

Registered number: 04709153

**Charles Schwab, U.K., Limited**

**Annual report and financial statements**

**for the year ended 31 December 2018**



# **Charles Schwab, U.K., Limited**

## **Contents**

	<b>Page</b>
Officers and professional advisers	<b>1</b>
Strategic report	<b>2</b>
Directors' report	<b>4</b>
Directors' responsibilities statement	<b>6</b>
Independent auditor's report	<b>7</b>
Statement of comprehensive income	<b>10</b>
Balance sheet	<b>11</b>
Statement of changes in equity	<b>12</b>
Notes to the financial statements	<b>13</b>

## **Charles Schwab, U.K., Limited**

### **Officers and professional advisers**

#### **Directors**

H S Spangenberg  
W F Quinn  
C M Silvanic

#### **Company Secretary**

T C Winn

#### **Registered Office**

78-84 Colmore Row  
Birmingham  
West Midlands  
B3 2AB

#### **Bankers**

CitiBank  
CitiGroup Centre  
Canary Wharf  
London  
E14 5LB

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
London, United Kingdom

# Charles Schwab, U.K., Limited

## Strategic report

### Principal activity

Charles Schwab, U.K., Limited ("CSUK") was established to refer UK initiated brokerage client relationships to its sister company, Charles Schwab & Co Inc. ("CS&Co") in the USA with revenue being fees receivable from Charles Schwab & Co. Inc. for the referral to them of UK and Swiss-based clients. In August 2017, CSUK expanded its regulatory permissions and business activities to provide brokerage services directly to its clients. CSUK now generates revenue through establishing and maintaining relationships with clients and as a result of the provision of advice to clients and management of their assets. Charles Schwab, U.K., Limited ("the Company") is registered with The Financial Conduct Authority ("FCA") and is regulated in accordance with the FCA's rules and regulations.

### Review of results and future prospects

The Company's results for the year to 31 December 2018 show a profit on ordinary activities after taxation of £2,457,932 (2017: £257,648). No dividend was paid or proposed during the year (2017: £nil), and the balance of £2,457,932 (2017: £257,648) has been transferred to reserves.

The results for the year derive principally from the revenue generated as a result of establishing and maintaining relationships with clients and the provision of advice to clients and management of their assets. For the year ended 31 December 2018, client assets were £1,537,444,098 (2017: £1,422,473,451).

The directors expect the Company to continue to develop and operate for the foreseeable future, but note that interest costs associated with borrowings will present a challenge to near term profitability and liquidity. Additionally, while CS&Co is exploring the establishment of a separate entity in Dublin ("CSEU") to continue to service European resident clients following Brexit, it is expected that the Company will continue to refer UK and Swiss resident clients to CS&Co even if CSEU is established.

### Financial risk management objectives and policies

The directors of the Company determine business strategy and risk appetite in conjunction with the management of the Schwab International Holdings Inc. ("the Parent Company"). They are responsible for establishing and maintaining the Company's governance arrangements along with the designing and operation of their risk management framework. The Directors determine how the risks the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Directors discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management.

The Directors manage the Company's business risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The directors have identified that business and operational risks are the main areas of risk to which the Company is exposed. The Directors formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks they consider the financial impact of these risks as part of the business planning and capital management and conclude whether the amount of regulatory capital is adequate.

As the Company's business is derived in part from its relationship with the Parent Company, the Company has exposure to business risks to the extent that the Parent Company has similar risk exposures and does not manage them appropriately at group level. The exposures which arise from the business derive primarily from the ability of the sister company, Charles Schwab & Co Inc. to continue to meet the requirements of the Transfer Pricing Agreement between it and the Company and the intercompany service agreement between it and the Company. Directors manage this risk through constant dialogue with senior personnel based in the U.S. There are strong reporting lines into the U.S., regular meetings and support for all aspects of the business. The directors also monitor closely the Company's expenses and intercompany exposures. These circumstances expose the Company to liquidity and cash flow risk. However, the directors believe that the Company has sufficient facilities to deal with these as they arise.

### Regulation

The Company is in dialogue with the FCA with respect to certain regulatory issues which were promptly disclosed to the FCA in May 2018. The FCA has not notified the Company that it is undertaking a formal investigation in respect

## **Charles Schwab, U.K., Limited**

### **Strategic report**

of these matters, but it is possible that such an investigation may be commenced. This is discussed further in note 21 to the financial statements.

#### **Going concern**

The Directors have reviewed potential going concern risks, including those discussed in the notes to the financial statements. Based on a review of budgets and forecasts, as well as contractual support provided by The Charles Schwab Corporation (the Company's ultimate parent), the Directors consider that the going concern basis of preparation of the financial statements is appropriate. The balance sheet shows cash at bank of £3,952,950 (2017: £954,034).

#### **Future developments**

The directors expect the general level of activity to remain consistent in the forthcoming year. While the potential establishment of CSEU may impact the Company's activities, the Company will continue to have ongoing operations and if CSEU is ultimately established it will not be fully operational before the latter part of 2019 or 2020.

A handwritten signature in black ink, appearing to read 'H S Spangenberg', written in a cursive style.

H S Spangenberg  
Director  
25 April 2019

## Charles Schwab, U.K., Limited

### Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018. The directors have reviewed the business in detail in the strategic report, which includes the financial risk management objectives and policies of the Company and an indication of likely future developments in the business. The directors are satisfied with the performance of the Company in the year, and look forward to building on this performance in the years to come.

There have been no events subsequent to year end that impact the accuracy of these financial statements. In March 2019, the Company entered into a USD\$ 400 million credit facility with The Charles Schwab Corporation which is discussed in note 24 to the financial statements.

#### Directors

The following directors served during the year, except as noted.

Directors	Appointed
H S Spangenberg	27 October 2004
W F Quinn	7 December 2010
K Samra <sup>(1)</sup>	1 October 2014
C M Silvanic	1 February 2016

<sup>(1)</sup> Resigned as at 15 April 2019.

#### Future developments

Details of future developments can be found in the Strategic Report on page 2 and form part of this report by cross-reference.

#### Dividends

The directors do not recommend or intend to propose the payment of a dividend for the year (2017: £ nil).

#### Regulatory requirements

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") and is categorised as an IPRU firm. As such the Company is subject to minimum regulatory capital requirements (Pillar 1), being the higher of €125,000, the fixed overheads requirement and the sum of credit risk and market risk requirements. The Company is also required to conduct an Internal Capital Adequacy Assessment Process (Pillar 2) and publically disclose the findings thereof (Pillar 3).

The Company is a wholly-owned subsidiary of Schwab International Holdings Inc. ("the Parent Company") which is registered with the US Securities and Exchange Commission ("SEC") as an adviser. However, the Company is regulated by the FCA as a standalone entity and is not part of a UK consolidation group.

The Pillar 3 disclosures are published on the Company's website Pillar 3 Disclosures.  
([http://www.schwab.co.uk/public/schwab-uk-en/nn/legal\\_compliance/pillar3\\_disclosures.html](http://www.schwab.co.uk/public/schwab-uk-en/nn/legal_compliance/pillar3_disclosures.html))

## **Charles Schwab, U.K., Limited**

### **Directors' report (continued)**

#### **Auditor**

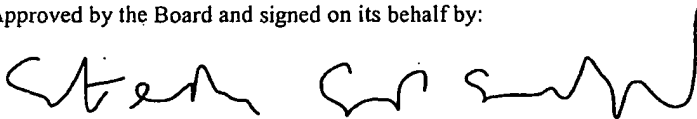
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'H S Spangenberg', written over a horizontal line.

H S Spangenberg

Director

25 April 2019

## **Charles Schwab, U.K., Limited**

### **Directors' responsibilities statement**

The directors are responsible for preparing the Annual 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 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.



## **Independent auditor's report to the members of Charles Schwab, U.K., Limited**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHARLES SCHWAB, U.K., LIMITED**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state 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 United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Charles Schwab, U.K. Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

##### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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

## **Independent auditor's report to the members of Charles Schwab, U.K., Limited (continued)**

have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

*We have nothing to report in respect of these matters.*

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, 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: [www.frc.org.uk/auditorsresponsibilities](http://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.

### **Report on other legal and regulatory requirements**

#### **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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

**Independent auditor's report to the members of  
Charles Schwab, U.K., Limited (continued)**

We have nothing to report in respect of these matters.

A handwritten signature in black ink, appearing to read 'R Topley', followed by a long horizontal flourish.

Robert Topley (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
25 April 2019

## Charles Schwab, U.K., Limited

### Statement of comprehensive income For the year ended 31 December 2018

	Note	2018 £	2017 £
Interest revenue	3	3,756,170	698,575
Asset management and administration fees	3	1,025,437	302,855
Trading revenue	3	650,470	175,741
Other income	3	534,255	136,267
Business development income	3	-	1,342,374
<b>Total turnover</b>		<b>5,966,332</b>	<b>2,655,812</b>
Staff costs	7	(1,699,508)	(1,372,121)
Depreciation	10	(83,623)	(41,765)
Other operating expenses		(1,160,887)	(958,671)
Other operating income	4	-	74,327
<b>Operating profit</b>		<b>3,022,314</b>	<b>357,582</b>
<b>Profit on ordinary activities before taxation</b>	5	<b>3,022,314</b>	<b>357,582</b>
Tax on profit on ordinary activities	9	(564,382)	(99,934)
<b>Profit for the year from continuing operations</b>		<b>2,457,932</b>	<b>257,648</b>
Other comprehensive income		-	-
<b>Profit for the year attributable to the equity holder of the company</b>		<b>2,457,932</b>	<b>257,648</b>

All amounts related to the comprehensive income above relate to continuing operations.

There were no recognised gains or losses for 2018, other than those included in the income and expenditure account. Accordingly, no separate statement of other comprehensive income has been presented

## Charles Schwab, U.K., Limited

### Balance sheet

At 31 December 2018

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Tangible assets	10	878,022	961,644
		<u>878,022</u>	<u>961,644</u>
<b>Current assets</b>			
Debtors	11	347,466	331,534
Cash at bank and in hand		3,952,950	954,034
		<u>4,300,416</u>	<u>1,285,568</u>
<b>Creditors: amounts falling due within one year</b>	12	(810,226)	(426,053)
<b>Net current assets</b>		<u>3,490,190</u>	<u>859,515</u>
<b>Total assets less current liabilities</b>		4,368,212	1,821,159
<b>Creditors: amounts falling due after more than one year</b>	13	(34,006)	(12,020)
<b>Provisions for liabilities</b>	14	(74,541)	(74,541)
<b>Net assets</b>		<u>4,259,665</u>	<u>1,734,598</u>
<b>Capital and reserves</b>			
Called-up share capital	17	391,000	391,000
Profit and loss account		2,947,275	489,343
Capital contribution	20	921,390	854,255
<b>Shareholders' funds</b>		<u>4,259,665</u>	<u>1,734,598</u>

The financial statements of Charles Schwab, U.K., Limited registered number 04709153 were approved by the Board of Directors on 25 April 2019.

They were signed on its behalf by:



H S Spangenberg  
Director

## Charles Schwab, U.K., Limited

### Statement of changes in equity For the year ended 31 December 2018

	Called-up share capital	Profit and loss account	Capital contribution	Total
	£	£	£	£
At 1 January 2017	391,000	231,695	33,326	656,021
<b>Comprehensive income for the year</b>				
Profit for the year	-	257,648	-	257,648
Capital contribution - employee share-based payments	-	-	59,668	59,668
Capital Contribution- Cash Infusion	-	-	761,261	761,261
Other comprehensive income	-	-	-	-
At 31 December 2017	<u>391,000</u>	<u>489,343</u>	<u>854,255</u>	<u>1,734,598</u>
At 1 January 2018	<u>391,000</u>	<u>489,343</u>	<u>854,255</u>	<u>1,734,598</u>
<b>Comprehensive income for the year</b>				
Profit for the year	-	2,457,932	-	2,457,932
Capital contribution- employee share-based payments	-	-	67,135	67,135
Other comprehensive income	-	-	-	-
At 31 December 2018	<u>391,000</u>	<u>2,947,275</u>	<u>921,390</u>	<u>4,259,665</u>

## Charles Schwab, U.K., Limited

### Notes to the financial statements

For the year ended 31 December 2018

#### 1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

##### *a. General information and basis of accounting*

Charles Schwab, U.K., Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act.

The Company is a private company limited by shares and is registered in England. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Charles Schwab, U.K., Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Charles Schwab, U.K., Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions. Exemptions have been taken in relation to share-based payments, presentation of a cash flow statement and remuneration of key management personnel.

##### *b. Going concern*

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, as well as contractual support provided by The Charles Schwab Corporation (the Company's ultimate parent), show that the Company should be able to operate within the level of its current facility.

The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

##### *c. Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Office equipment	3 years
Leasehold improvements	Shorter of useful life or lease term
Furniture and fixtures	5 years

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

##### *d. Financial instruments*

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 1. Accounting policies (continued)

##### (i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

##### e. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

##### Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.



## **Charles Schwab, U.K., Limited**

### **Notes to the financial statements (continued)**

For the year ended 31 December 2018

#### **1. Accounting policies (continued)**

##### **f. Debtors**

Debtors are measured at transaction price, less any impairment.

##### **g. Creditors**

Creditors are measured at the transaction price.

##### **h. Provision for liabilities**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

##### **i. Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

##### **j. Turnover**

Turnover is accounted for on an accruals basis net of VAT.

##### **k. Employee benefits**

Contributions to the defined contribution pension scheme are charged to the profit and loss account in the period to which they relate.

##### **l. Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 1. Accounting policies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks; and
- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

#### m. Leases

##### *The Company as lessee*

Assets held under finance leases are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

#### n. Share-based payments

The ultimate parent company, The Charles Schwab Corporation issues equity-settled options to certain employees within the Company. The Equity settled options consist of stock options and restricted stock units. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. Fair value of restricted stock units awards is based on the market price of The Charles Schwab Corporation shares and fair value of stock options awards is estimated using the Black-Scholes valuation model, which takes into account the option's exercise price, its expected term, the risk free interest rate and expected volatility of the market price of The Charles Schwab Corporation.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of options that will eventually vest, adjusted for the effect of non-market-based vesting conditions. The expense is recorded within "Staff costs" with the corresponding credit within equity as a capital contribution from Parent Company.

#### 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. While management makes its best judgement, actual results may differ from these estimates. There is one critical accounting judgement relating to a contingent liability set out in note 21. The critical judgement is the determination that a provision is not yet required because the Directors do not consider that an outflow of economic benefit is both probable and reliably estimable.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### 3. Turnover

##### **Business development income**

Business development income are fees receivable from Charles Schwab & Co. Inc. for the referral to them of UK and Swiss-based clients and in one geographical segment (UK).

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 3. Turnover (continued)

##### Interest revenue

Interest revenue is recognised as earned on interest-earning assets from the ultimate parent company such as cash and cash equivalents, cash and investments segregated, receivables from brokerage clients, investment securities, and bank loans. Interest revenue from these assets is based upon average or daily balances and the applicable interest rates. Interest revenue is also recognised from securities lending activities from the ultimate parent company when earned based upon the securities and amounts lent and the applicable rates.

##### Asset management and administration fees

Asset management and administration fees consist of both advisory fee income and revenue earned through a revenue sharing arrangement with the Company's affiliate. Advisory fee income is charged for asset management services provided to brokerage clients and is earned and recognised over time. Fees are generally based on a percentage of the daily value of assets under management and are collected on a monthly or quarterly basis. Revenue earned through the revenue sharing arrangement with an affiliate is determined based on assets in the Company's client accounts and are earned and recognised over time.

##### Trading revenue

The majority of trading revenue is commissions earned for executing trades for clients. Commission revenues are recognised as services are performed at the time of execution (i.e., on the trade date).

#### 4. Other operating income

The other operating income relates to income received in December 2017 from Transport for London ('TfL') arising from the official notification of the Compulsory Purchase Order proceedings by TfL in December 2015. The building in which the Company was previously based, has been purchased by TfL for the expansion of the Bank Street London underground system. The Company moved to a new office in September 2017.

#### 5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets (note 10)	83,623	41,765
Operating lease rentals	235,000	333,589
Foreign exchange loss	5,477	1,882

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 6. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2018 £	2017 £
<b>Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements</b>	55,800	30,400
<b>Total audit fees</b>	<u>55,800</u>	<u>30,400</u>
Audit-related assurance services	<u>50,600</u>	<u>35,000</u>
<b>Total non-audit fees</b>	<u>50,600</u>	<u>35,000</u>

#### 7. Staff numbers and costs

	2018 Number	2017 Number
Average number of persons employed during the year	<u>8</u>	<u>8</u>
	<u>8</u>	<u>8</u>

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	672,580	535,046
Social security costs	180,409	151,668
Other pension costs (see note 19)	56,397	54,501
Bonus incentives	767,065	630,906
Employee termination	23,057	-
	<u>1,699,508</u>	<u>1,372,121</u>

'Other pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 8. Directors' remuneration and transactions

	2018 £	2017 £
<i>Directors' remuneration</i>		
Emoluments	294,290	300,862
Amounts receivable (other than shares and share options) under long-term incentive schemes	14,514	21,774
Company contributions to money purchase pension schemes	21,858	18,639
	<u>330,662</u>	<u>341,275</u>
	<b>Number</b>	<b>Number</b>
The number of directors who:		
Are members of a money purchase pension scheme	1	1
Exercised options over shares in the Company	-	-
Had awards receivable in the form of shares under a long term incentive scheme	<u>1</u>	<u>1</u>
	<b>2018 £</b>	<b>2017 £</b>
Remuneration of the highest paid director:		
Emoluments	294,290	300,862
Company contributions to money purchase pension schemes	<u>21,858</u>	<u>18,639</u>

The highest paid director did not exercise any share options in the year.

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 9. Tax on profit on ordinary activities

The tax charge comprises:

	2018 £	2017 £
<b>Current tax on profit</b>		
UK corporation tax	578,764	73,555
Adjustments in respect of prior years		
UK corporation tax	(36,368)	2,529
<b>Total current tax</b>	<b>542,396</b>	<b>76,084</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	25,987	24,018
Adjustment in respect of prior years	-	139
Effect of changes in tax rates	(4,001)	(308)
<b>Total deferred tax (see note 15)</b>	<b>21,986</b>	<b>23,850</b>
<b>Total tax on profit</b>	<b>564,382</b>	<b>99,934</b>

The standard rate of tax applied to report profit on ordinary activities is 19% (2017: 19.25%). The Finance Act 2013 reduced the UK Corporation tax rate from 23% to 21% with effect from 1 April 2014, and to 20% with effect from 1 April 2015. The Chancellor of Exchequer announced in the 2015 Summer Budget that the corporation tax rate effective from 1 April 2017 would be 19% and will fall to 18% from 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%.

These rates have been substantively enacted as at the balance sheet date. As such the deferred tax liability has been calculated at 19% which represent the time deferred tax is expected to unwind.

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2018 £	2017 £
<b>Profit on ordinary activities before tax</b>	<b>3,022,314</b>	<b>357,582</b>
<b>Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2017: 19.25%)</b>	<b>574,256</b>	<b>68,822</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	22,493	28,751
Rate change adjustment	4,001	(308)
Adjustments in respect of prior years	(36,368)	2,668
<b>Current tax charge for period</b>	<b>564,382</b>	<b>99,934</b>

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 10. Tangible fixed assets

	Furniture and fittings £	Leasehold improvements £	Office equipment £	Total £
<b>Cost</b>				
At 1 January 2018	103,416	898,486	10,616	1,012,518
Purchase	-	-	-	-
Disposal	-	-	-	-
At 31 December 2018	<u>103,416</u>	<u>898,486</u>	<u>10,616</u>	<u>1,012,518</u>
<b>Depreciation</b>				
At 1 January 2018	7,644	33,161	10,068	50,874
Charge for the year	20,523	62,595	505	83,623
Disposal	-	-	-	-
At 31 December 2018	<u>28,167</u>	<u>95,756</u>	<u>10,573</u>	<u>134,496</u>
<b>Net book value</b>				
At 31 December 2017	95,772	865,325	548	961,644
At 31 December 2018	<u>75,249</u>	<u>802,730</u>	<u>43</u>	<u>878,022</u>

#### 11. Debtors

	2018 £	2017 £
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	35,620	12,099
Prepayments	40,841	83,261
Other debtors	17,255	126
Deferred tax asset (see note 15)	-	-
VAT receivable	42,251	24,548
Corporation tax receivable	-	-
	<u>135,966</u>	<u>120,034</u>
<b>Amounts falling due after more than one year:</b>		
Other debtors	<u>211,500</u>	<u>211,500</u>

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 12. Creditors: amounts falling due within one year

	2018 £	2017 £
Corporation tax liabilities	362,107	41,362
Other taxation and social security	57,425	33,334
Other creditors	20,140	16,215
Amounts owed to Group undertakings	-	51,181
Accruals	370,554	283,961
	<u>810,226</u>	<u>426,053</u>

#### 13. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Deferred tax liabilities (note 15)	34,006	12,020
	<u>34,006</u>	<u>12,020</u>

#### 14. Provisions for liabilities

	2018 £	2017 £
Dilapidation provision	<u>74,541</u>	<u>74,541</u>

The Company moved into a new office in September 2017. The dilapidation provision represents the directors' estimate of amounts expected to be paid by the Company on termination of the current lease on its premises. Future minimum rentals payable under non-cancellable operating leases are disclosed in Note 18.



## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 15. Deferred tax

Deferred tax is provided as follows

	2018 £	2017 £
At 1 January	(12,020)	11,830
Charge for the year, per profit and loss account	(21,986)	(23,850)
At 31 December	<u>(34,006)</u>	<u>(12,020)</u>

The deferred taxation balance relates to:

	2018 £	2017 £
Capital allowances in arrears of depreciation	(46,396)	(18,301)
Other timing differences	12,390	6,281
Provision for deferred tax	<u>(34,006)</u>	<u>(12,020)</u>

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Company.

#### 16. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	2018 £	2017 £
<b>Financial assets</b>		
Debt instruments measured at amortised cost		
Other debtors (see note 11)	264,375	223,725
Cash and cash equivalents	3,952,950	954,034
	<u>4,217,325</u>	<u>1,183,837</u>
<b>Financial liabilities</b>		
Measured at amortised cost		
Other creditors (see note 12)	20,140	23,225
	<u>20,140</u>	<u>23,225</u>

## Charles Schwab, U.K., Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 17. Called-up share capital

	2018 £	2017 £
Allotted, called-up and fully-paid 391,000 ordinary shares of £1 each	<u>391,000</u>	<u>391,000</u>

#### 18. Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 £	2017 £
- within one year	235,000	235,000
- between one and five years	1,176,288	1,175,644
- after five years	<u>1,679,767</u>	<u>1,915,411</u>

#### 19. Employee benefits

##### *Defined contribution schemes*

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss in the year ended 31 December 2018 was £56,397 (2017: £54,501). The total defined contribution pension scheme accrual as at 31 December 2018 was £nil (2017: £9,886).

#### 20. Share based payments

The ultimate parent company, The Charles Schwab Corporation's share based incentive plans provide for granting options and restricted stock units to employees and directors under equity settled share based compensation.

- *Restricted Stock units*

The Charles Schwab Corporation has granted restricted stock unit awards to some of the employees of the Company. Awards under this plan are subject to vesting over a four year period from the grant date contingent upon continued employment and to restrictions on sale, transfer or pledge without the written consent of The Charles Schwab Corporation. All or a portion of an award may be cancelled if employment is terminated before the end of the relevant restriction period. All or a portion of an award will also immediately be cancelled and will expire in the event that the Company terminates employment on account of conduct contrary to the best interest of The Charles Schwab Corporation. If The Charles Schwab Corporation pays cash dividends on shares, recipients of the restricted stock units will receive cash equal to the dividend per share multiplied by the number of unvested restricted stock units.

## **Charles Schwab, U.K., Limited**

### **Notes to the financial statements (continued)**

For the year ended 31 December 2018

- **Stock Options**

The Charles Schwab Corporation has also granted stock option awards. Options are granted for the purchase of shares of common stock at an exercise price not less than market value on the date of the grant and expire within ten years from the date of grant, subject to accelerated expiration upon termination of employment. Stock option awards have vesting, restrictions and cancellation provisions that are generally similar to those in restricted stock units.

#### **21. Contingent liability**

The Company is in dialogue with the FCA with respect to certain regulatory issues which were promptly disclosed to the FCA in May 2018. The FCA has not notified the Company that it is undertaking a formal investigation in respect of these matters, but it is possible that such an investigation may be commenced. Should the FCA undertake an investigation which subsequently led to enforcement action, the FCA has wide ranging powers, including withdrawing a firm's authorization, suspending firms and individuals from undertaking regulated activities, applying to the courts for injunctions and restitution orders and issuing financial penalties, which would likely be material. The Company is satisfied that it is not required to recognise a provision in respect of this contingent liability. It is not practicable to predict or reliably estimate any financial or non-financial penalty, or the timing thereof, that might arise, if any.

#### **22. Related party transactions**

The Company has taken advantage of the disclosure exemption for transactions with group companies as provided by section 33 of Financial Reporting Standard 102. There were no other related party transactions requiring disclosure.

#### **23. Ultimate parent company**

The Company is a subsidiary of Schwab International Holdings Inc. The ultimate parent company and controlling party is The Charles Schwab Corporation, a company incorporated in the United States of America and registered at 211 Main Street, San Francisco, CA 94105. The consolidated financial statements of The Charles Schwab Corporation are the largest consolidated financial statements prepared for the group of which the Company is a member. Copies of the consolidated financial statements of The Charles Schwab Corporation can be obtained from the parent company's website, <https://aboutschwab.com/investor-relations/annual-report>.

#### **24. Subsequent event**

In March 2019, the Company entered into a USD\$ 400 million credit facility with The Charles Schwab Corporation to facilitate a change in the method of segregating funds for the exclusive benefit of the Company's clients in accordance with UK rules. There was USD\$ 308 million drawn under this facility at 25 April 2019. The credit facility has a floating interest rate that will be reset monthly, resulting in interest accruals and expense for the Company. The interest rate currently in effect is 2.43%.

The credit facility and the related cash drawn on the facility resulted in a change to the Company's required regulatory capital. As a result, the Company had a capital deficiency for a period of time from 25 March 2019 and until a capital infusion was made on 16 April 2019. The amount of the capital infusion on 16 April 2019 was £1,523,810.