Schroders

Annual Report and Accounts 2018

Schroder Pension Management Limited

Year ended 31 December 2018

Registered Number: 05606609

Contents

Officers and professional advisers

Directors

Graham Aslet
David Heathcock
Guy Henriques
Wayne Mepham
Calum Thomson
Julian Walker-Hazell
Derek Wright

Secretary

Schroder Corporate Services Limited

Registered office

1 London Wall Place
London
EC2Y 5AU

Independent auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Chief Actuary

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

Strategic report

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

Results and Review of the business

The profit for the year after tax was £1,337,000 (2017: £1,562,000 profit after tax).

The Company's business is providing investment management services under life company regulations and a range of funds for institutional policyholders. Institutional policyholders comprise defined benefit and defined contribution occupational pension schemes. The Company's investment and operational principles are expected to remain unchanged.

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

In the year ended 31 December 2018 there was a decrease in revenue due to a fall in policyholder investment contract liabilities to £8,811,183,000 (2017: £10,518,245,000), and operating costs decreased due to a fall in expenses for asset management services rendered. Combined, this resulted in a profit before tax of £1,681,000 (2017: £1,935,000).

As a UK-listed business, the Group have been closely monitoring the progress of the Brexit negotiations between the UK and other members of the EU. We already have a strong presence in continental Europe and we do not expect Brexit to have a significant impact on our operating activities, although we are prepared to make necessary changes where these may be required. In 2018, we have taken steps to develop our corporate structure and regulatory profile. These changes will ensure we have the operational structures necessary to operate should the negotiations fail to deliver appropriate co-operation agreements to facilitate the passporting of asset management services from continental Europe to the UK.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Schroders plc's other subsidiary undertakings which, with Schroders plc, form the Schroders plc Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the "Key risks and mitigations" section of the Strategic Report and "Risk and internal controls" within the Governance section of the Schroders plc annual report and accounts for the year ended 31 December 2018 (Schroders Report). The Schroders Report does not form part of this report.

Key performance indicators

The Directors of the Group manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, is discussed in the "Strategic report" in the Schroders Report. The Schroders Report does not form part of this report.

Approved by the Board of Directors and signed on its behalf by:

Benjamin Hanley, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
13 March 2019

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018. The information contained in the Strategic report and the Statement of Directors' responsibilities forms part of this Directors' report.

General information

The Company is a private limited company, limited by shares incorporated and domiciled in England and Wales. The Company's ultimate parent undertaking and controlling entity is Schroders plc, which together with the Company and Schroders plc's other subsidiary undertakings, form the Group.

Dividends

During 2018 the Directors declared an interim dividend of £8.5m (2017: nil) which was paid to the member of the Company on 15 June 2018.

No final dividend in respect of the year ended 31 December 2018 is currently proposed.

Risk management and use of financial instruments

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the "Key risk and mitigations" section and "Risk and internal controls" within the Governance section of the Schroders Report. The Company's specific risk exposures to financial instruments are explained in note 13 to the financial statements. The Schroders Report does not form part of this report.

Going concern

Taking all the above factors into consideration, including the nature of the Company and its business, the Directors are satisfied that, at the time of approving the financial statements, there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which is at least 12 months from the date the Annual Report and Accounts is signed. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors

The Directors of the Company who have served throughout the year, except where listed below, are listed on page one. Between 1 January 2018 and 13 March 2019 the following changes have taken place:

Director	Appointed
Derek Wright	1 January 2019

Directors' liability insurance

Directors' and Officers' liability insurance is taken out by Schroders plc, the Company's ultimate parent undertaking for the benefit of the Directors of the Company.

Employment policy

The Company had no employees during the year (2017: none).

Directors' report (continued)

Independent Auditors and disclosure of information to independent Auditors

During the year, Ernst & Young LLP ('EY') was appointed as external auditor of the Company in accordance with section 487 of the Companies Act 2006. In accordance with section 487(2) of the Companies Act 2006 and in the absence of a notice proposing that the appointment be terminated at a general meeting, EY will be deemed to be reappointed for the next financial year.

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

Statement of Directors' responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on its behalf by:

Benjamin Hanley, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
13 March 2019

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No.
05606609

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

Opinion

We have audited the financial statements of Schroder Pension Management Limited (the 'Company') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Cash flow statement and the related notes 1 to 16 (except for the capital management section of note 13 which are marked as unaudited), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Overview of our audit approach

Key audit matters	• Risk of management override
Materiality	• Overall materiality of £540,000, which represents 2% of net assets.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of Management Override specifically around revenue recognition (£48 million, 2017: £55 million) *Refer to the Strategic Report (page 2); and Note 2 of the Consolidated Financial Statements (page 19)* The auditing standards, specifically ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* (ISA 240), mandate the consideration of the risk of management override of controls as a significant risk. Our assessment suggests that the areas in which management override of controls has the	➢ As part of our audit procedures we have: ➢ Understood, assessed and tested the design and operating effectiveness of key controls in respect of the management recording of revenue, including the reliance on 3rd party Service Organisation Controls ('SOC1') reports. ➢ Performed substantive testing procedures on a sample of revenue transactions on both segregated and fund revenues and reconciled the	Based on the results of our procedures performed we have not identified any issues related to management override over revenue recognition. Revenue, specifically management fees, is recorded in line with the applicable accounting framework and is materially correct for the year ended 31 December 2018.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
greatest risk of arising is in the recognition of revenue. There is a risk that pressure to meet operational targets within Schroders Plc group of companies could increase the risk of management override on revenue recognition	fees charged to contracts and 3rd party reports. ➢ Performed revenue cut-off procedures to test, on a sample basis, whether revenue is recognised in the correct period. ➢ Performed journal entry testing to identify any unusual or significant journals impacting the recognised revenue. ➢ Performed testing on all manual entries to revenue, including policyholder activity, reconciling the manual entry to a 3rd party report.	

An overview of the scope of our audit

Tailoring the scope

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

Our application of materiality

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

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

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

We determined materiality for the Company to be £540,000, which is 2% of net assets. Given the focus of the stakeholders, we have determined net assets to be the GAAP measure that is the most appropriate basis to determine materiality for the Company.

During the course of our audit, we reassessed initial materiality of £530,000 and updated it to £540,000 due to an increase in the Company net assets between the interim and year end period.

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £270,000. We have set performance materiality at this percentage due to the first year of audit of the Company.

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £27,000, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the direct laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how Schroder Pension Management Limited is complying with those frameworks by making enquiries of management, and through discussions with the Board. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

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

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

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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

Other matters we are required to address

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

- The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the year ending 2018. We have not been auditors of the Company in the previous years.

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

- The audit opinion is consistent with the additional report to the Board.

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.

Angus Millar

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 March 2019

Income statement

for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Revenue	2	48,182	55,056
Net (losses)/ gains on financial instruments and other income	3	(573,480)	987,637
Net income		**(525,298)**	**1,042,693**
Operating expenses	4	(46,786)	(53,381)
Change in policyholder liabilities: investment contracts	12(a)	573,765	(987,377)
Operating profit		**1,681**	**1,935**
Income tax expense	5(a)	(344)	(373)
Profit after tax		**1,337**	**1,562**

Statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit after tax for the year		**1,337**	**1,562**
Items that may be reclassified to the income statement on fulfilment of specific conditions:			
Net fair value movement arising from available-for-sale financial assets		-	75
Tax charge on items taken directly to other comprehensive income	5(b)	-	(8)
Other comprehensive income for the year, net of tax		**-**	**67**
Total comprehensive income for the year, net of tax		**1,337**	**1,629**

Statement of financial position

as at 31 December 2018

	Note	2018 £'000	2017[1] £'000
Assets			
Cash and cash equivalents	6	117,793	198,151
Trade and other receivables	7	33,155	79,570
Financial assets			
Financial assets held to cover investment contract liabilities	8(a)	8,704,240	10,318,337
Other financial assets	8(b)	15,475	15,368
Current tax asset		7,332	7,400
Deferred tax asset	10	3	-
Total assets		**8,877,998**	**10,618,826**
Trade and other payables	9	31,401	57,331
Deferred tax liability	10	-	20
Current tax liability		1,115	361
Financial liabilities			
Investment contracts	12(a)	8,811,183	10,518,245
Other financial liabilities	12(b)	7,269	2,643
Total liabilities		**8,850,968**	**10,578,600**
Net assets		**27,030**	**40,226**
Total equity		**27,030**	**40,226**

[1] 2017 presentation has been reformatted for consistency, see note 1 for further details.

The financial statements on pages 12 to 39 were approved by the Board of Directors on 13 March 2019 and signed on its behalf by:

Wayne Mepham
Director

Statement of changes in equity

for the year ended 31 December 2018

	2018			
	Share capital[1]	**Fair value reserve[2]**	**Profit and loss reserve[3]**	**Total equity**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January	26,500	234	13,492	40,226
Restatement on adoption of IFRS 9	-	(234)	201	(33)
At 1st January (restated)	**26,500**	**-**	**13,693**	**40,193**
Profit for the year	-	-	1,337	1,337
Total comprehensive income for the year net of tax	**-**	**-**	**1,337**	**1,337**
Dividends	-	-	(8,500)	(8,500)
Share capital cancelled	(6,000)	-	-	(6,000)
Transactions with shareholder	**(6,000)**	**-**	**(8,500)**	**(14,500)**
At 31 December	**20,500**	**-**	**6,530**	**27,030**

	2017			
	Share capital[1]	Fair value reserve[2]	Profit and loss reserve[3]	Total equity
	£'000	£'000	£'000	£'000
At 1 January	26,500	167	11,930	38,597
Profit for the year	-	-	1,562	1,562
Net gains on available-for-sale assets	-	75	-	75
Tax charge on items taken directly to equity	-	(8)	-	(8)
Total comprehensive income for the year net of tax	**-**	**67**	**1,562**	**1,629**
At 31 December	**26,500**	**234**	**13,492**	**40,226**

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

2 The fair value reserve represented the difference between the cost and the fair value of unimpaired financial assets classified as available-for-sale. Following the implementation of IFRS 9, this has been restated to the profit and loss reserve.

3 The profit and loss reserve represents accumulated comprehensive income for the year and prior periods.

Cash flow statement

for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Operating activities			
Profit before income tax		1,681	1,935
Adjustments for statement of financial position movements:			
Decrease/(increase) in trade and other receivables		31,949	(17,967)
Decrease/(increase) in financial assets held to cover investment contract liabilities[1]		1,614,097	(214,769)
(Decrease)/increase in trade and other payables		(25,930)	9,614
(Decrease)/increase in investment contract liabilities		(1,707,062)	332,041
Increase in other financial liabilities		4,626	13
Increase in other financial assets		(107)	-
Adjustments for which the cash effects are investing activities:			
Interest received		(181)	(260)
Cash (used in)/generated from operating activities		**(80,927)**	**110,607**
Tax received/ (paid)		388	(388)
Net cash (used in)/generated from operating activities		**(80,539)**	**110,219**
Investing activities			
Loan repaid by another Group company		14,500	-
Interest received		181	260
Net cash from investing activities		**14,681**	**260**
Financing activities			
Dividends paid		(8,500)	-
Share repurchase		(6,000)	-
Net cash used in financing activities		**(14,500)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(80,358)**	**110,479**
Opening cash and cash equivalents		198,151	87,672
Net (decrease)/ increase in cash and cash equivalents		(80,358)	110,479
Closing cash and cash equivalents	6	**117,793**	**198,151**

[1] Includes £26.8 million (2017: £22.4 million) of dividend income received and £10.5 million (2017: £12.6 million) of interest income received. *Both of these amounts are attributable to policyholders.*

Notes to the financial statements

for the year ended 31 December 2018

1. Presentation of the financial statements

Financial information for the year ended 31 December 2018 is presented in accordance with International Accounting Standard ('IAS') 1 Presentation of Financial Statements.

The financial statements and related notes have been reformatted to reflect the current tax asset and current tax liability. Comparative information has been reformatted where relevant.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of financial instruments that are held at fair value through profit or loss or fair value through other comprehensive income.

The Company's principal accounting policies have been consistently applied. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes below.

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

New accounting standards and interpretations

The Company has applied IFRS 9 and IFRS 15 from 1 January 2018. The nature and effect of these changes are disclosed below.

(i) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces the classification and measurement models previously contained in IAS 39 Financial Instruments: Recognition and Measurement. In accordance with IFRS 9, the Company's financial assets have been re-classified at amortised cost or fair value through profit or loss.

The Company has applied IFRS 9 retroactively, with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Comparatives were not restated. The table below sets out the impact of reclassifying the Company's financial assets in accordance with IFRS 9 following its adoption on 1 January 2018. For the Company, the adoption of IFRS 9 resulted in certain investments in debt instruments being reclassified from available-for-sale in accordance with IAS 39 to fair value through profit or loss under IFRS 9.

Notes to the financial statements

for the year ended 31 December 2018

1. Presentation of the financial statements (continued)

New accounting standards and interpretations (continued)

(i) IFRS 9 Financial Instruments (continued)

IFRS 9 introduces an expected loss model for the assessment of impairment and replaces the incurred loss model in IAS 39. The impact on the Company's net assets at 1 January 2018 of £0.03 million has been recognised as an adjustment to the opening profit and loss reserve in the Statement of changes in equity. The reduction in net assets is driven by the impairment requirements on financial assets measured at amortised cost.

IAS 39 classifications as at 1 January 2018:	**£'000**
Available-for-sale	15,368
Fair value through profit or loss	10,318,337
Loans and receivables	21,500
Total financial assets	**10,355,205**

IFRS 9 classifications as at 1 January 2018:	**£'000**
Fair value through profit or loss	10,333,705
Amortised cost	21,500
Total financial assets	**10,355,205**

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard introduces a five step model for recognising revenue, which consists of identifying the contract with the customer; identifying the relevant performance obligations; determining the amount of consideration to be received under the contract; allocating the consideration to each performance obligation; and earning the revenue as the performance obligations are satisfied. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

No restatements were required following the adoption of IFRS 15.

Notes to the financial statements

for the year ended 31 December 2018

1. Presentation of the financial statements (continued)

Future accounting developments

The Company did not implement the requirements of any standards or interpretations which were in issue and which were not required to be adopted at the year end date.

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

Future developments

The Directors intend the Company to continue with its existing business.

2. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured. Management fees are generally based on an agreed percentage of the valuation of the assets under management and are recognised as the service is provided and it is probable that the fee will be received.

Performance fees are earned from some arrangements when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised where there is deemed to be a low probability of a significant reversal in future periods. Performance fees are typically earned over one year and are recognised at the end of the performance period.

Revenue comprises:

	2018	2017
	£'000	£'000
Management fees	47,956	54,324
Performance fees	226	732
	48,182	55,056

Notes to the financial statements

for the year ended 31 December 2018

3. Net (losses)/ gains on financial instruments and other income

Gains and losses on financial instruments

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

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

Prior to the adoption of IFRS 9, gains or losses on available-for-sale investments were recognised as a separate component of equity through other comprehensive income until the investment was sold, collected or otherwise disposed of, or until the investment was determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income was transferred to the income statement. Assets categorised as available-for-sale were reviewed at the end of each reporting period for impairment. Upon adoption of IFRS 9, the financial assets previously categorised as available-for-sale were re-categorised as fair value through profit or loss.

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

	2018	2017
	£'000	£'000
Realised gain on financial assets held for policyholders	918,151	943,554
Unrealised (loss)/gain on financial assets held for policyholders	(1,491,916)	43,823
Unrealised gain on other investments	104	-
Interest received from the loan to Schroders plc	176	266
Bank interest receivable	5	1
Other interest payable	-	(7)
	(573,480)	987,637

The unrealised gain on other investments relates to an asset previously held as available-for-sale until the implementation of IFRS 9, when it was reclassified as fair value through profit or loss.

Notes to the financial statements

for the year ended 31 December 2018

4. Operating expenses

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

	2018	2017
	£'000	£'000
Fees payable for the audit of the company	101	98
Fees payable for audit-related assurance services	47	60
Audit and non-audit fees	**148**	158
Expenses for asset management services rendered	46,360	52,926
Other operating expenses	278	297
Operating expenses	**46,786**	53,381

The average number of staff employed during the year was nil (2017: nil).

Directors' emoluments

The emoluments set out below are in respect of two (2017: two) Directors whose emoluments were charged in full to the Company during the year. The emoluments of four (2017: five) Directors employed by and paid for by another Group company are included in the financial statements of that entity. Their emoluments are deemed to be wholly attributable to that Company. These Directors therefore receive no incremental emoluments for their services to the Company.

	2018	2017
	£'000	£'000
Aggregate emoluments	**60**	44

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

During the year, no (2017: none) Directors became entitled to shares under the Equity Compensation Plan, Equity Incentive Plan or Long Term Incentive Plan with respect to their services to the Company.

Key management personnel compensation

The Company has determined that the Board of Directors of the Company are the key management personnel of the Company.

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

	2018	2017
	£'000	£'000
Short-term benefits	**72**	52

Notes to the financial statements

for the year ended 31 December 2018

5. Income tax expense

The Company pays taxes in accordance with UK tax rates. Most taxes are recorded in the income statement (see part (a) of this note below) and relate to profits earned in the reporting period (current tax). Some tax, in 2017, relating to changes in the value of financial assets classified as available for sale, was recorded directly in the Statement of comprehensive income (see part (b) below).

(a) Analysis of expense in the year

	2018	2017
	£'000	£'000
Current tax:		
Current year charge	368	373
Adjustments in respect of prior years	(1)	-
Total current tax expense for the year	**367**	**373**
Deferred tax:		
Origination and reversal of temporary differences	(49)	-
Adjustments in respect of prior years	26	-
Total income tax expense for the year	**344**	373

(b) Analysis of charge reported in Statement of comprehensive income

	2018	2017
	£'000	£'000
UK corporation tax on assets held at fair value through profit or loss (2017: assets classified as available for sale)	-	(12)
Deferred tax on assets held at fair value through profit or loss (2017: assets classified as available for sale)	-	20
Total charge reported in Statement of comprehensive income	-	8

Notes to the financial statements

for the year ended 31 December 2018

5. Income tax expense (continued)

(c) Factors affecting tax charge for the year

The UK standard rate of corporation tax is 19% (2017: effective tax rate of 19.25%).

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

	2018	2017
	£'000	£'000
Profit before income tax	**1,679**	1,935
Profit before income tax multiplied by corporation tax at the UK effective rate of 19% (2017: 19.25%)	319	373
Adjustments in respect of prior year estimates	25	-
Total income tax expense for the year	**344**	373

Notes to the financial statements

for the year ended 31 December 2018

6. Cash and cash equivalents

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

	2018	2017
	£'000	£'000
Cash and cash equivalents	**117,793**	198,151

The book value of cash and cash equivalents approximates their fair value. The amount of cash beneficially owned by policyholders is set out in note 8.

7. Trade and other receivables

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

These represent amounts the Company is due to receive from third parties in the normal course of business. This includes fees as well as settlement accounts (redemption proceeds due from funds or fund subscriptions due from investors). These receivables are derecognised on receipt of cash or on recognition of a provision if the receivable is in doubt. Trade and other receivables are net of impairment calculated under the expected loss model.

	2018	2017[1]
	£'000	£'000
Fee debtors	2,970	1,076
Settlement accounts	9,458	30,901
Amounts owed by related parties (see note 15)	7,901	22,397
Accrued income	12,822	25,192
Other debtors	4	4
	33,155	79,570

[1] 2017 presentation has been reformatted for consistency, see note 1 for further details.

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

The interest-bearing loan to Schroders plc is classified at amortised cost and measured initially at fair value net of direct issue costs and subsequently at amortised cost using the effective interest rate net of impairment calculated under the expected loss model, and was £7.0 million at 31 December 2018 (31 December 2017: £21.5 million).

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

Notes to the financial statements

for the year ended 31 December 2018

8. Financial assets

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

Financial assets

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

- Trade and other receivables; and
- Cash and cash equivalents.

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

Information about, and the accounting policy for, derivative contracts is included within note 12(b). Financial assets are classified as fair value through profit or loss. Prior to the adoption of IFRS 9 on 1 January 2018, the company previously applied the classification and measurement requirements of IAS 39. As a result financial assets were previously classified as either available-for-sale, for shareholder assets, or at fair value through profit or loss for assets beneficially owned by policyholders.

Recognition and measurement

All purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

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

For investments that are actively traded in organised financial markets, fair value is determined by reference to official quoted market prices at the close of business on the year-end date. For investments that are not actively traded in organised financial markets, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

Estimates and judgements

Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of financial assets are discussed below.

Notes to the financial statements

for the year ended 31 December 2018

8. Financial assets (continued)

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

Impairment of financial assets categorised as available-for-sale in accordance with IAS 39 in respect of prior periods

Assets categorised as available-for-sale are reviewed at the end of each reporting period for impairment. If the period-end fair value of an asset is less than the cost or deemed cost of that asset, the Company will assess whether there is objective evidence that the asset is impaired.

In respect of equity products, consideration is given to the extent to which the fair value of an instrument is below cost and to the length of time that the fair value of an instrument has been below cost.

	2018	2017
	£'000	£'000
Financial assets backing unit linked policyholders liabilities	8,701,058	10,311,422
Derivative contracts: forward foreign exchange contracts	2,925	3,523
Equity derivative contracts	257	3,392
Financial assets held to cover investment contract liabilities	**8,704,240**	10,318,337

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

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

	2018	2017
	£'000	£'000
Cash and cash equivalents	106,601	181,518
Trade and other receivables	21,108	32,097
Financial assets held to cover investment contract liabilities	8,704,240	10,318,337
Trade and other payables	(13,497)	(11,064)
Other financial liabilities	(7,269)	(2,643)
Total net assets held to cover investment contract liabilities	**8,811,183**	10,518,245

Notes to the financial statements

for the year ended 31 December 2018

8. Financial assets (continued)

(b) Other financial assets not beneficially owned by policyholders

	2018		
	Fair value through profit or loss	**Available-for-sale**	**Total**
	£'000	**£'000**	**£'000**
Investment in authorised unit trust and other investments	**15,475**	**-**	**15,475**

	2017		
	Fair value through profit or loss	**Available-for-sale**	**Total**
	£'000	**£'000**	**£'000**
Investment in authorised unit trust and other investments	-	15,368	15,368

(c) Fair value measurements

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities, daily priced funds, gilts and exchange-traded derivatives;
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data not included within Level 1 for the asset or liability and principally comprise corporate bonds and foreign exchange contracts. Valuation techniques may include using a broker quote in an inactive market, an evaluated price based on a compilation of primarily observable market information or industry standard calculations, utilising vendor fed data and information readily available via external sources. For funds not priced on a daily basis, e.g. real estate funds, the net asset value which is issued monthly or quarterly is used; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and principally comprise investments in private equity funds. These are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Guidelines. The valuation review is a continual process throughout the year.

Notes to the financial statements

for the year ended 31 December 2018

8. Financial assets (continued)

(c) Fair value measurements (continued)

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

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

2018	**Level 1 £'000**	**Level 2 £'000**	**Total £'000**
Financial assets:			
Held to cover investment contract liabilities	8,668,730	32,328	8,701,058
Derivative contracts	257	2,925	3,182
Other financial assets	15,475	-	15,475
	8,684,462	**35,253**	**8,719,715**

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets:				
Held to cover investment contract liabilities	10,144,060	167,350	12	10,311,422
Derivative contracts	3,392	3,523	-	6,915
Other financial assets	15,368	-	-	15,368
	10,162,820	**170,873**	**12**	**10,333,705**

Notes to the financial statements

for the year ended 31 December 2018

9. Trade and other payables

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

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

	2018	2017[1]
	£'000	£'000
Settlement accounts	12,897	44,153
Trade creditors	10,741	7,841
Amounts owed to related parties (see note 15)	7,434	5,075
Accrued expenses	329	262
	31,401	57,331

[1] 2017 presentation has been reformatted for consistency, see note 1 for further details.

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

Notes to the financial statements

for the year ended 31 December 2018

10. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2017: 17%), reflecting the rate expected to be applicable at the time the deferred tax asset is expected to be realised. The deferred tax liability held at the beginning of the period relating to unrealised gains recorded as other comprehensive income on available-for-sale assets prior to 2018 has been released. These gains have been brought into current tax in the period as they have now been transferred to profit and loss upon adoption of IFRS 9.The deferred tax asset relates to amounts previously taxed in relation to such assets and is reversed over five years under transitional rules.

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

	2018 £'000	2017 £'000
At 1 January	20	-
Credited to the income statement	(23)	-
Charged to the statement of other comprehensive income	-	20
At 31 December	**(3)**	**20**

Deferred Tax Assets

	Temporary differences £'000	Total £'000
At 1 January 2018	-	-
Transfer from deferred tax liabilities	3	3
At 31 December 2018	**3**	**3**

Deferred Tax Liabilities

	Temporary differences £'000	Total £'000
At 1 January 2018	20	20
Credited to the Income statement	(23)	(23)
Transfer to deferred tax assets	3	3
At 31 December 2018	**-**	**-**

	Temporary differences £'000	Total £'000
At 1 January 2017	-	-
Charge to Statement of other comprehensive income	20	20
At 31 December 2017	20	20

Notes to the financial statements

for the year ended 31 December 2018

11. Interests in unconsolidated structured entities

The Company has interests in structured entities as a result of its principal activity, the management of assets on behalf of its unit-linked policyholders and through investments made for other purposes. The Company earns fees from managing assets which are held within structured entities, typically unitised vehicles, which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units by the Company on behalf of its policyholders. The management fees earned are based on a percentage of the entity's net asset value. Where contractually agreed, a performance fee, based on outperformance against predetermined benchmarks, may also be earned by the Company. The business activity of all structured entities is the management of assets in order to maximise investment returns from capital appreciation and/or investment income. Details of the size of interests in unconsolidated structured entities is included within note 27 of the Schroders Report.

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

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

	2018	2017
	£'000	£'000
Financial assets held to cover investment contract liabilities	7,778,372	8,759,581
Other investments	15,475	15,368
Total	**7,793,847**	8,774,949

Notes to the financial statements

for the year ended 31 December 2018

12. Financial liabilities

(a) Investment contracts

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

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

	2018	2017
	£'000	£'000
Unit-linked liabilities	**8,811,183**	10,518,245

	2018	2017
	£'000	£'000
At 1 January	10,518,245	10,186,232
Premiums received	1,352,994	2,247,807
Claims	(2,449,931)	(2,863,999)
Investment return	(573,765)	987,377
Management charges	(36,360)	(39,172)
At 31 December	**8,811,183**	10,518,245

(b) Derivative contracts

Derivatives are held for risk management purposes. The Company actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Company. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. All derivative liabilities of £7,269,000 (31 December 2017: £2,643,000) were held in respect of unit-linked liabilities (see note 8) and the investment returns associated with these contracts is borne by third party unit-linked policyholders.

By purchasing or selling derivative contracts, the Company is able to mitigate or eliminate such exposures. The principal risk the Company faces through such use of derivative contracts is of credit risk.

Forward foreign exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The maximum exposure to credit risk is represented by the fair value of the contracts.

Notes to the financial statements

for the year ended 31 December 2018

12. Financial liabilities (continued)

(b) Derivative contracts (continued)

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

	2018	2017
	£'000	£'000
Equity contracts	3,508	173
Forward foreign exchange contracts	3,761	2,470
	7,269	2,643

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

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

	Level 1	**Level 2**	**Total**
2018	**£'000**	**£'000**	**£'000**
Financial liabilities:			
Investment contracts	8,811,183	-	8,811,183
Derivative contracts	3,508	3,761	7,269
	8,814,691	**3,761**	**8,818,452**

	Level 1	Level 2	Total
2017	£'000	£'000	£'000
Financial liabilities:			
Investment contracts	10,518,245	-	10,518,245
Derivative contracts	173	2,470	2,643
	10,518,418	**2,470**	**10,520,888**

The Company did not hold any Level 3 financial liabilities during the year (2017: same).

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

Notes to the financial statements

for the year ended 31 December 2018

13. Financial instrument risk management

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the Governance section and in note 19 in the Schroders Report. Sensitivities are measured against market risk movements which the Group believes could reasonably occur within the next calendar year.

The Company's specific risk exposures are explained below.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause the Company financial loss by failing to discharge an obligation. The Company has exposure to credit risk from its holdings in assets other than those allocated to the investment contracts where the risk is that a counterparty will be unable to pay in full amounts when due. The Company has negligible exposure to credit risk in relation to financial assets allocated to the investment contracts as the risk is principally borne by policyholders. Additionally the Company has fee debtor balances, cash and other investments. These are monitored regularly. Historically there have been no defaults.

Fee debtors are monitored regularly. Historically, default levels have been insignificant, and, unless a client has withdrawn funds, there is an ongoing relationship between the Company and the client. The Company's fee debtors that are past due as at 31 December 2018 are presented below.

	2018	2017
	£'000	£'000
Older than 30 days not older than 45 days	10	34
Older than 45 days not older than 60 days	1,079	109
Older than 60 days not older than 90 days	165	546
Older than 90 days not older than 120 days	334	-
Older than 120 days not older than 180 days	109	195
Older than 180 days	-	166
	1,697	1,050

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

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

The Company's own cash and cash equivalents are held with institutions which are at least A rated (2017: BBB+ rated).

Notes to the financial statements

for the year ended 31 December 2018

13. Financial instrument risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Company's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company currently maintains a large surplus of cash which is invested chiefly in short-term securities. The Company would be able to request a call on this surplus to meet any reasonable demand for liquidity. The Company has invested some of its capital in current asset investments that could be liquidated to meet unexpected demands for liquidity. The Company has also made a £7.0 million loan to its ultimate parent undertaking which is repayable on demand.

Liquidity risk in relation to the financial instruments of the life fund is principally borne by policyholders. When policyholders withdraw funds from the Company and, if in the Company's reasonable opinion it is required, the Company may delay payment by up to 30 days and in the case of real estate by 180 days.

Interest rate risk

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

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower (2017: 50 basis points higher or 50 basis points lower) with all other variables held constant, it has been estimated that the post-tax profit for the year would have been £337,000 higher / £168,000 lower (2017: £214,000 higher / £214,000 lower), mainly as a result of higher/lower interest income on cash balances and the intercompany loan. Other components of equity would have been unaffected.

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

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

Foreign exchange risk

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

Pricing risk

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

Notes to the financial statements

for the year ended 31 December 2018

13. Financial instrument risk management (continued)

Pricing risk (continued)

The Company holds a financial asset investment that is unhedged, however this is a money market fund and accordingly the Company is not exposed to material price risk on this investment at 31 December 2018 (2017: same).

Capital management

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

The Company is authorised by the Prudential Regulation Authority (PRA) and is regulated by the PRA and Financial Conduct Authority (FCA). The FCA oversees the activities of the Company and the PRA ensures that the firm meets its Solvency II capital requirements. The policy of the Company is to hold sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. The Group's Capital Committee regularly reviews this.

With effect from 1 January 2016 the Company was subject to regulatory capital requirements determined under the Solvency II regulations. The Company's draft capital resources at 31 December 2018 were £26.8 million (2017: £40.1 million) and the draft solvency capital requirement was £8.4 million (2017: £9.4 million). The Company has complied at all times with all of the externally imposed regulatory capital requirements.

14. Share capital

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

Issued and fully paid:	**2018 Number**	2017 Number	**2018 £'000**	2017 £'000
At 1 January	26,500,000	26,500,000	26,500	26,500
Shares cancelled	(6,000,000)	-	(6,000)	-
At 31 December	**20,500,000**	26,500,000	**20,500**	26,500

During the year ended 31 December 2018, the Company cancelled 6,000,000 ordinary shares of £1 each to Schroder International Holdings Limited, for a consideration of £6.0 million.

Notes to the financial statements

for the year ended 31 December 2018

15. *Related party transactions*

(a) Transactions between related parties

Transactions between the Company and its fellow subsidiaries, which are related parties of the Company, together with details of transactions between the Company and other related parties are disclosed below.

	2018			
	Income	**Expenses**	**Amounts owed by related parties**	**Amounts owed to related parties**
	£'000	**£'000**	**£'000**	**£'000**
Ultimate parent	176	-	7,058	-
Other related companies within the Schroders Group	832	(46,360)	843	(7,434)

	2017			
	Income	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Ultimate parent	266	-	21,630	-
Other related companies within the Schroders Group	952	(52,926)	767	(5,075)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. An expected credit loss of £19k has been recognised in respect of the amounts owed by related parties.

(b) Other related party transactions

The Company has Life funds which hold assets in unit trusts that are controlled by the Schroders Group. At year-end the Company's investments in unit trusts controlled by the Schroders Group was £6,926,656,000 (2017: £8,009,135,000).

During the year ended 31 December 2018, a related party to the Company disinvested £12.2 million from a Life policy issued by the Company (2017: disinvested £6.0 million), the Life Diversified Growth Fund (LDGF). At 31 December 2018 the fair value of the related party assets, all in the LDGF, was £219.5 million (2017: £244.4 million).

Notes to the financial statements

for the year ended 31 December 2018

16. Related undertakings

(a) Ultimate parent company

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

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

The Company's related undertakings also include funds in which it holds investments as a result of its principal activity, the management of assets on behalf of its unit-linked policyholders.

It is possible for the Company to have a significant holding of more than 50% that meets the definition of a subsidiary under Companies Act 2006, without that undertaking being classified as a subsidiary under IFRS.

Furthermore due to the number of share classes or unit classes which can exist in these vehicles, a significant holding in a single share class or unit class is possible, without that undertaking being classified as a subsidiary under Companies Act 2006.

Notes to the financial statements

for the year ended 31 December 2018

16. Related undertakings (continued)

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

At 31 December 2018 the Company had a significant holding in the following funds:

Fund Name	Share / unit class	Holding in undertaking share / unit class	Total holding in undertaking via share / unit class
UK [1]			
Schroder Advanced Beta Global Corporate Bond Fund	X Accumulation	29%	11%
Schroder Advanced Beta Global Equity Small and Mid Cap Fund	X Accumulation	86%	44%
Schroder Advanced Beta Global Equity Value Fund	X Accumulation	50%	50%
Schroder Advanced Beta Global Sovereign Bond Fund	X Accumulation	49%	19%
Schroder All Maturities Corporate Bond Fund	I Accumulation	50%	17%
Schroder Diversified Growth Fund	I Accumulation	96%	96%
Schroder Dynamic Multi Asset Fund	Z Accumulation	61%	53%
Schroder European Fund	I Income	36%	3%
Schroder Flexible Retirement Benefit Fund	X Accumulation	100%	100%
Schroder Global Emerging Markets Fund	A Accumulation	66%	47%
Schroder Global Equity Fund	I Accumulation	47%	19%
Schroder Institutional Developing Market Fund	B Income	95%	11%
Schroder Institutional Pacific Fund	I Accumulation	39%	13%
Schroder Institutional UK Smaller Companies Fund	X Income	27%	13%
Schroder Long Dated Corporate Bond Fund	I Accumulation	76%	47%
Schroder Multi-Asset Total Return Fund	X Accumulation	51%	33%
Schroder QEP Global Active Value Fund	I Accumulation	92%	39%
Schroder QEP Global Core Fund	I Accumulation	36%	9%
Schroder QEP Global Core Fund	X Accumulation	22%	4%
Schroder QEP Global Emerging Markets	I Accumulation	93%	27%
Schroder Responsible Value UK Equity Fund	I Accumulation	91%	75%
Schroder Sterling Broad Market Bond Fund	I Accumulation	70%	8%
Schroder Sustainable Multi-Factor Equity Fund	X Accumulation	37%	37%
Schroder UK Mid 250 Fund	L Accumulation	38%	6%
Schroders Global Multi Factor Equity Fund	X Accumulation	58%	37%
Luxembourg [2]			
Schroder ISF China A	I Accumulation	36%	17%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation	32%	9%
Schroder ISF Global Corporate Bond	I Accumulation	28%	7%

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