Schroders

Annual Report and Accounts 2018

Leadenhall Securities Corporation Limited

Year Ended 31 December 2018

Registered Number: 00302840

Contents

Officers and professional advisers

Directors

Tim McCann
Wayne Mepham
Graham Staples
Nicholas Taylor

Company Secretary

Schroder Corporate Services Limited

Registered Office

1 London Wall Place
London
EC2Y 5AU

Independent Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Strategic report

The Directors present their Strategic report on Leadenhall Securities Corporation Limited (the 'Company') for the year ended 31 December 2018.

Results and Review of the business

The loss for the year, after tax, was £26,018,000 (2017: £5,527,000 profit after tax).

The Company's investment business continued during the year. The financial assets of the Company decreased by £184,337,000 (2017: decrease of £64,584,000) to £834,874,000 (2017: £1,019,211,000).

The Company's investment and operating principles are expected to remain unchanged in 2019.

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

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Schroders plc's other subsidiary undertakings which, with Schroders plc, form the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the 'Key risk and mitigations' in 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 (the '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:

Matthew Buckland, Authorised signatory
For and on behalf of
Schroder Corporate Services Limited
Company Secretary
11 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 Schroder plc's other subsidiary undertakings, form the Group.

Future developments

The future developments of the Company are disclosed within the Strategic report.

Dividends

During the year no dividends were paid or proposed (2017: Nil).

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 'Key risk and mitigations' in the Strategic report 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 11 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 and up to the date of signing are listed on page one.

Between 1 January 2018 and 11 March 2019, the following changes took place:

Director	**Resigned**
James Stewart	15 February 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.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs 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.

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

Matthew Buckland, Authorised signatory
For and on behalf of
Schroder Corporate Services Limited
Company Secretary
11 March 2019

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No 302840

Independent auditors' report to the member of Leadenhall Securities Corporation Limited

Opinion

We have audited the financial statements of Leadenhall Securities Corporation 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 14, 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 loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- 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.

Independent auditors' report to the member of Leadenhall Securities Corporation Limited (contd.)

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

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

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

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

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

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

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

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

Ernst & Young LLP

Julian Young (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: ~~11~~ 12 March 2019

Income statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net (losses) / gains on financial instruments	3	(20,637)	16,035
Operating expenses	3	(3,526)	(4,207)
Operating (loss) / profit		**(24,163)**	**11,828**
Finance income	3	8,746	10,665
Finance charges	3	(16,709)	(15,652)
Net finance charge		(7,963)	(4,987)
(Loss) / profit before tax		**(32,126)**	**6,841**
Tax credit / (charge)	4	6,108	(1,314)
(Loss) / profit after tax		**(26,018)**	**5,527**

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
(Loss) / profit for the year		**(26,018)**	**5,527**
Items to be reclassified to the income statement on fulfilment of specific conditions:			
Net (losses) arising from assets held at fair value through other comprehensive income / available-for-sale assets		(5,156)	(722)
Current income tax (charge) / credit on fixed income assets held at fair value through other comprehensive income / available-for-sale asset movements taken through equity	4(b)	(1,525)	709
		(6,681)	(13)
Reclassifications to the income statement:			
Transfers to income statement on disposal of assets held at fair value through other comprehensive income / available-for-sale financial assets		(38)	277
Deferred tax on assets held at fair value through other comprehensive income / available-for-sale investments	4(b)	1,278	(560)
		1,240	(283)
Other comprehensive losses		**(5,441)**	**(296)**
Total comprehensive (losses) / income for the year net of tax		**(31,459)**	**5,231**

Statement of financial position

as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Cash and cash equivalents	5	66,056	23,120
Trade and other receivables	6	18,086	7,344
Financial assets	7	834,874	1,019,211
Corporation tax		4,579	-
Deferred tax	4(d)	718	-
Total assets		**924,313**	**1,049,675**
Corporation tax		-	2,097
Trade and other payables	8	723,752	816,374
Financial liabilities	9	2,554	1,172
Deferred tax	4(d)	-	560
Total liabilities		**726,306**	**820,203**
Net assets		**198,007**	**229,472**
Total Equity		**198,007**	**229,472**

The financial statements on pages 7 to 31 were approved by the Board of Directors on 11 March 2019 and signed on its behalf by:

Wayne Mepham
Director

Registered Number: 00302840

Statement of changes in equity

for the year ended 31 December 2018

	Share[1] capital £'000	Fair value[2] reserve £'000	Profit and[3] loss reserve £'000	Total equity £'000
At 1 January 2018	5,000	(5,222)	229,694	229,472
Restatement on adoption of IFRS 9	-	9,354	(9,360)	(6)
At 1 January 2018 (restated)	**5,000**	**4,132**	**220,334**	**229,466**
Loss for the year	-	-	(26,018)	(26,018)
Net losses on financial assets held at fair value through other comprehensive income	-	(5,156)	-	(5,156)
Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income	-	(38)	-	(38)
Income tax charge on asset fair value movements taken through equity	-	(247)	-	(247)
Total comprehensive income for the year, net of tax	**-**	**(5,441)**	**(26,018)**	**(31,459)**
At 31 December 2018	**5,000**	**(1,309)**	**194,316**	**198,007**

	Share[1] capital £'000	Fair value[2] reserve £'000	Profit and[3] loss reserve £'000	Total equity £'000
At 1 January 2017	5,000	(4,926)	224,167	224,241
Profit for the year	-	-	5,527	5,527
Net losses on available-for-sale financial assets	-	(722)	-	(722)
Transfers to income statement on disposal of available-for-sale financial assets	-	277	-	277
Income tax credit on available-for-sale asset movements taken through equity	-	149	-	149
Total comprehensive income for the year, net of tax	**-**	**(296)**	**5,527**	**5,231**
At 31 December 2017	**5,000**	**(5,222)**	**229,694**	**229,472**

[1] Share capital represents issued and fully paid ordinary shares at a par value of £1 each. See note 12 to the financial statements.

[2] The fair value reserve represents the difference between the cost (or, if an asset has been reclassified, the fair value at date of reclassification) and the fair value of unimpaired financial assets classified as fair value through other comprehensive income (2017: available-for-sale)

[3] The profit and loss reserve represents the profit or loss for the year together with certain other amounts recognised directly in other comprehensive income and transactions with shareholders.

Cash flow statement

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Operating (loss) / profit		(24,163)	11,828
(Increase) / decrease in trade and other receivables		(11,921)	974
Decrease in trade and other payables		(92,633)	(61,452)
Purchase of financial instruments		(233,860)	(367,401)
Proceeds from sale of financial instruments		409,043	411,787
Net (gains) / losses on financial assets and financial liabilities		(4,375)	7,899
Adjustment for expected credit loss		(6)	-
Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income / available-for-sale financial assets		38	(277)
Cash generated from operating activities		42,123	3,358
Amounts paid in respect of group tax relief		(2,093)	(6,310)
Interest received		19,604	21,858
Net cash generated from operating activities		**59,634**	**18,906**
Financing activities			
Interest paid		(16,698)	(15,585)
Net cash used in financing activities		**(16,698)**	**(15,585)**
Net increase in cash and cash equivalents		**42,936**	**3,321**
Opening cash and cash equivalents		23,120	19,799
Net increase in cash and cash equivalents		42,936	3,321
Closing cash and cash equivalents	5	**66,056**	**23,120**

Notes to the financial statements

for the year ended 31 December 2018

1. Presentation of financial statements

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

Basis of preparation

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

The financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and financial liabilities that are held at fair value through profit or loss or financial assets that are held at fair value through other comprehensive income (2017: available-for-sale).

The Company is a wholly-owned subsidiary of Schroder Investment Company Limited (incorporated in England and Wales) and is included in the consolidated financial statement of Schroders plc (incorporated in England and Wales) which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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

The Company did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be implemented at the year-end date.

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2018

2. Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. 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 judgements that have a significant effect on the carrying amounts of assets and liabilities are set out in note 7, 'Financial assets', and note 11, 'Financial instrument risk management'.

3. Revenues and expenses

Net (losses) / gains on financial instruments

A portion of the Company's financial assets that are measured at fair value are classified as financial assets at fair value through profit or loss. Net gains and losses on financial instruments at fair value through profit or loss principally comprise market returns on investments in debt securities, pooled investment vehicles and gains and losses on derivatives (which mainly arise from hedging activities). Gains or losses on investments held at fair value through profit or loss, together with transaction costs, are recognised within 'net (losses) / gains on financial instruments and other income' in the income statement.

The remainder of the Company's financial assets that are measured at fair value are classified as financial assets at fair value through other comprehensive income. Unrealised gains and losses on debt securities classified as financial assets at fair value through other comprehensive income (2017: all remaining financial assets classified as available-for-sale) are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is sold or otherwise realised.

Impairment of financial assets is included in the income statement.

Foreign currency translation

Foreign currency financial assets and liabilities are translated at the rates of exchange ruling at the year end date and any exchange differences arising are taken to the income statement. Exchange differences are taken as they arise on the translation of assets and liabilities whose changes in value are taken directly through other comprehensive income.

Operating expenses

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

Net finance charge

Net finance charge comprises amounts due on the Company's investment capital and temporary surpluses or deficits in the Company's cash accounts held with banks or loans to or from related parties. Interest receivable and payable is recognised using the effective interest method and is recorded in the income statement within 'Net finance charge'.

Notes to the financial statements

for the year ended 31 December 2018

3. Revenues and expenses (continued)

	2018 £'000	2017 £'000
Included in gains on financial instruments:		
Net gains / (losses) on foreign exchange[1]	445	(1,141)
Net gains / (losses) on disposal of financial assets held at fair value through other comprehensive income / available-for-sale	38	(277)
Net (losses) / gains on financial assets and liabilities held at fair value through profit or loss	(21,120)	17,453
	(20,637)	**16,035**

[1] Excludes foreign exchange on forward foreign exchange contracts. Such gains and losses are included in net gains on financial assets and liabilities held at fair value through profit or loss.

	2018 £'000	2017 £'000
Included in operating expenses:		
Audit fees payable for the audit of the Company	49	45
	49	**45**

	2018 £'000	2017 £'000
Included in finance income:		
Bank interest receivable	61	13
Interest receivable on financial assets held at fair value through other comprehensive income / available-for-sale	8,674	10,652
Interest receivable on balances due from Group Companies (see note 13)	11	-
Finance income	**8,746**	**10,665**
Included in finance charges:		
Interest payable on financial liabilities not at fair value through profit or loss	(16,709)	(15,652)
Finance charges	**(16,709)**	**(15,652)**

Notes to the financial statements

for the year ended 31 December 2018

3. Revenues and expenses (continued)

Directors' emoluments

The amounts set out below are in respect of 1 (2017: 2) Director whose emoluments were charged either in part or in full to the Company during the year. These Directors have contracts of service with and receive their emoluments from another Group company. A charge is made by that Group Company in respect of the services it provides to the Company. The emoluments of 4 (2017: 3) Directors employed by and paid for by another Group company are included in the financial statements of that entity. Their emoluments are deemed to be wholly attributable to their services to these companies. These Directors therefore receive no incremental emoluments for their services to the Company.

	2018 £'000	2017 £'000
Aggregate emoluments	**1**	**7**

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors was £100 (2017: £1,000).

Retirement benefits have accrued to no (2017: none) Directors under a defined benefit scheme and to no (2017: 1) Directors under a defined contribution pension scheme.

During the year, 1 (2017: 2) Director became entitled to shares under the Group's Equity Compensation Plan, 1 (2017: 2) Director became entitled to shares under the Group's Equity Incentive Plan and no (2017: 1) Director became entitled to shares under the Group's Long Term Incentive Plan.

Key management personnel remuneration

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 £'000	2017 £'000
Short-term individual benefits	2	7
Share-based payments	-	1
Other long-term benefits	-	1
	2	**9**

Included in the accounts of other subsidiaries of the Group are amounts owed to related parties of £31,000 (2017: £275,000) and net interest and fee income of £7.000 (2017: £32,000).

Notes to the financial statements

for the year ended 31 December 2018

4. Tax (credit) / charge

The Company pays taxes according to the rates applicable in the countries in which it operates. Most taxes are recorded in the income statement and relate to taxes payable for the reporting period (current tax).

(a) Analysis of tax (credit) / charge reported in the income statement

	2018 £'000	2017 £'000
Current tax:		
Current tax (credit) / charge	(6,104)	1,317
Adjustments in respect of prior years	(4)	(3)
Total tax (credit) / charge for the year	**(6,108)**	**1,314**

(b) Analysis of tax charge / (credit) reported in other comprehensive income

	2018 £'000	2017 £'000
Current income tax charge on gains and losses on assets held at fair value through other comprehensive income / available-for-sale assets	1,525	780
Adjustments in respect of prior years	-	(1,489)
Deferred tax on assets held at fair value through other comprehensive income / available for sale investments current year	(1,278)	(854)
Deferred tax on available for sale investments adjustments in respect of prior years	-	1,414
Tax charge / (credit) in statement of other comprehensive income	**247**	**(149)**

(c) Factors affecting the tax (credit) / charge for the year

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

The tax credit for the year is higher (2017: charge lower) than the UK standard rate of corporation tax for the period of 19%.

The differences are explained below:

	2018 £'000	2017 £'000
(Loss) / profit before tax	**(32,126)**	**6,841**
Profit before tax multiplied by corporation tax at the UK standard rate of 19% (2017: 19.25%)	(6,104)	1,317
Effects of:		
Adjustments in respect of prior years	(4)	(3)
Total tax (credit) / charge for the year	**(6,108)**	**1,314**

Notes to the financial statements

for the year ended 31 December 2018

4. Tax (credit) / charge (continued)

(d) Deferred tax

The movement on the deferred tax asset / liability accounts are as shown below:

Deferred tax assets

	2018 £'000	2017 £'000
At 1 January	-	-
Transfer from deferred tax liabilities	(560)	-
Credit to statement of other comprehensive income	1,278	-
At 31 December	**718**	**-**

Deferred tax liabilties

	2018 £'000	2017 £'000
At 1 January	(560)	-
Charge to statement of other comprehensive income	-	(560)
Transfer to deferred tax assets	560	-
At 31 December	**-**	**(560)**

5. Cash and cash equivalents

Cash and cash equivalents comprise of margin accounts and bank accounts with an original maturity of three months or less. Where the Company considers that such items are not to be used for settling its liabilities, for example, securities with short maturity dates that will be rolled over as part of an investment portfolio, they are classified as financial assets rather than cash and cash equivalents.

	2018 £'000	2017 £'000
Cash at bank	**66,056**	**23,120**

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

Notes to the financial statements

for the year ended 31 December 2018

6. Trade and other receivables

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

Trade and other receivables are all current. The carrying amount of interest and non-interest bearing trade and other receivables at amortised cost approximates their fair value.

	2018 £'000	2017 £'000
Amounts due from related parties (see note 13)	11,836	45
Amounts due from external parties	6	-
Accrued income	6,244	7,299
	18,086	**7,344**

Amounts due from related parties include £nil (2017: £nil) of interest bearing deposits.

Gross carrying value for trade and other receivables is £18,091,000 (1 January 2018: £7,344,000) and expected credit losses are £5,000 (1 January 2018: £6,000). Note 11 sets out the basis of the expected credit loss calculation.

7. Financial assets

Items included within this caption on the face of the statement of financial position principally comprise investments in equities, derivatives and debt securities. It excludes financial assets and liabilities that are recorded under the following headings:

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

Separate accounting policies are presented in respect of these excluded items.

Classification and measurement

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' ('IFRS 9'). IFRS 9 replaces the classification and measurement models previously contained in IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'). The classification and measurement of financial assets at 31 December 2018 is in accordance with IFRS 9 and the classification and measurement of financial assets at 31 December 2017 is in accordance with IAS 39 as the Company has not restated comparative information.

The Company initially records all financial assets at fair value. Under IFRS 9 the Company holds each financial asset either at fair value ('fair value through profit or loss' or 'fair value through other comprehensive income') or at amortised cost. Under IAS 39 the Company holds each financial asset either at fair value ('fair value through profit or loss' or 'available-for-sale') or at amortised cost ('held to maturity' or 'loans and receivables').

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.

Derivative contracts are included at fair value at the year-end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the year-end date between willing parties.

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

	2018		
	Fair value through other comprehensive income	**Fair value through profit or loss**	**Total**
	£'000	**£'000**	**£'000**
Derivative contracts (see note 10)	-	4,321	4,321
Debt securities - listed	394,369	-	394,369
Debt securities - unlisted	43,435	-	43,435
Pooled investment vehicles	-	392,749	392,749
	437,804	**397,070**	**834,874**

	2017		
	Available-for-sale	**Fair value through profit or loss**	**Total**
	£'000	**£'000**	**£'000**
Derivative contracts (see note 10)	-	8,467	8,467
Debt securities - listed	507,055	-	507,055
Debt securities - unlisted	40,991	-	40,991
Pooled investment vehicles	38,861	423,837	462,698
	586,907	**432,304**	**1,019,211**

Gross carrying value for debt securities is £437,804,000 (1 January 2018: £548,046,000). The expected credit losses are £569,000 (1 January 2018: £568,000) which are booked in other comprehensive income. Note 11 sets out the details of the expected credit loss calculation.

Fair Value Measurements

The Company holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments may require some judgement or may be derived from readily available sources. The degree of judgement involved is reflected in the fair value measurements section below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

Each instrument has been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and comprises investments in equities and debt securities.
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data included within Level 1 for the asset or liability and principally comprise debt securities 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; and

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

- 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 hedge funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets:				
Debt securities	-	437,804	-	437,804
Pooled investment vehicles	392,736	-	13	392,749
Derivative contracts	2,796	1,525	-	4,321
	395,532	**439,329**	**13**	**834,874**

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets:				
Debt securities	-	548,046	-	548,046
Pooled investment vehicles	462,671	-	27	462,698
Derivative contracts	527	7,940	-	8,467
	463,198	**555,986**	**27**	**1,019,211**

No financial assets were transferred between levels during 2018 or 2017.

Movements in financial assets and liabilities categorised as level 3 during the year are:

	2018	**2017**
	£'000	**£'000**
At 1 January	27	568
Disposals	(13)	(587)
Net gains or losses recognised in the income statement	(1)	46
At 31 December	**13**	**27**

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

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.

Valuation of financial assets where there is no quoted price
Such assets principally consist of investments in private equity, venture and buy-out funds. The determination of fair value requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation by the fund manager or advisor where this is performed before year end. In making this judgement the Company evaluates amongst other factors the effect of cash distributions and changes in the business outlook.

Impairment in accordance with IFRS 9
IFRS 9 introduces an expected loss model for the calculation of impairment. Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. The carrying value of amortised cost financial assets is adjusted for impairment. Impairment is also recognised for debt securities that are classified as financial assets at fair value through other comprehensive income. The carrying value of these financial assets will not be adjusted, but the portion of the fair value adjustment relating to expected credit losses will be recognised in income statement rather than in other comprehensive income.

Impairment in accordance with IAS 39
In accordance with IAS 39, impairment was only recognised when a default occurred. The carrying value of amortised cost financial instruments was adjusted for impairment in accordance with the incurred loss model and was normally determined based on an assessment of the estimated future cash flows on a discounted basis using the original effective interest rate compared with contractual amounts. Available-for-sale financial assets were reviewed for impairment at the end of each reporting period. The carrying value of these financial assets was not adjusted, but any impairment loss was transferred from other comprehensive income to the income statement.

Interests in unconsolidated structured entities

The Company holds interests in structured entities through its ownership of units in investment funds managed and operated by third parties. These investments entitle the Company to investment returns.

The main risk the Company faces from its interests in unconsolidated structured entities is capital losses arising from a decrease in the value of its investments. The following table summarises the carrying values recognised in the statement of financial position, which also represent the maximum exposure to loss, in respect of the Company's interests in unconsolidated structured entities:

	2018 £'000	2017 £'000
Financial assets	392,749	462,698
Cash equivalents	3,036	3,019
Total	**395,785**	**465,717**

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

Information on investments in related undertakings

The Group operates globally which results in the Company having a corporate structure consisting of a number of related undertakings. Related undertakings include where the Company has a significant holding of share class or unit class of a structured entity. These holdings can arise through the Group's investment management activities on behalf of clients or as part of the stated aim of generating a return on investment capital. Additionally, the seeding of structured entities in order to develop new investment strategies can give rise to these holdings. Due to the number of share classes or unit classes which can exist in these vehicles a significant holding in a single share or unit class is possible without that undertaking being classified as a subsidiary or associate.

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

Fund Name	Share / unit class	Holding in undertaking share / unit class	Holding in undertaking via share / unit class
UK			
Schroder Absolute Return Bond Fund	X Income	100%	15%
Schroder Dynamic Planner Portfolio 3	Z Accumulation	93%	93%
Schroder Dynamic Planner Portfolio 4	Z Accumulation	65%	62%
Schroder Dynamic Planner Portfolio 5	Z Accumulation	68%	68%
Schroder Dynamic Planner Portfolio 6	Z Accumulation	82%	82%
Schroder Dynamic Planner Portfolio 7	Z Accumulation	88%	88%
Schroder Fusion Managed Defensive Fund	F Accumulation	57%	57%
Schroder Fusion Portfolio 3	F Accumulation	29%	29%
Schroder Multi-Asset Total Return Fund	X Accumulation	51%	33%
Schroder US Equity Income Maximiser	L Accumulation	98%	13%
Australia			
Schroder Real Return Fund	W Distribution	33%	33%
Cayman Islands			
Musashi Smart Premia Fund	C	100%	0%
Japan			
Schroder YEN Target (Annual)	-	33%	33%
Schroder YEN Target (Semi-Annual)	-	70%	70%
Luxembourg			
Schroder Alternative Solutions Agriculture Fund	I Accumulation	100%	1%
Schroder Alternative Solutions Agriculture Fund	I Accumulation GBP Hedged	97%	0%
Schroder Alternative Solutions Argentine Bond Fund	C Accumulation	98%	95%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation	99%	89%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation GBP Hedged	99%	8%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation EUR Hedged	75%	0%
Schroder GAIA BlueTrend	C Accumulation CHF Hedged	43%	0%

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

Fund Name	Share / unit class	Holding in undertaking share / unit class	Holding in undertaking via share / unit Class
Luxembourg (continued)			
Schroder GAIA Contour Tech Equity	C Accumulation GBP Hedged	41%	0%
Schroder GAIA II NGA Turnaround	I Accumulation	100%	52%
Schroder ISF Dynamic Indian Income Bond	I Accumulation	45%	42%
Schroder ISF Emerging Europe	I Accumulation	100%	0%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation EUR Hedged	100%	0%
Schroder ISF Emerging Markets Equity Alpha	I Accumulation	100%	100%
Schroder ISF EURO High Yield	I Accumulation	100%	0%
Schroder ISF European Sustainable Equity	I Accumulation	100%	100%
Schroder ISF Global Credit Income	I Accumulation	100%	0%
Schroder ISF Global Credit Value	I Accumulation	94%	93%
Schroder ISF Global Disruption	I Accumulation	100%	100%
Schroder ISF Global Diversified Growth	I Accumulation GBP Hedged	40%	1%
Schroder ISF Global Energy	I Accumulation	100%	0%
Schroder ISF Global Gold	I Accumulation	100%	1%
Schroder ISF Global Gold	I Accumulation EUR Hedged	99%	0%
Schroder ISF Global Multi-Asset Balanced	I Accumulation CHF Hedged	89%	0%
Schroder ISF Global Recovery	I Accumulation	31%	3%
Schroder ISF Global Target Return	I Accumulation	72%	37%
Schroder ISF Middle East	I Accumulation	100%	0%
Schroder ISF Multi-Asset PIR Italia	C Accumulation	90%	90%
Schroder ISF Multi-Asset Total Return	I Accumulation	85%	35%
Schroder ISF Multi-Asset Total Return	I Accumulation EUR Hedged	99%	2%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation	100%	4%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation EUR Hedged	73%	0%
Schroder ISF QEP Global Value Plus	I Accumulation	100%	3%
Schroder ISF Securitised Credit	I Accumulation	100%	1%
Schroder ISF Strategic Beta	I Accumulation	100%	3%
Schroder ISF Swiss Equity Opportunities	I Accumulation	100%	1%

The registered office for each of the entities listed corresponds to the relevant country.

UK
1 London Wall Place, London, EC2Y 5AU, United Kingdom
Australia
Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia
Cayman Islands
C/O Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY11-1104, Cayman Islands
Japan
1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1st Building, Saitama Prefecture, 330-9716, Japan
Luxembourg
5 rue Höhenhof, L-1736 Senningerberg, Grand Duchy of Luxembourg

Notes to the financial statements

for the year ended 31 December 2018

8. Trade and other payables

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

Trade and other payables are all current. Trade and other payables include interest bearing loans from other Group companies. Interest applied to the loan is in line with current market rates. All other trade and other payables are non interest bearing. The carrying amount of interest and non interest bearing trade and other payables is at amortised cost approximates their fair value.

	2018 £'000	2017 £'000
Amounts owed to related parties (see note 13)	723,705	816,301
Accruals	47	73
	723,752	**816,374**

Amounts due to related parties include £721,818,000 (2017: £812,739,000) of interest bearing amounts.

9. Financial liabilities

Financial liabilities are held at fair value through profit or loss and held for trading. Gains and losses on derivative contracts are recognised within net gains on financial instruments in the income statement.

	2018 £'000	2017 £'000
Derivative contracts (see note 10)	**2,554**	**1,172**

Fair value measurements

The Company holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are based on the degree to which the fair value is observable and are defined in note 7.

	2018		
	Level 1 £'000	Level 2 £'000	Total £'000
Financial liabilities:			
Derivative contracts	500	2,054	2,554
	500	**2,054**	**2,554**

	2017		
	Level 1 £'000	Level 2 £'000	Total £'000
Financial liabilities:			
Derivative contracts	853	319	1,172
	853	**319**	**1,172**

Notes to the financial statements

for the year ended 31 December 2018

10. Derivative contracts

Derivative contracts are included at fair value at the year end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the statement of financial position date between willing parties. All contracts held at year end are current.

Where derivatives are held for risk management purposes, the Company formally documents the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. In addition, within certain segregated portfolios, the Company may use derivative investments for investment return. Finally the Company holds derivatives for risk management purposes on behalf of other companies in the Group. The net exposure to derivatives held to hedge Group exposures is £nil (2017: £15,000 liability).

In relation to fair value hedges such as forward foreign currency contracts which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Currency forwards represent commitments to sell or purchase foreign and domestic currency. Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

Futures contracts are standardised contracts to buy or sell specified items for an agreed price at a specified future date. Contracts are negotiated at a futures exchange which acts as an intermediary between the two parties. For futures contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

	Assets	Liabilities
	£'000	£'000
2018		
Equity contracts	2,796	500
Forward foreign exchange contracts	1,525	2,054
	4,321	**2,554**
	Assets	**Liabilities**
	£'000	**£'000**
2017		
Equity contracts	527	855
Forward foreign exchange contracts	7,940	317
	8,467	**1,172**

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market indices or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Notes to the financial statements

for the year ended 31 December 2018

11. 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 'Risk management and internal control' within the Governance report and in note 19 in the Schroders Report. The Company's specific risk exposures are explained below.

Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. Except for the corporate bonds and cash and cash equivalents the Company's counterparties are predominately its related parties. Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month. Intercompany and cash balances are monitored regularly and historically default levels have been nil. The Company does not have any receivables that are neither past due nor impaired.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. A breakdown of the Company's relevant financial assets by credit rating as provided by credit agencies are set out below.

	Cash and cash equivalents		Corporate bonds	
	2018	2017	2018	2017
	%	%	%	%
Credit rating				
AAA[1]	4.6%	13.0%	2.2%	2.7%
AA+	-	-	2.1%	1.6%
AA	48.4%	-	1.9%	1.0%
AA-	47.0%	0.5%	9.7%	10.0%
A+	-	86.5%	6.1%	10.9%
A	-	-	10.9%	9.7%
A-	-	-	17.0%	18.2%
BBB+	-	-	20.5%	22.6%
BBB	-	-	20.9%	18.0%
BBB-	-	-	7.9%	5.3%
BB+	-	-	0.8%	-
Non rated	-	-	-	-
At 31 December	**100.0%**	**100.0%**	**100.0%**	**100.0%**

[1] Based on underlying assets within the fund. 2017 was reclassified from non rated for comparability.

Notes to the financial statements

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11. Financial instrument risk management (continued)

From 1 January 2018, expected credit losses are calculated in accordance with IFRS 9 on all the Company's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. The gross carrying values are adjusted to reflect these credit losses.
A three stage model is used for calculating expected credit losses which requires financial assets to be assessed as:
- Performing (stage 1) - Financial assets where there has been no significant increase in credit risk since original recognition; or
- Under-performing (stage 2) - Financial assets where there has been a significant increase in credit risk since initial recognition, but no default; or
- Non-performing (stage 3) - Financial assets that have defaulted.

For financial assets in stage 1, twelve month expected credit losses are calculated based on the credit losses that are expected to be incurred over the following twelve-month period. For financial assets in stage 2 and 3, expected credit losses are calculated based on the expected credit losses over the life of the instrument. The Company applies the simplified approach to calculate expected credit losses for trade and other receivables based on lifetime expected credit losses and no assessment is done of the different stages.

The expected credit loss on cash and cash equivalents is immaterial.

Estimates and judgements - impairment of financial assets

The Company has internal processes designed to assess the credit risk profile of its financial instruments, and to determine the relevant stage for calculating the expected credit losses. These processes include consideration of internal, external, historic and forward-looking information about specific loans and securities as well as market data.

For financial assets held with rated counterparties (such as cash and cash equivalents, loans and advances to banks and debt securities), the Company calculates expected credit losses based on default information published by rating agencies and considers any known factors not yet reflected in this information.

For trade and other receivables, the Company has established a provision matrix that incorporates the Company's historical credit loss experience, counterparty groupings and whether a receivable is overdue or not.

Factors considered in determining whether a default has taken place include how many days past the due date a payment is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a counterparty's ability to pay. For debt securities, a default usually arises when contractual payments are 1 day overdue. A default also occurs when any contractual payments (principal or interest) are 90 days or more overdue.

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 the solvency. The Company holds sufficient liquid funds to cover its normal course of business. Outside the normal course of business the Company can request additional capital through intergroup loans to maintain sufficient liquidity. The Company has investment capital which includes investments in fixed income portfolios. Liquidity in these portfolios is monitored by the Company on a regular basis.

Notes to the financial statements

for the year ended 31 December 2018

11. Financial instrument risk management (continued)

Market risk

(a) 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.

Interest rate risk is limited. Assets and liabilities attracting interest rates are cash balances and intercompany loans, both of which are at floating rate, therefore outright interest rate risks arises mainly from the decision to allow a mismatch between the cash flows. Corporate bonds have fixed rates, however changes in interest rates will affect the fair value of the bonds, the effect of which has been calculated below.

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower with all other variables held constant, post-tax profits for the year would have been £5,347,000 lower or £2,674,000 higher, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

At 31 December 2017, if Bank of England interest rates had been 50 basis points higher / lower with all other variables held constant, post-tax profit for the year would have been £3,206,000 lower or £3,206,000 higher, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower with all other variables held constant, the fair value of the corporate bonds held by the Company would have decreased by £158,290,000 or increased by £79,230,000.

The underlying assumption made in the model used to calculate the effect on post-tax profits was that the fair values of assets and liabilities (with the exception of corporate bonds) will not be affected by a change in interest rates.

(b) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk arises when transactions are denominated in a currency that is not the entity's functional currency.

The Company is exposed to foreign exchange risk arising from currency exposures mainly to US Dollars and Euros.

The Company's investment capital is hedged effectively.

As at 31 December 2018, if the US Dollar had weakened 20% / strengthened by 15% against the sterling, with all other variables held constant, the Company's profit for the year would decrease by £7,314,000 / increase by £5,486,000.

As at 31 December 2017, if the US Dollar had weakened 8% / strengthened by 10% against the sterling, with all other variables held constant, the Company's profit for the year would decrease by £4,238,000 / increase by £5,297,000.

As at 31 December 2018, if the Euro had weakened 10% / strengthened by 7% against the sterling, with all other variables held constant, the Company's profit for the year would decrease by £1,527,000 / increase by £1,069,000.

As at 31 December 2017, if the Euro had weakened 6% / strengthened by 10% against the sterling, with all other variables held constant, the Company's profit for the year would decrease by £965,000 / increase by £1,608,000.

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11. Financial instrument risk management (continued)

(c) Pricing risk:

Pricing risk is the market risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

At 31 December 2018, if market prices had been 20% higher / lower with all other variables held constant (2017: same), the effect of post-tax profit would increase / decrease by £41,561,000 (2017: £52,852,000), principally as a result of fair value gains on the Company's fair value investments.

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits and other components of equity:

- Changes in the FTSE All Share Index correlate to changes in the Company's debt and seed capital funds;
- The Company's investment in corporate bonds and hedge funds have no correlation to the FTSE All Share Index; and
- The market risk on the Company's seed capital which are hedged, are assumed to have no correlation to the FTSE All Share Index.

Capital management

The Company's capital that is not required for the working capital requirements of the business is invested in the following areas:

- Debt securities; and
- Seed capital.

The investments in the above are primarily to support the business.

12. Share capital

	2018 Number	2017 Number	2018 £'000	2017 £'000
Issued and fully paid:				
Ordinary shares of £1 each	5,000,000	5,000,000	5,000	5,000

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for the year ended 31 December 2018

13. Related party transactions

Loans to and borrowings from related parties

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised.

Transactions between the Company and related parties are disclosed below.

	2018				
	Expenses £'000	**Finance income £'000**	**Finance charges £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Other related companies within the Schroders Group	(3,473)	11	(16,709)	11,836	(723,705)

	2017				
	Expenses £'000	**Finance income £'000**	**Finance charges £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Other related companies within the Schroders Group	(4,127)	-	(15,645)	45	(816,301)

Transactions with Directors are described in note 3 and the ultimate and immediate parent company is disclosed in note 14.

At 31 December 2018 the Company held financial assets with a fair value of £85,841,000 (2017: £171,801,000) that are deemed to be subsidiaries of Schroders plc.

The Company recognised realised gains on the disposal of related parties of £41,000 (2017: gains of £1,613,000) within 'Net (losses) / gains on financial instruments'.

Transactions with subsidiaries and associates of the Schroder Group were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

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for the year ended 31 December 2018

14. Ultimate and immediate parent company

The Company's immediate parent company is Schroder Investment Company 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.