

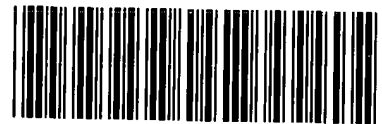
Registered number: 04709153

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

**Annual report and financial statements**

**for the year ended 31 December 2020**

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**CHARLES SCHWAB, U.K., LIMITED**

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## **CHARLES SCHWAB, U.K., LIMITED**

### **Officers and Professional Advisers**

#### **Directors**

R J Flynn  
W F Quinn  
M W Canady  
E J Twomey

#### **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 or the Company) was established to refer United Kingdom (UK) initiated brokerage client relationships to its sister company, Charles Schwab & Co., Inc. (CS&Co), in the United States of America (US) with revenue being fees receivable from CS&Co for the referral to them of clients. In August 2017, CSUK expanded its regulatory permissions and business activities to provide brokerage services directly to its clients wherein it 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. During 2019, the Company determined that it would return to its original business model wherein it will refer UK-initiated brokerage client relationships to CS&Co rather than provide brokerage services directly to clients. The Company is registered with The Financial Conduct Authority (FCA) and is regulated in accordance with the FCA's rules and regulations. As a result of the Company's return to its original business model, the Company submitted an application for a variation of permissions in August 2020 to the FCA in order to withdraw its authorisation to operate as a broker dealer. The FCA approved the Company's application in April 2021.

#### Review of Results and Future Prospects

The Company's results for the year to 31 December 2020 show a loss on ordinary activities after taxation of £7,419,564 (2019: loss of £2,087,145). No dividend was paid or proposed during the year (2019: £nil), and no balance has been transferred to reserves (2019: £nil). The Company's loss position resulted primarily from the payment of a penalty to the FCA in respect of certain regulatory issues.

The results for 2020 derive principally from the agreement with CS&Co under which CS&Co pays the Company on a monthly basis, cost plus an agreed upon profit margin, for the efforts of the Company in providing customer service to existing customers of CS&Co who reside in the UK and for referring UK-based customers to CS&Co. The results for 2019 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. As a result of the Company's return to its original business model wherein it will refer UK-initiated brokerage client relationships to CS&Co rather than provide brokerage services directly to clients, the Company transferred all client assets to CS&Co during 2019 and held no client assets at year end 31 December 2020 (2019: £nil).

The directors expect the Company to continue to develop and operate for the foreseeable future, referring brokerage client relationships to CS&Co. Please also refer to the below discussion under "Going Concern" for additional considerations.

#### 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, CS&Co, to

## CHARLES SCHWAB, U.K., LIMITED

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 Parent Company and CS&Co senior personnel. There are strong reporting lines into the Parent Company, 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 cash flow risk. However, the directors believe that the Company has sufficient facilities to deal with these as they arise.

Over the last four years, the Board and management have closely monitored developments around Brexit and the possible impact on CSUK's business model. Following the transfer of all client accounts and client assets to CS&Co at the end of 2019, CSUK no longer undertakes any business in the EU, and as such its business model has not been materially impacted by the UK's departure from the EU. There remains some uncertainty regarding financial arrangements between the EU and the UK, but given the nature of our current business model we anticipate the impact of those arrangements on CSUK to be minimal.

### Regulation

In December 2020, the Company submitted payment to the FCA for a penalty in respect of certain regulatory issues which are further discussed in note 22 to the financial statements.

### Going Concern

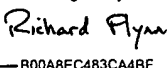
The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future being at least the twelve months from the date of approval of the financial statements. Thus, they continue to adopt the going concern basis in preparing the financial statements. Further detail regarding the adoption of the going concern basis is detailed in note 1.

The directors and management continue to monitor the COVID-19 pandemic, and, while the full extent of the impact of COVID-19 on future results and the Company's financial position cannot be reliably estimated at this time, the directors expect that the impact on our business operations in the UK will continue to be relatively limited. Much of the work that is done by employees in the UK can be done remotely, although the directors are of the view that relationship management does significantly benefit from face to face meetings with clients. COVID-19 is not expected by the directors to significantly impact the number of staff or operational requirements of the CSUK business for 2021. As such, there is no current intention to furlough staff, nor is there any intention to apply for any UK government assistance.

### Future Developments

The directors expect the general level of activity to remain consistent in the forthcoming year.

Approved by the Board and signed on its behalf by:

DocuSigned by:  
  
B00A8EC483CA4BF...  
Richard Flynn  
Director  
22 April 2021

## CHARLES SCHWAB, U.K., LIMITED

### Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2020. 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 look forward to building on the Company's performance in the years to come.

There have been no events subsequent to year end that impact the accuracy of these financial statements. Please refer to note 1 for additional information on the COVID-19 pandemic.

#### Directors

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

Directors	Appointed
W F Quinn	7 December 2010
C M Silvanic <sup>(1)</sup>	1 February 2016
R J Flynn	17 June 2019
M W Canady	5 June 2020
E J Twomey	5 June 2020

<sup>(1)</sup> Resigned as at 15 January 2020.

#### 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 (2019: £ nil).

#### Political Contributions

The Company did not make political donations or incur political expenditures during 2020 (2019: £ nil).

#### Qualifying Third Party Indemnity Provisions

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2020 for the benefit of the then directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur in connection with their duties, powers or office.

#### Regulatory Requirements

The Company is authorised and regulated by the FCA and was categorised as an IFPRU €125K Limited Licence firm as at 31 December 2020. During 2020, the Company submitted an application for a variation of permissions to the FCA in order to withdraw its authorisation to operate as a broker dealer and upon approval in April 2021, the firm became an IPRU-INV Chapter 3 firm.

The Company is regulated by the FCA as a standalone entity and is not part of a UK consolidation group.

**CHARLES SCHWAB, U.K., LIMITED**

**Directors' Report (continued)**

**Auditor**

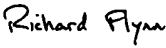
Each of the persons who is a director at the date of approval of this report confirms that:

- 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:

DocuSigned by:  
  
B00A8EC483CA49F...  
Richard Flynn

Director

22 April 2021

## 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**

### **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 2020 and of its loss 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 25.

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**

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **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 contained within the annual report. 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.

## **CHARLES SCHWAB, U.K., LIMITED**

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we 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 this regard.

### **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.

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation;
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included relevant Financial Conduct Authority regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority.

## **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.

We have nothing to report in respect of these matters.

### **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.



Giles Lang FCA (Senior statutory auditor)  
 For and on behalf of Deloitte LLP  
 Statutory Auditor  
 London, United Kingdom  
 22 April 2021

**CHARLES SCHWAB, U.K., LIMITED**

**Statement of Comprehensive Income**  
For the Year Ended 31 December 2020

Year Ended 31 December	Note	2020	2019
		£	£
Business development income	3	3,025,588	—
Interest revenue	3	—	5,427,350
Asset management and administration fees	3	—	689,800
Trading revenue	3	—	432,860
Other revenue		—	628,029
Total turnover		3,025,588	7,178,039
Finance costs	4	—	(3,053,446)
Staff costs	8	(1,399,117)	(1,830,207)
Depreciation	11	(83,118)	(83,160)
Other operating expenses	5	(8,975,499)	(4,459,705)
Other operating income		89,127	—
Operating loss		(7,343,019)	(2,248,479)
Loss on ordinary activities before taxation	6	(7,343,019)	(2,248,479)
Income tax (expense)/benefit	10	(76,545)	161,334
<b>Loss and comprehensive loss for the year attributable to the equity holder of the company</b>		<b>(7,419,564)</b>	<b>(2,087,145)</b>

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

There were no recognised gains or losses for 2020, other than those included in the income and expenditure account.

# CHARLES SCHWAB, U.K., LIMITED

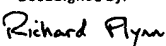
## Balance Sheet

At 31 December 2020

At 31 December	Note	2020	2019
<b>Fixed assets</b>		<b>£</b>	<b>£</b>
Property, plant and equipment	11	711,744	794,862
<b>Current assets</b>			
Debtors (including £211,500 (2019: £211,500) falling due after more than one year)	12	492,660	835,311
Cash at bank and in hand		3,185,154	4,207,242
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	13	(548,600)	(742,602)
<b>Net current assets</b>		<b>3,129,214</b>	<b>4,299,951</b>
<b>Total assets less current liabilities</b>		<b>3,840,958</b>	<b>5,094,813</b>
Provisions for liabilities	14	(109,228)	(1,369,366)
<b>Net assets</b>		<b>3,731,730</b>	<b>3,725,447</b>
<b>Capital and reserves</b>			
Called-up share capital	17	391,000	391,000
Retained earnings/(accumulated deficit)		(6,559,434)	860,130
Capital contributions	18	9,900,164	2,474,317
<b>Shareholder's funds</b>		<b>3,731,730</b>	<b>3,725,447</b>

The financial statements of Charles Schwab, U.K., Limited registered number 04709153 were approved by the Board of Directors on 22 April 2021.

They were signed on its behalf by:

DocuSigned by:  
  
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 R J Flynn  
 Director

**CHARLES SCHWAB, U.K., LIMITED**

**Statement of Changes in Equity**  
For the Year Ended 31 December 2020

	Called-up Share Capital	Retained Earnings/ (Accumulated Deficit)	Capital Contributions	Total
	£	£	£	£
At 1 January 2019	391,000	2,947,275	921,390	4,259,665
Loss for the year	—	(2,087,145)	—	(2,087,145)
Capital contributions from Parent Company	—	—	1,552,927	1,552,927
At 31 December 2019	391,000	860,130	2,474,317	3,725,447
Loss for the year	—	(7,419,564)	—	(7,419,564)
Capital contributions from Parent Company	—	—	7,425,847	7,425,847
At 31 December 2020	391,000	(6,559,434)	9,900,164	3,731,730

**CHARLES SCHWAB, U.K., LIMITED**  
**Notes to the Financial Statements**  
For the Year Ended 31 December 2020

**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 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, financial instruments, related party transactions, presentation of a cash flow statement and remuneration of key management personnel.

**b. Going Concern**

After consideration of the Company's business model and the risks and uncertainties, including the risks related to the uncertainties arising from the ongoing COVID-19 pandemic, and having considered the Company's forecasts under the current cost plus intercompany arrangement with CS&Co, as well as consideration of the Company's liquidity and capital needs, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future, being at least the twelve months from the date of approval of the financial statements. Accordingly, the going concern basis continues to be used in preparing these financial statements.

**c. Property, Plant and Equipment**

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment 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**  
For the Year Ended 31 December 2020

*(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 balance sheet 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.



**CHARLES SCHWAB, U.K., LIMITED**  
**Notes to the Financial Statements**  
For the Year Ended 31 December 2020

*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.

*Financial assets*

For financial assets carried at amortized cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognized, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial 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 recognized.

*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 estimated 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 balance sheet date, 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.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

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.

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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 accrual 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.

Termination benefits are recorded immediately to expense and a liability for any amounts unpaid is recognised when the Company is demonstrably committed to either: (a) terminate the employment of an employee or group of employees before the normal retirement date; or (b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Company considers itself demonstrably committed when it has a detailed formal plan for the termination that is approved by relevant management personnel with the required authority and is without realistic possibility of withdrawal from the plan. The amount of termination benefits recorded is the best estimate of the expenditure that would be required to settle the obligation at the reporting date.

**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.

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.

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**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 (CSC), 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 CSC 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 CSC shares. See note 21 for further details on share-based payments.

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 "Capital contributions 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 (other than those involving estimations) that have a significant impact on the amounts recognised and to make 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. Actual results may differ from these estimates.

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.

In the process of applying the Company's accounting policies, management made an estimate in the preceding year for the legal matter described in note 22 which had a significant effect on the amount of provision recognised in the financial statements. Such matter was settled in December 2020 and no further estimation uncertainty exists.

Management did not make any judgements not involving estimation which may have a significant effect on the financial statements.

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**3. Turnover**

**Business development income**

Business development income are fees receivable from CS&Co for providing customer service to existing customers of CS&Co who reside in the UK and for referring UK-based customers to CS&Co. On 24 April 2020, and retroactive to 1 January 2020, the Company entered into an agreement with CS&Co under which CS&Co pays the Company on a monthly basis, cost plus an agreed upon profit margin, for these services.

**Interest revenue**

In accordance with a revenue sharing agreement under the Company's previous business model wherein it provided brokerage services directly to clients, interest revenue was recognised as earned on interest-earning assets from CSC such as cash and cash equivalents, cash and investments segregated, receivables from brokerage clients, investment securities, and bank loans. Interest revenue from these assets was based upon average or daily balances and the applicable interest rates. Interest revenue was also recognised from securities lending activities from CSC when earned based upon the securities and amounts lent and the applicable rates. Interest revenue on the Company's segregated cash balances was recognised as earned.

**Asset management and administration fees**

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

**Trading revenue**

The majority of trading revenue was 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). Effective 7 October 2019, the Company eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs. Beginning in 2020, the Company no longer provides brokerage services directly to clients.

**4. Finance Costs**

Year Ended 31 December	2020	2019
	£	£
Interest expense	—	3,053,446

Interest expense was recognised on the Company's USD \$400 million credit facility with CSC. The Company entered into the facility in March 2019 and had fully repaid amounts drawn during the year as at 31 December 2019. The Company did not draw any amounts on this facility in 2020.

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**5. Other Operating Expenses**

Year Ended 31 December	2020	2019
	£	£
Legal matter and provision (see note 22)	7,707,200	1,256,000
Professional services	774,806	2,352,356
Occupancy and equipment	-407,943	396,755
Communications	49,474	38,118
Other	36,076	416,476
<b>Total operating expenses</b>	<b>8,975,499</b>	<b>4,459,705</b>

**6. Loss On Ordinary Activities Before Taxation**

Loss on ordinary activities before taxation is stated after charging:

Year Ended 31 December	2020	2019
	£	£
Depreciation of property, plant and equipment (see note 11)	83,118	83,160
Operating lease rentals	235,000	235,000
Foreign exchange (gain)/loss	(89,127)	100,727

**7. Auditor's Remuneration**

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

Year Ended 31 December	2020	2019
	£	£
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	50,400	62,590
<b>Total audit fees</b>	<b>50,400</b>	<b>62,590</b>
Audit-related assurance services	15,000	131,000
<b>Total non-audit fees</b>	<b>15,000</b>	<b>131,000</b>

**8. Staff Numbers and Costs**

Year Ended 31 December	2020	2019
Average number of persons employed during the year	9	11

The persons employed by the Company during 2020 and 2019 were sales/service professionals.

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Their aggregate remuneration comprised:

Year Ended 31 December	2020	2019
	£	£
Wages and salaries	729,618	774,795
Social security costs	125,227	166,964
Other pension costs (see note 20) <sup>(1)</sup>	52,995	64,300
Bonus incentives	451,818	551,701
Employee termination	10,679	229,400
Other staff costs	28,780	43,047
<b>Total staff costs</b>	<b>1,399,117</b>	<b>1,830,207</b>

<sup>(1)</sup> Other pension costs include only those items included within operating costs. Items reported elsewhere have been excluded.

**9. Directors' Remuneration and Transactions**

Year Ended 31 December	2020	2019
	£	£
<b>Directors' remuneration</b>		
Emoluments <sup>(1)</sup>	217,804	293,641
Company contributions to money purchase pension schemes	15,406	19,534
Compensation for loss of office <sup>(2)</sup>	—	229,400
<b>Total directors' remuneration</b>	<b>233,210</b>	<b>542,575</b>
<b>The number of directors who:</b>		
Are members of a money purchase pension scheme	1	2
Exercised options over shares in the Company	—	1
Had awards receivable in the form of shares under a long term incentive scheme	1	1
<b>Remuneration of the highest paid director:</b>		
Emoluments <sup>(1)</sup>	217,804	156,572
Company contributions to money purchase pension schemes	15,406	12,066
Compensation for loss of office <sup>(2)</sup>	—	229,400
<b>Total remuneration of the highest paid director <sup>(3)</sup></b>	<b>233,210</b>	<b>398,038</b>

<sup>(1)</sup> Includes amounts accrued but unpaid of £32,919 (2019: £46,659).

<sup>(2)</sup> All compensation for loss of office had been paid as at 31 December 2019.

<sup>(3)</sup> The remaining directors do not receive remuneration from the Company for their service as directors.

The highest paid director did not exercise share options in 2020 (2019: did exercise share options) and did receive shares under a long-term incentive scheme in 2020 (2019: did not receive shares).

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**10. Income Tax Expense/(Benefit)**

Income tax expense/(benefit) comprises:

Year Ended 31 December	2020	2019
	£	£
<b>Current income tax expense/(benefit)</b>		
UK corporation tax	80,674	(179,870)
Adjustments in respect of prior years:		
UK corporation tax	9	13,717
Total current tax	80,683	(166,153)
<b>Deferred tax</b>		
Origination and reversal of timing differences	(4,138)	4,819
Total deferred tax (see note 15)	(4,138)	4,819
<b>Total income tax expense/(benefit)</b>	<b>76,545</b>	<b>(161,334)</b>

The standard rate of tax applied to report profit/(loss) before tax is 19% (2019: 19%). At Budget 2020, the government announced that the Corporation Tax will be maintained at 19% in 2020. At Budget 2021, the government announced an increase to the Corporate Tax rate for the year starting 1 April 2023, setting the rate at 25%. The deferred tax liability was not impacted by the rate change as the rate was not substantially enacted as of 31 December 2020. As such, the deferred tax liability has been calculated at 19% which represents the time deferred tax is expected to unwind.

The difference between the total income tax expense/(benefit) shown above and the amount calculated by applying the standard rate of UK corporation tax to loss before tax is as follows:

Year Ended 31 December	2020	2019
	£	£
<b>Loss on ordinary activities before taxation</b>	<b>(7,343,019)</b>	<b>(2,248,479)</b>
<b>Tax on income/(loss) at standard UK corporation tax rate of 19% (2019: 19%)</b>	<b>(1,395,174)</b>	<b>(427,211)</b>
Effects of:		
Expenses not deductible for tax purposes	1,471,710	252,160
Adjustments in respect of prior years	9	13,717
<b>Total income tax expense/(benefit) for period</b>	<b>76,545</b>	<b>(161,334)</b>

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**11. Property, Plant and Equipment**

	Furniture and Fittings	Leasehold Improvements	Office Equipment	Total
Cost	£	£	£	£
At 1 January 2020	103,416	898,486	10,616	1,012,518
Purchase	—	—	—	—
Disposal	—	—	—	—
At 31 December 2020	103,416	898,486	10,616	1,012,518
<b>Depreciation</b>				
At 1 January 2020	48,689	158,351	10,616	217,656
Charge for the year	20,523	62,595	—	83,118
Disposal	—	—	—	—
At 31 December 2020	69,212	220,946	10,616	300,774
<b>Net book value</b>				
At 31 December 2019	54,727	740,135	—	794,862
At 31 December 2020	34,204	677,540	—	711,744

**12. Debtors**

At 31 December	2020	2019
Debtors: amounts falling due within one year	£	£
Amounts owed by group undertakings	212,969	—
Prepayments	44,173	95,755
Other debtors	—	66,637
VAT receivable	24,018	89,146
Corporation tax receivable	—	372,273
Total debtors falling due within one year	281,160	623,811
<b>Debtors: amounts falling due after more than one year</b>		
Other debtors	211,500	211,500
<b>Total Debtors</b>	<b>492,660</b>	<b>835,311</b>



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**13. Creditors: Amounts Falling Due Within One Year**

At 31 December	2020	2019
	£	£
Corporation tax liabilities	115,519	—
Other taxation and social security	55,018	124,521
Other creditors	86,796	16,211
Amounts owed to group undertakings	—	91,526
Defined contribution pension scheme accrual	4,015	4,421
Other accruals	287,252	505,923
Total creditors falling due within one year	548,600	742,602

**14. Provisions for Liabilities**

	Dilapidation provision	Legal provision (see note 22)	Deferred tax provision	Total
	£	£	£	£
At 1 January 2020	74,541	1,256,000	38,825	1,369,366
Credited to profit and loss account	—	—	(4,138)	(4,138)
Amounts utilised	—	(1,256,000)	—	(1,256,000)
At 31 December 2020	74,541	—	34,687	109,228

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. See note 22 for further discussion of the legal provision and note 15 for further discussion of the deferred tax provision. Future minimum rentals payable under non-cancellable operating leases are disclosed in note 19.

**15. Deferred Tax**

Deferred tax is provided as follows:

	2020	2019
	£	£
At 1 January	(38,825)	(34,006)
(Expense)/benefit for the year, per profit and loss account	4,138	(4,819)
At 31 December	(34,687)	(38,825)

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The deferred taxation balance relates to:

At 31 December	2020	2019
	£	£
Capital allowances in arrears of depreciation	(43,104)	(48,290)
Other timing differences	8,417	9,465
<b>Provision for deferred tax</b>	<b>(34,687)</b>	<b>(38,825)</b>

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 Company's financial assets and liabilities are summarised by category below:

At 31 December	2020	2019
	£	£
Financial assets		
Debt instruments measured at amortised cost		
Other debtors (see note 12)	424,469	278,137
Cash at bank and in hand	3,185,154	4,207,242
<b>Total financial assets</b>	<b>3,609,623</b>	<b>4,485,379</b>
Financial liabilities		
Measured at amortised cost		
Other creditors (see note 13)	86,796	107,737
<b>Total financial liabilities</b>	<b>86,796</b>	<b>107,737</b>

#### 17. Called-up Share Capital

At 31 December	2020	2019
	£	£
Allotted, called-up and fully-paid 391,000 ordinary shares of £1 each	391,000	391,000

The Company has one class of ordinary shares which carry no right to fixed income.

#### 18. Capital Contributions

	Capital Contributions
	£
At 1 January 2019	921,390
Capital contributions from Parent Company	1,552,927
At 31 December 2019	2,474,317
Capital contributions from Parent Company	7,425,847
At 31 December 2020	9,900,164

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In March 2019, the Company entered into a USD \$400 million credit facility with CSC, from which the Company drew USD \$308 million on 25 April 2019. The credit facility and 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 contribution was made on 16 April 2019 in the amount of £1,523,810. Draws on the credit facility were fully repaid as at 31 December 2019. In December 2020, the Company received a capital contribution of £7,381,975 for payment to the FCA of a penalty in respect of certain regulatory issues and for which a final notice from the FCA was received in December 2020. See note 22 for further discussion.

**19. Operating Lease Commitments**

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

At 31 December	2020	2019
	£	£
Within 1 year	235,000	235,000
> 1 year - 5 years	940,000	940,000
> 5 years	1,390,417	1,625,417
Total operating lease commitments	2,565,417	2,800,417

**20. 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 2020 was £52,995 (2019: £64,300). There was a £4,015 defined contribution pension scheme accrual as at 31 December 2020 (2019: £4,421).

**21. Share Based Payments**

CSC's share based incentive plans provide for granting options and restricted stock units to employees and directors under equity settled share based compensation. The required disclosures are included in the consolidated financial statements of CSC.

- **Restricted Stock Units**

CSC 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 CSC. 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 CSC. If CSC 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.

- **Stock Options**

CSC 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.

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**22. Legal Matter and Provision**

The Company began dialogue with the FCA in respect of certain regulatory issues that were promptly disclosed to the FCA in May 2018. In June 2019, the Company received notice that the FCA had referred this matter for investigation to its Enforcement Division. In 2019 the Company recorded a provision of £1,256,000, which was the minimum amount that could have been reasonably estimated related to the matter at that time. In December 2020, the Company received a final notice from the FCA imposing a financial penalty for this matter of £8,963,200. The Company promptly submitted payment for this amount in December 2020 to settle this matter.

**23. 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.

**24. Ultimate Parent Company**

The Company is a subsidiary of Schwab International Holdings, Inc. The ultimate parent company and controlling party is CSC, a company incorporated in the United States of America and registered at 3000 Schwab Way, Westlake, TX 76262. The consolidated financial statements of CSC are the largest and smallest consolidated financial statements prepared for the group of which the Company is a member. Copies of the consolidated financial statements of CSC can be obtained from the parent company's website, <https://aboutschwab.com/annual-report>.

**25. Subsequent Events**

There have been no events subsequent to year end that require disclosure in these financial statements.