008, the defined contribution section in part from 30 April 2008 and completely from 30 April 2010. The Company's employees now participate in a defined contribution Group Personal Pension Scheme ("GPP") also operated by SSB&T.

As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the scheme to participating entities, the net defined benefit cost of the Scheme is recognised fully by the sponsoring employer, which is State Street Bank and Trust Company, London Branch, another member of the Group. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined pro-rata with their allocation of normal service costs at the point immediately prior to the closure of the scheme to future accrual, adjusted for certain specific arrangements where the group has been restructured. Contributions to the defined contribution scheme are recognised in the income statement as they become payable.

The cost to the Company of the GPP for the whole year together with the amount of outstanding contributions owed by the Company in respect of the Scheme and the GPP at the year end 31 December 2019 are set out below:

Defined contribution scheme costs for the year	£115,176 (2018: £134,206)
Outstanding contributions in respect of defined contribution schemes	£NIL (2018: £NIL)

The defined benefit section of the Scheme provides benefits based on their final pensionable salary, although all members are now deferred members. The assets of the Scheme are held separately from those of SSB&T and the Scheme is administered by Mercer Limited (pension consultants) on behalf of the Scheme Trustees.

The Group has been advised by the independent qualified actuaries of the Scheme that the underlying assets and liabilities of the Scheme cannot be separated by participating employers on a consistent and reasonable basis. Accordingly, the effect of the Scheme surplus on the participating companies cannot be determined.

The defined benefit contributions to the Scheme are determined with the advice of an independent qualified actuary on the basis of triennial valuations. No contributions have been made to the Scheme since July 2015. The next actuarial valuation report will be as at 31 August 2020.

Over the current year, the Company paid £NIL (2018: £NIL) into the defined benefit section of the Scheme and there were no outstanding contributions owed by the Company in respect of the Scheme at the year end.

In respect of the defined benefit section of the Scheme, SSB&T and the other participating companies expect to pay no contributions over 2020 but will pay the expenses not met by Scheme assets (under an agreement with the Trustees) plus the cost of Pension Protection Fund levies.

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Notes to financial statements

At 31 December 2019

13. Employee benefits (continued)

Share based payments

Staff costs include an amount of £65,782 (2018: £7,168) in respect of equity settled share-based employee remuneration, which takes the form of deferred awards of shares in the ultimate parent company. The related total income tax benefit recorded in the income statement was £12,498 (2018: £1,362).

These awards are made to senior employees and vest between 24 and 48 months after grant date, on condition that the employee is still employed within the State Street Corporation group at the vesting date. The number and weighted average fair value (WAFV) of the awards during the year are analysed below. The fair value is based on the market price at grant date, adjusted to take account of the fact that awards are not eligible for dividends during the vesting period.

	2019 No	2019 WAFV
Outstanding at 31 December	364	USD65.75
Transferred out	3,095	USD71.02
Outstanding at 1 January	3,459	USD70.47
Granted during the year	1,745	USD73.33
Vested during the year	(2,561)	USD68.54
Forfeited	(120)	USD78.40
Outstanding at 31 December	2,523	USD71.94

14. Capital and reserves

Share capital

	Ordinary Shares	
Number of shares	2019	2018
On issue at 1 January 2019	100	100
On issue at 31 December 2019 – fully paid	100	100

	2019	2018
	£	£
Allotted, called up and fully paid		
Ordinary shares of £1 each	100	100
	100	100
Shares classified in shareholders' funds	100	100
	100	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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15. Related party transactions

In accordance with accounting standards the Company has taken advantage of reduced disclosure requirements under FRS101 in relation to related party transactions, due to the fact that it is wholly owned and its ultimate holding company produces publicly available consolidated financial statements.

16. Accounting estimates and judgements

Key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised:

Recognition of deferred tax assets

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

Pension

Management judgement is required to determine certain actuarial assumptions that support the defined benefit pension obligation calculation. The key assumptions and a sensitivity analysis in respect of those assumptions is provided in note 13.

17. Financial instruments and risk management

The Company's financial assets include trade and other receivables, cash and cash equivalents. The financial liabilities include trade and other creditors.

Fair values of financial assets and financial liabilities:
Below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements.

	Carrying amount	Fair Value	Carrying amount	Fair Value
	2019	*2019*	*2018*	*2018*
	£	*£*	*£*	*£*
Financial assets				
Loans and receivables				
Debtors	8,374,401	8,374,401	5,496,100	5,496,100
Cash and cash equivalent	104,369,321	104,369,321	112,345,948	112,345,948
Financial liabilities				
Creditors	1,049,141	1,049,141	2,924,920	2,924,920

Carrying value is a reasonable approximation of the fair value.

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17. Financial instruments and risk management (continued)

Risk management

The key risks that the Company is exposed to are credit risk, liquidity risk, competitive market and market risk. The directors review and approve policies for managing each of these risks.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (trade receivables) and from its financing activities, including deposits with banks and financial institutions.

Maximum credit exposure

The carrying amount of all financial instruments best represents the maximum exposure to credit risk. Neither collateral nor credit derivatives have been used to mitigate credit risk.

Amount receivable from customers

State Street Corporation manages its counterparty credit risk centrally to optimise the use of credit availability and to avoid excessive risk concentration. Counterparties are reviewed prior to acceptance to ensure they meet the necessary standard. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk.

The table below represents the maximum exposure to credit risk of the Company at the year end. Amounts receivable from customers are stated at historic cost and calculated in accordance with the Company's accounting policies. There were no amounts included in trade debtors in the current or prior year which were impaired or provided for. Company policy is to reserve all amounts management assess to be irrecoverable. There is a presumption that all items over 180 days old are irrecoverable unless evidence is available to rebut this.

	2019	*2018*
	£	*£*
Trade receivables and accrued income from customers	7,279,437	5,368,848
Total	7,279,437	5,368,848

Cash and cash equivalents

The Company is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks. No collateral or credit enhancements are held in respect of any financial assets. The maximum exposure to counterparty risk is as follows:

	2019	*2018*
	£	*£*
Cash and cash equivalents	104,369,321	112,345,948
Total	104,369,321	112,345,948

Cash and cash equivalents are neither past due nor impaired and are spread over a number of financial institutions, each of which meets the criteria set out in the Company's treasury policies, to ensure the risk of loss is minimised.

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17. Financial instruments and risk management (continued)

Risk management

(b) Liquidity Risk

The table below summarises the maturity profile of Company's financial liabilities at 31 December 2019.

	Carrying amount £	Less than 1 month £	1-3 months £	3 months-1 year £
Financial liability by type				
Non-derivative liabilities				
Creditors	1,049,141	162,433	886,708	-
	1,049,141	162,433	886,708	-

As part of the management of liquidity risk arising from financial liabilities, the Company holds liquid assets comprising cash and cash equivalents, which can be readily sold to meet liquidity requirements.

(c) Competitive Market

The Company operates in an intensive and competitive market with competitors able to offer similar product and strategy solutions to clients. To maintain our competitive position we aim to continually deliver on our client service and competitive pricing.

(d) Market Risk

The Company faces exposure to market risk in that the primary driver of revenues is the value of assets serviced. Revenue is therefore subject to fluctuations in market levels. The Company produces regular financial projections, monitors its profitability and takes active steps to address underperformance when deemed appropriate.

18. Events since the balance sheet date

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the weeks leading up to that date and subsequently there has been material volatility in global financial markets as a result of concerns over the future impact of the pandemic on the macro-economic environment and uncertainty about the immediate outlook for many companies. This volatility may have an impact on the Company's revenue base but it is a resilient business, with an effective overall risk management programme and business continuity plan in place. The Company will continue to evaluate and monitor market conditions and its client base for ongoing impacts. COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019.

Other than this there have been no events since balance sheet date which necessitate revision of the figures included in the financial statements.

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19. Ultimate parent company

The Company's immediate parent undertaking is State Street Europe Limited. The Company's ultimate parent undertaking and controlling party, and the parent that heads the smallest and largest group of undertakings for which consolidated financial statements are prepared, is State Street Corporation, incorporated in the Commonwealth of Massachusetts, in the United Stated of America. Copies of the group financial statements of State Street Corporation can be obtained from State Street Corporation, Financial Centre, One Lincoln Street, Boston, Commonwealth of Massachusetts, United States of America.