

Barings Europe Limited

Registration Number: 10801931

**Group Directors' Report And Consolidated Financial Statements
For The Year Ended
31 December 2020**



Barings Europe Limited

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Barings Europe Limited

Company Information

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Barings Europe Limited

Group Strategic Report

In accordance with Section 414A(1) of the Companies Acts 2006, the directors have prepared a Strategic Report which includes a review of Barings Europe Limited ("the Company") and its subsidiary companies (collectively "the Group"), comprising its business and future developments, its key performance indicators and a description of the principal risks and uncertainties faced by the Group.

Business Overview

On 9 March 2016, Massachusetts Mutual Life Insurance Company ("MassMutual", the Company's ultimate parent) announced its intention to merge Barings LLC (formerly Babson Capital Management LLC) with three of its affiliate subsidiaries Barings Real Estate Advisors LLC (formerly Cornerstone Real Estate Advisors LLC), Baring Asset Management Limited and Wood Creek Capital Management LLC ("the Merger"). On 12 September 2016, the integration completed successfully and the unified Group is now operating under the Barings name. With this integration Barings became one of the world's largest and most diversified asset management organisations with more than US\$ 334 billion in assets under management as at 31 December 2020. The new Barings offers market-leading capabilities across the global fixed income, equity, real estate and alternative-asset markets, underpinned by the expertise of more than 1,750 investment professionals in 18 countries.

The Group believes it is well placed to grow its assets under management, revenues and profits by delivering superior investment performance over the market cycle, by expanding its distribution capabilities and achieving revenue and cost synergies across the new Barings organisation.

Business Review

The business performed well during the year, despite the impact of COVID-19 and the resultant fall in asset prices, with revenues up 4% on prior year at £334m (2019: £322m). Performance fees increased £7.5m compared to prior year largely due to the real estate business. By the end of the year markets had staged a recovery and assets under management had increased year on year 8% to £39.9b. Administrative expenses fell 2% to £296m (2019: £302m). After a strategic review of the German real estate operation, it was determined that the business should in future focus purely on investment management. As a result, the non-core third party management and advisory business was spun out to a non-Group company. The restructuring led to one off extra costs totalling £2m. These extra costs were offset because in 2020 travel and entertainment costs fell £4m as a result of the COVID-19 restrictions. The increase in profits due to higher revenues and lower costs was reduced by foreign exchange losses, due to sterling strengthening against the US\$ and the Group's balance sheet being long in US\$. Profit before tax for the year was £40m (2019: £17m).

In addition to the above, the Company undertook a capital reduction which resulted in the transfer of £6.4m from the share premium account to retained earnings.

Principal risks and uncertainties

The principal risk types faced by the Group are in relation to financial instruments, whether held directly on the balance sheet or indirectly through client mandates, and are as follows:

- i) Strategic risks - the most significant strategic risks facing the Group are a decline in business due either to:
 - External factors, such as a credit risk, market risk and liquidity risk; or
 - Internal factors, for example a substantial period of poor investment management performance.
- ii) Operational risks - see the Directors' Report for details.

Key performance indicators - consolidated

Key performance indicators ('KPIs') are reported to management and monitored at the Group level on a monthly basis. The following KPIs relate to the Group.

	2020	2019
	£'000	£'000
Consolidated turnover	334,296	322,385
Consolidated profit before taxation	39,644	17,194
Consolidated net assets	118,022	88,093
	£b	£b
Consolidated assets under management	39.9	36.9

Group Strategic Report (continued)

Employees

The Group is committed to equal opportunities with the clear intention that individuals should be judged on their merits and capabilities regardless of sex, age, race, religion, ethnic origin or disability. The Group places considerable emphasis and value on its policy of encouraging internal communication between employees and management. Employees are kept informed on matters which affect them and on the performance of the business as a whole through bulletins, newsletters and briefing sessions.

The Group attaches a high priority to developing the skills of all employees and to their training and, where necessary, their retraining. The performance assessment system assists management in career development and succession planning. Promotion from within the Group is strongly supported. The Group encourages the involvement of all of its employees in its overall performance and profitability through discretionary bonus and profit sharing incentive schemes, which are based on the financial results of the Group and Barings LLC.

The Group gives full and fair consideration to applications for employment that disabled people make to the Group. It ensures employment, training, career development and promotion of disabled people is consistent with all other employees. The Group ensures continuing employment and training of employees who have become disabled while employed by the Group.

Gender Pay Gap

Embracing diversity is embedded in the Group's corporate culture and gender is an important part of its diversity initiatives. The Group's latest gender pay gap report can be found at <https://www.barings.com/gb/institutional/uk-gender-pay-gap-report>.

Modern Slavery Statement

The Barings organisation is committed to acting ethically and with integrity in all its business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking are not taking place anywhere in its supply chains. The Group's modern slavery statement can be found at <https://www.barings.com/modern-slavery-statement>.

Environment

The Group is a professional and environmentally conscious organisation, which acknowledges the impact that its operations may potentially have on the environment. The clear objective of the Group is to minimise any impact on the environment by:

- Preventing pollution including greenhouse gas emissions (see the Directors' Report) , reducing waste and ensuring that wherever practical, measures are implemented to protect and preserve natural habitats, flora and fauna;
- Considering the effects that its operations may have on the local community;
- Taking action to eliminate or reduce, as far as practicable, any potentially adverse environmental impacts;
- Promoting environmental awareness amongst its suppliers, contractors and partners by implementation of operational procedures;
- Seeking to work in partnership with the community by behaving in a considerate and socially responsible manner; and
- Ensuring effective and expedient incident control, investigation and reporting.

The Group complies with the duties placed upon it within the requirements of Statutory Legislation, whilst at all times complying with, as a matter of best practice, the requirements and duties set out within Approved Guidance as issued by the Environment Agency and other organisations. The Group takes all practical steps to ensure that potential hazards and risks to the environment are identified and that suitable and effective prevent and control measures are implemented. The Directors have overall responsibility for all environmental matters.

Responsibilities of Directors under Section 172 of the Companies Act 2006 ("Sn 172")

The directors are committed to holding themselves to the highest possible standards of conduct, and implicit in this is the recognition and understanding that the Company has a responsibility to a wide range of stakeholders as detailed below:

- **The Group's customers** - the firm's success depends on its ability to provide the highest possible levels of service and investment performance to its customer base. Barings is dedicated to meeting the evolving investment and capital needs of its customers and regularly reviews the nature of its operations and the manner in which it engages with clients to ensure it is servicing them to the best of its ability. A recent example of this has been the development of the firm's 'multi-entry model' to ensure that clients are provided with multiple touchpoints within the organisation across the sales, product management and client service teams.

Group Strategic Report (continued)

Responsibilities of Directors under Section 172 of the Companies Act 2006 ("Sn 172") (continued)

- **The Company's shareholders** - the Company is an indirect, wholly owned subsidiary of Barings LLC, the parent entity of the broader Barings group which sets the strategy for the firm as a whole. Accordingly, the Company has a responsibility to execute the firm's strategic plan to the best of its ability as well as generating the financial returns that Barings LLC requires of its operating subsidiaries. Some of these financial goals are in turn driven by the requirements of Barings' ultimate owner, Massachusetts Mutual Life Insurance Company ("MassMutual"). Barings relationship with MassMutual is necessarily close as MassMutual is also Barings' largest single client and accordingly Barings has responsibility for ensuring it delivers on MassMutual's investment objectives for the portfolios it manages as well as ensuring it satisfies the broader requirements of the MassMutual corporate group.
- **The Group's employees** - the firm places a high priority in ensuring all members of staff are treated fairly and are provided with appropriate support and training to develop in their roles and maximise their full potential. In particular, over the last year the firm has made a significant effort to try and ensure that any staff whose mental well-being has suffered during lockdown have been provided with appropriate support. Over the last twelve months, the firm has also fostered the creation of a number of Employee Resource Groups to help engender a diverse, inclusive workplace aligned with the firm's values, goals and business practices. It is currently in the process of consulting with all staff to understand their preferred style of working once existing lockdown measures are eased, so that these views can be taken into account in determining the firm's ongoing remote working policy.
- **The Group's suppliers** - Barings relies on a number of key suppliers in order to operate effectively. In particular, the firm has strategic partnerships with a few organisations to whom it has outsourced parts of its operations, including fund administration and certain middle and back office services. The firm has a formal vendor management program to ensure that appropriate oversight is performed on vendors based on the nature of their activities and their importance to Barings as a whole. For all vendors irrespective of size however, Barings is committed to paying invoices on time and resolving any issues that may arise on a fair and equitable basis. The Group has established systems and controls to ensure slavery and human trafficking are not taking place within its supply chains.
- **The Environment** - Barings believes that by incorporating information on sustainability into its business practices and investment decisions, it can help create sustainable benefits for the economy, the environment and society. Its most recent sustainability policy published in 2020 focused on four key areas:
 - Collaborating with the firm's analysts, investors and the industry on sustainable best practice
 - Engaging with the entities in which the firm invests to try to improve ESG disclosure and responsible behaviour
 - Reducing the adverse environmental impacts of—and contributing to environmental regeneration through—the firm's global operations.
 - Measuring the impact of the firm's sustainability efforts and communicating these to stakeholders.Reflecting the firm's commitment to responsible investing, Barings has been a signatory to the United Nations' Principles of Responsible Investment ("PRI") initiative since January 2014. The PRI, launched in 2006 by the United Nations Environment Programme Finance Initiative and the United Nations Global Compact, is the world's leading proponent of responsible investment. In addition, the firm supports collective action on sustainability through a number of forums. Barings works to tackle climate change alongside other investors through its public support of the Task Force on Climate-Related Financial Disclosures, as well as through its participation in the collaborative engagements of Climate Action 100+. Barings' membership of the Investor Forum further enhances the firm's collaborative engagement capabilities. Barings was also an important participant in the Catalytic Finance Initiative, a collective commitment of US\$8 billion to high-impact environmentally sustainable projects, alongside institutions such as the European Investment Bank and the International Finance Corporation, a member of the World Bank Group.
- **The local community** - as a global firm with local roots, Barings is passionate about supporting the communities in which its associates work and live. This is evidenced by the Barings Social Impact initiative which was launched in 2019 and puts the power to effect change in the hands of Barings' associates through mentoring, service and financial giving. In 2020 Barings committed to invest US\$250,000 in organisations that are dedicated to advocating for equality and social justice, including the Aleto Foundation, the East London Business Alliance and the Amos Bursary. In the last year, Barings has also provided support to those groups within the firm's local communities that have been hit hard by the COVID-19 pandemic. In particular, the London office has worked with its catering partner Thomas Franks to create the "Feeding Communities" initiative, which has provided 40,000 free meals for individuals and is supported by 30 organisations across the capital.
- **The Group's regulators** - the firm works with industry bodies to ensure that it understands and contributes to evolving regulatory requirements. Senior management are regularly kept apprised by compliance and the project management team of key regulatory developments and the firm's preparedness for any forthcoming changes. Recently in the UK, this has included a fair value assessment for its authorised funds and the application of the Senior Managers and Certification Regime.

Group Strategic Report (continued)

Britain Exiting from the EU (“Brexit”)

Overview

On 31 December 2020, the transition period under the Withdrawal Agreement between the United Kingdom and the European Union ended, and accordingly the UK is now fully a third country, outside the EU’s single market and customs union as well as the political institutions of the EU. A Trade and Cooperation Agreement (the “Agreement”) between the UK and the EU was signed shortly before the end of the Brexit transition period. The Agreement did not contain specific measures relating to the provision of financial services between the EU and UK, however in April a Memorandum of Understanding (MoU) is to be signed. The MoU creates the framework for voluntary regulatory cooperation in financial services between the two sides including the establishment of the Joint UK-EU Financial Regulatory Forum.

Barings has, in the period since the UK gave notice to exit the EU, been planning for the possibility of a “no deal” Brexit and is well prepared for the current situation. Some areas of activity are covered by relevant provisions of temporary permissions regimes in the UK and certain EU member states but otherwise Barings is in the “no deal” scenario that it has planned for. Consequently, the day-to-day business of Barings is expected to continue substantially as at present and in particular it is envisaged that client portfolios will continue to be managed as they are currently. Barings as a whole remains fully committed to its global strategy through which c. US\$334 billion is managed for clients globally (as at 31 December 2020) providing institutional quality investment capabilities in fixed income, equities, multi-asset, real assets, real estate and alternatives. Brexit does not change the firm’s focus of creating and sustaining a unified global footprint for future growth. Barings remains committed to its global asset management franchise, which includes its business infrastructure in the UK.

Notwithstanding the continuation of day-to-day business however, Barings is aware of the potential challenges posed by Brexit. Many of these result from the firm’s UK asset management entities losing the cross-border passport aspects of their regulatory permissions, to the extent that such permissions were derived from EU law (in particular MiFID 11, UCITS and AIFMD).

The principal aspects of Barings’ business which are facing Brexit related challenges are as follows:

- The distribution of Barings’ UK domiciled products into EU27
- The distribution of Barings’ EU27 domiciled products into the UK
- The marketing of Barings’ investment services into EU27
- Delegation of discretionary portfolio management to Barings’ UK asset managers
- Retention of (and access to) talent within EU27

The actions Barings has taken to address these challenges are summarised below under “Barings’ Brexit Plan.”

Barings’ Brexit Plan

Barings aims to mitigate the loss of the EU passporting rights held by its UK asset management entities by maintaining regulatory continuity through its existing Irish asset management subsidiary, Baring International Fund Managers (Ireland) Limited (“BIFMI”). This entity is regulated by the Central Bank of Ireland (the “CBI”) and is authorised as a UCITS Management Company/AIFM with a MiFID top-up (a Mega Manco). BIFMI manages a variety of products, including Barings’ Irish UCITS range, its Qualifying Investor Alternative Investment Funds (QIAIFs) and a Lux-RAIF platform. BIFMI is being used to protect investors and the wider Barings group against potential regulatory or other market access barriers related to Brexit. During 2018, Barings proactively extended BIFMI’s regulatory permissions by way of a MiFID top-up to enable BIFMI to take on separate accounts and enable it to act as Barings’ sales hub into EU27. BIFMI received its MiFID top-up authorisation on 21 December 2018.

In conjunction with its MiFID top-up application, Barings opened an office in Dublin, which is now fully operational with fifteen full time employees. Barings’ Irish office is functionally integrated with the Barings team globally.

BIFMI now manages all of Barings’ Irish UCITS funds and all of Barings’ EU27 AIFs. As a consequence, Barings will be able to use BIFMI’s existing marketing permissions to continue to market those products into EU27.

In addition, to facilitate distribution of the firm’s products by UK staff, Baring Asset Management Limited (the firm’s UK regulated investment advisor) has applied for cross border marketing licenses where available in certain EU countries and intends to take advantage of safe harbour exemptions available in others. The firm also intends to register some of its UK UCITS funds as AIFs so that they can be distributed in selected countries within the EU.

Barings Europe Limited

Group Strategic Report (continued)

Barings' Brexit Plan (continued)

To facilitate distribution of its EU27 funds into the UK after Brexit, Barings has entered them into the FCA's Temporary Permissions Regime ("TPR"). On 30 December 2020, the TPR notification window closed. Products in the TPR may continue to be distributed in the UK. Other products which have not been entered into the TPR on or prior to 30 December 2020 may be marketed to institutional investors via the UK's National Private Placement regime (NPRR).

Further to an analysis of the investor base, Barings created "mirror" funds on its Irish UCITS platform for certain of its UK unit trusts (namely, Barings German Growth Trust and Barings Europe Select Trust). The "mirror" funds have substantially the same investment guidelines as the corresponding UK unit trusts. "Mirror" funds also exist on the Barings Irish UCITS platform for certain other Barings UK unit trusts (including Barings Eastern Trust and Barings European Growth Trust). The depositaries/custodians and administrators of such funds are also EU27 entities.

Following Brexit, Barings' EU27 platforms will continue to delegate portfolio management to its UK asset management entities.

Barings believes that a diverse workforce is a key contributor to the firm's success and continues to monitor the changing immigration situation. The UK government has set up a scheme enabling EU27 nationals in the UK to apply for "Settled Status" or "Pre-Settled Status" to secure their residency rights in the UK, and the deadline for applications is 30 June 2021. Longer term, the UK government has announced it will introduce an Immigration Bill based on an Australian style points system for all migrants. In the meantime, Barings will try and support its employees who are EU27 nationals as much as possible.

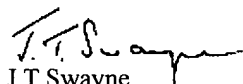
Impact of Brexit on the Company

As the holding company for the firm's European operations, the Company's performance is inextricably linked to that of the Barings franchise as a whole and accordingly is exposed to some degree to the risks associated with Brexit, just as it should also benefit from the plans that the firm has put in place to mitigate against these risks. The directors do not therefore believe that Brexit prejudices the Company's ability to continue to trade as a going concern.

Conclusion

Barings remains committed to protecting its clients and global franchise from any adverse impact from Brexit. Barings believes that the implementation of its Brexit strategy achieves those objectives. As noted above, the relationship between the UK and the EU remains subject to negotiation and Barings therefore continues to monitor developments and will make such adjustments to its Brexit strategy as may prove necessary or desirable from time to time.

By order of the Board



J T Swayne
Director

April 19, 2021

Barings Europe Limited

Group Directors' Report

The directors present the annual strategic report, directors' report and consolidated financial statements of Barings Europe Limited ("the Company"), registration number 10801931, for the year ended 31 December 2020. The Company and its subsidiaries form the Group.

The Company has chosen to set out information relating to the Business Review and future developments, key performance indicators, principle risks and uncertainties, employee and environmental policies and responsibilities under s172 of the Companies Act 2006 within the Group Strategic Report.

Principal activities

The principal business of the Group is and will continue to be the provision of investment management services. The Company was incorporated on 5 June 2017 and is domiciled in England and Wales. The registered office is 20 Old Bailey, London, EC4M 7BF.

Going concern

The Group has considerable financial resources and thus the Board of Directors believe the Group and Company will continue in operational existence for the foreseeable future. The Board has considered the impact of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility in global equity and bond markets. The Company, in common with its service providers, successfully transitioned to remote working in March 2020 and expects these arrangements to continue over the medium term. The main risk resulting from COVID-19 for the Group is the impact on the valuation of assets under management and the associated effect on revenues. Despite the generally improving outlook and the road map published in February 2021 for the UK, the Board continues to closely monitor the COVID-19 impact on the Company and Group across a range of forecast scenarios and does not consider there to be any significant impact on the going concern basis of preparation that has been adopted in preparing the annual financial statements.

Pillar 3 disclosures

Introduction

The Group contains three companies that are regulated by the Financial Conduct Authority which are subject to the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') or the Interim Prudential Sourcebook for Investment Business (Chapter 11) ('IPRU INV'). The Prudential Sourcebook sets out the rules for implementing the European Capital Requirements Directive in the UK. Chapter 11 of BIPRU contains rules for the public disclosure of risk management policies and objectives, risk exposures and capital requirements which are known as Pillar 3 disclosures. The disclosures below have been made in compliance with BIPRU chapter 11 and apply to the Company based on its consolidated position as the holding company of the Group.

Structure

For the purposes of risk management and capital resources, the Company and its subsidiaries are managed on a consolidated basis, albeit the process also ensures that the risk and capital requirements of each entity within the Group are appropriately managed. The Barings Europe Limited Board of Directors (the 'Board') is the governing body of the Group and its principal role is to provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board also sets the Group's values and standards and ensures that its obligations to its shareholder and other stakeholders are understood and met.

The Board is collectively responsible for managing the business of the Group, for promoting the success of the Group by directing and supervising its affairs, and is accountable for the risks inherent in the Group's activities. The Board manages the business through a committee structure. The principal committee is the European Management Team ("EMT") and it is responsible for the effective management and co-ordination of the Group's business and organisational affairs.

Risk management

The Group manages its risks on a group-wide basis and in accordance with a risk framework approved by the Risk, Regulatory & Audit Oversight Committee ('RR&AOC'). The RR&AOC, which derives its delegated authorities from the Board, is responsible for the design and implementation of the Group's risk management processes and controls.

The Organisational Risk function, reporting to the Chief Risk Officer - Europe, supports the RR&AOC in the identification, assessment, management and monitoring of risks within the Group's global operations.

Group Directors' Report (continued)

Risk management (continued)

The principal risk types are set out in the Group Strategic report. The Group's approach to managing each of these risks is set out below:

i) Strategic risks

The Group manages these risks by offering a widely distributed range of products, both by asset class and geographical spread, by changing or adapting its product offering to meet market conditions and needs, and by monitoring and reviewing investment performance on a regular ongoing basis.

ii) Operational risks

The Group manages its operational risks, including strategic, business, reputational and regulatory risks, under the umbrella of 'organisational risk'. To ensure that these risks are effectively and consistently managed, the Group has implemented a framework of processes which are set out in the Group's Organisational Risk Management Policy. This includes processes for:

- Reporting and analysis of loss events and near misses;
- Periodic risk assessments;
- Analysis of key risk indicators.

Members of the EMT and senior line managers are responsible for ensuring that effective risk management exists within their areas. Local line management is responsible for the day-to-day management of risks and for the effective operation of risk controls where appropriate.

The EMT and senior line managers regularly consider the most significant organisational risks facing the Group. These risks are identified, assessed, monitored and reported from a top-down perspective. The potential for the occurrence of a risk event is assessed in conjunction with the analysis of internal and external data. The analysis of emerging risks, industry trends and other environmental factors is also considered to facilitate proactive, forward-looking risk identification. Particularly for strategic risks, management expertise and experience is as important as empirical data in identifying and assessing risk. The Group's Significant Risk Profile is defined by the EMT and senior line managers. The Significant Risk Profile is reviewed at each EMT meeting and formally assessed by an annual full top-down review and update.

Capital requirements – Pillar 1

Pillar 1 sets out the minimum capital requirements entities are required to meet for credit, market and operational risk. The Group's Pillar 1 capital requirement is represented by the fixed overhead requirement ('FOR') as opposed to the sum of the market risk capital requirement and the credit risk capital requirement, which is smaller. The FOR is based on one quarter of audited, annual fixed expenditure. 2021's requirement is £34.4 million and the sum of the market risk capital requirement and the credit risk capital requirement is £19.7 million, split between a market risk capital requirement and a credit risk capital requirement of £8.5 million and £11.2 million respectively. As at 31 December 2020, the Group has £118 million Tier 1 capital, no Tier 2 and no Tier 3 capital. There are no deductions from Tier 1, 2 or 3 capital. The Group monitors its capital position at least monthly through its regular financial and regulatory reporting to management.

Internal Capital Adequacy Assessment Process ('ICAAP') – Pillar 2

Pillar 2 requires the firm to review whether it should hold capital in excess of its Pillar 1 capital requirements and is known as the ICAAP. The Group's Pillar 2 Going Concern requirement is based on the Group's Risk Appetite Framework, which identifies, assesses, monitors and reports all of the Group's major risks. The Group's Pillar 2 Orderly Wind-Down Capital Requirement has been assessed by calculating how much capital would be required to close the business in a situation when the business was no longer profitable in the long term. The Group's ICAAP requirement is based on the Pillar 1 Capital Requirement, as this is greater than both the Orderly Wind-Down Capital Requirement and the Pillar 2 Going Concern requirement.

A 'Significant Risk' is any real or potential risk, internal or external which will reduce or impact the likelihood of the Group achieving its strategically defined goals and objectives. The potential for an incident's occurrence is assessed in conjunction with the analysis of internal and external data at a high level across the Group. Considerations applied include actual and known events internally and externally.

A risk capital requirement is calculated for each Significant Risk identified in the Group's Significant Risk Profile by assessing the risk impact and probability on both an Inherent and Residual basis. Inherent Risk represents the risk exposure in the absence of internal controls; Residual Risk assesses the exposure considering the mitigating effect of internal controls, insurance, outsourcing, contingency planning and the probability of the risk occurring.

Barings Europe Limited

Group Directors' Report (continued)

Internal Capital Adequacy Assessment Process ('ICAAP') – Pillar 2 (continued)

The sum of all the Residual Risks produces the calculation of the total Pillar 2 capital requirement. Scenario analysis and stress testing are undertaken to assess the Group's exposure to extreme events.

The ICAAP has been incorporated into the annual business planning process and is reviewed by the EMT and is approved annually by the Board.

Remuneration disclosure

This remuneration disclosure covers the following firms ("the firms") within the Group:

- Baring Asset Management Limited
- Baring International Investment Limited
- Barings Global Advisers Limited

All Barings staff in the UK are employed by Baring Investment Services Limited ("BISL"). BISL shares staff with other Barings legal entities in the UK, including those named above, as required.

Remuneration oversight

The Group's remuneration arrangements encompass fixed and discretionary elements including discretionary bonuses in accordance with agreed arrangements. The Group has appointed two committees which take remuneration decisions, namely the Remuneration Committee and the Senior Compensation Committee.

The Remuneration Committee is responsible for the setting, implementation and ongoing review of Barings remuneration policy and the approval of employee annual promotions and compensation awards.

The Senior Compensation Committee is responsible for the approval of compensation for the employees who are on the Barings Executive Leadership Team ("ELT") and also the compensation of the twenty-five employees of the Barings Global Group with the greatest total compensation within a calendar year (excluding ELT members).

External advice on Barings remuneration policy has been provided by Travers Smith LLP.

Link between pay and performance

The Group's compensation structures are designed to support and further the Group's business strategy, objectives, values and long-term interests. Compensation packages aim to facilitate the retention of existing employees and attract high caliber new employees in order to achieve the best results for the Group and its clients.

Compensation arrangements for employees providing services to the Group comprise some or all of the following components:

1. Fixed salary
2. Short term incentive scheme ("STI")
3. Long term incentive scheme ("LTI")
4. Share of carried interest in certain funds

The Group's remuneration arrangements are designed to align the interests of staff with the Group's profits and with the performance of the assets that it manages for its clients. The key principle of STI and LTI is that they are linked to the performance of the individual and to the Group. Individual performance is assessed by reference to personal objectives set in the previous year (including both financial and non-financial criteria), the views of line and senior management and compliance behaviour. The total amount of variable remuneration available for STI and LTI in any given performance year is based on the profits of the Group. The amount paid out in respect of carried interest is based on performance of assets managed by the Group.

Aggregate remuneration of code staff employed by the Group

	2020	2019
	£'000	£'000
Total fixed remuneration	2,837	3,247
Total variable remuneration	12,110	11,048
Total remuneration	14,947	14,295

Barings Europe Limited

Group Directors' Report (continued)

Aggregate remuneration of code staff employed by the Group (continued)

The remuneration disclosed above includes:

- Annual base salaries as at 31 December 2020 (or termination date for leavers)
- STI bonus awards for the 2020 performance year
- Deferred awards (LTI and carried interest) for the 2020 performance year based on the value at award date
- Any other awards provided for new joiners or leavers.

Code staff are those members of staff whose actions have a material impact on the risk profile of the firm. All code staff are considered to be senior managers and they all work in investment management.

Greenhouse Gas Emissions

During the year, the Group's UK activities consumed 798 thousand kWh of gas and 1,288 thousand kWh of electricity, equivalent to the emission of 486 thousand tonnes of carbon dioxide. These figures relate primarily to the operation of the Group's UK offices, data centres and employee travel. The analysis includes some estimates but, due to the difficulty of calculating a reliable figure, does not take into account the domestic energy consumed by staff working from home over the course of the year. The lockdown measures imposed as a consequence of COVID-19 are expected to have made this a material number for the year.

As noted in the Group Strategic Report, Barings is committed to taking action to eliminate or reduce, as far as practicable, any potentially adverse environmental impacts. To that end, one of the key criteria used for the selection of the firm's latest data centre was that the site is 100 percent powered by renewable energy, via power purchase agreements. In addition, during the year Barings successfully petitioned the managing agents of its UK office to terminate at the earliest opportunity the existing electricity contract that was not from renewable sources, and replace with a renewable energy supplier. The firm is now working with the managing agents to replace the existing gas supplier for the building with one that provides greener gas.

Dividends

The directors declared a 2020 interim dividend for the Company of £3,000,000 during the year (2019: £nil). The directors do not recommend the payment of a final dividend (2019: £nil).

In 2019 Barings Global Advisers Limited, a subsidiary of the Group, waived its right to the repayment of its loan of £21,800,000 to Barings Guernsey Limited, the holding company of Barings Europe Limited. The release from the obligation has been accounted for as a distribution by the Group, but not by the Company.

Directors

The directors shown on page 2 served throughout the year.

Insurance for directors

Barings LLC has purchased directors' and officers' insurance in respect of directors of all Group subsidiaries.

Donations

Donations to charity and community projects made by the Group during the year amounted to £280,000 (2019: £114,000). No political contributions were made by the Company or Group (2019: £nil).

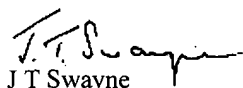
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487(2) of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



J T Swayne

Director

April 19, 2021

Barings Europe Limited

Statement of Directors' Responsibilities in Respect of the Strategic Report, Directors' Report and the Consolidated Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated 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 they have elected to prepare the Group and the Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

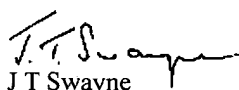
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

By order of the Board



J T Swayne

Director

April 19, 2021

Independent Auditor's Report to the Members of Barings Europe Limited

Opinion

We have audited the financial statements of Barings Europe Limited ("the Company") for the year ended 31 December 2020 which comprise the Consolidated Profit and Loss Account and Other Comprehensive Income, the Consolidated Balance Sheet, the Company Balance sheet, the Company Statement of Changes in Equity and the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group and of the Company's affairs as at 31 December 2020 and of the Group profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease its operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the group audit team any instances of fraud that could give rise to a material misstatement at group.

Independent Auditor's Report to the Members of Barings Europe Limited (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of the revenue is non-judgmental and straightforward, limited judgements necessary, and the key involvement of third party administrators, with limited opportunity for manipulation.

We did not identify any additional fraud risks.

We also performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included all post year end closing journals.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As there are certain regulated subsidiaries within the Group, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, data protection, anti-money laundering, market abuse regulations and financial services regulations, and specific areas of regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent Auditor's Report to the Members of Barings Europe Limited (continued)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group or 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 they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Bano Sheikh (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
23 April 2021

Barings Europe Limited

**Consolidated Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2020**

	Note	2020 £'000	2019 £'000
Group turnover	2	334,296	322,385
Other operating income		1,698	117
Administrative expenses	3	(295,953)	(301,810)
Group operating profit		40,041	20,692
Interest receivable and similar income	7	446	1,150
Interest payable and similar charges	8	(843)	(4,648)
Profit on ordinary activities before taxation		39,644	17,194
Taxation on profit for the Group	9	(6,894)	(2,839)
Profit for the year for the Group		32,750	14,355
Other comprehensive income			
Profit for the year for the Group		32,750	14,355
Net exchange differences on the retranslation of net investments		179	(135)
Total comprehensive income for the year		32,929	14,220
Profit for the year attributable to:			
Owners of the parent company		32,750	14,355
Total comprehensive income for the year attributable to:			
Owners of the parent company		32,929	14,220

The notes on pages 22 to 38 form part of these consolidated financial statements.

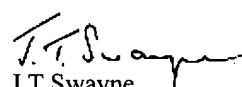
All the results arise from continuing operations.

Barings Europe Limited
Consolidated Balance Sheet
for the year ended 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Non-current assets			
Intangible assets	10	—	2,077
Tangible fixed assets	11	25,503	28,971
Deferred tax asset	13	7,173	9,572
Current assets			
Debtors	14	104,950	80,807
Financial assets at fair value through profit or loss	15	6,904	5,745
Cash and cash equivalents	16	123,565	99,970
		<u>235,419</u>	<u>186,522</u>
Current Liabilities			
Creditors	17	(131,956)	(118,544)
Net current assets		<u>103,463</u>	<u>67,978</u>
Total assets less current liabilities		<u>136,139</u>	<u>108,598</u>
Non-current liabilities			
Creditors	17	(17,742)	(19,863)
Deferred tax liability	13	(375)	(642)
Net assets		<u><u>118,022</u></u>	<u><u>88,093</u></u>
Capital and reserves			
Called up share capital	20	—	—
Share premium		—	6,358
Capital contribution		49,698	49,698
Translation reserve		694	515
Other reserves		23,561	23,561
Profit and loss account		44,065	7,957
Equity attributable to owners of the Group		<u>118,018</u>	<u>88,089</u>
Non-controlling interest		4	4
		<u><u>118,022</u></u>	<u><u>88,093</u></u>

The notes on pages 22 to 38 form part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and signed on its behalf by:


J T Swayne
Director
April 19, 2021

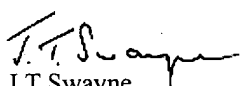
Company Registration Number: 10801931

Barings Europe Limited
Company Balance Sheet
for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investments in subsidiaries	12	64,096	64,096
Current assets			
Debtors	14	13	86
Current liabilities			
Creditors	17	(8,248)	(8,267)
Net current liabilities		<u>(8,235)</u>	<u>(8,181)</u>
Net assets		<u><u>55,861</u></u>	<u><u>55,915</u></u>
Capital and reserves			
Called up share capital	20	—	—
Share premium		—	6,358
Capital contribution		49,698	49,698
Profit and loss account		<u>6,163</u>	<u>(141)</u>
Shareholder funds		<u><u>55,861</u></u>	<u><u>55,915</u></u>

The notes on pages 22 to 38 form part of these consolidated financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:


J T Swayne
Director
April 19, 2021

Company Registration Number: 10801931

Barings Europe Limited

Consolidated Statement of Changes in Equity

	Called-up share capital £'000	Share premium £'000	Capital contribution £'000	Translation £'000	Other reserves £'000	Retained earnings £'000	Attributable to owners of the Company £'000	Non- controlling interests £'000	Total equity £'000
At 1 January 2019	—	6,358	49,698	650	23,561	15,402	95,669	4	95,673
Profit for the year	—	—	—	—	—	14,355	14,355	—	14,355
Other comprehensive expense for the year									
Net exchange differences on the retranslation of net investments	—	—	—	(135)	—	—	(135)	—	(135)
Total comprehensive income for the year	—	—	—	(135)	—	14,355	14,220	—	14,220
Distribution	—	—	—	—	—	(21,800)	(21,800)	—	(21,800)
At 31 December 2019	—	6,358	49,698	515	23,561	7,957	88,089	4	88,093
At 1 January 2020	—	6,358	49,698	515	23,561	7,957	88,089	4	88,093
Profit for the year	—	—	—	—	—	32,750	32,750	—	32,750
Other comprehensive income for the year									
Net exchange differences on the retranslation of net investments	—	—	—	179	—	—	179	—	179
Total comprehensive income for the year	—	—	—	179	—	32,750	32,929	—	32,929
Capital reduction	—	(6,358)	—	—	—	6,358	—	—	—
Distribution	—	—	—	—	—	(3,000)	(3,000)	—	(3,000)
At 31 December 2020	—	—	49,698	694	23,561	44,065	118,018	4	118,022

The notes on pages 22 to 38 form part of these consolidated financial statements.

Barings Europe Limited

Company Statement of Changes in Equity

	Called-up share capital £'000	Share premium £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	—	6,358	49,698	(101)	55,955
Loss for the year	—	—	—	(40)	(40)
Total comprehensive expense for the year	—	—	—	(40)	(40)
At 31 December 2019	—	6,358	49,698	(141)	55,915
At 1 January 2020	—	6,358	49,698	(141)	55,915
Profit for the year	—	—	—	2,946	2,946
Total comprehensive income for the year	—	—	—	2,946	2,946
Capital reduction	—	(6,358)	—	6,358	—
Distribution	—	—	—	(3,000)	(3,000)
At 31 December 2020	—	—	49,698	6,163	55,861

The notes on pages 22 to 38 form part of these consolidated financial statements.

Barings Europe Limited

**Consolidated Cash Flow Statement
for the year ended 31 December 2020**

	2020	2019
	£'000	£'000
Cash flow from operating activities		
Profit before tax	39,644	17,194
Adjustments for:		
Depreciation, loss on disposal and amortisation	6,722	5,026
Deferred rent	2,875	(5,775)
Interest payable and similar charges	843	4,648
Interest receivable and similar income	(446)	(1,150)
Movement in provisions and pensions	—	(38)
(Increase) / Decrease in trade and other debtors	(26,386)	20,853
Increase / (Decrease) in trade and other creditors	8,307	(21,785)
Provision utilised	—	(14,695)
Taxation paid	(2,285)	(5,792)
Net cash from / (used in) operating activities	29,274	(1,514)
Cash flows from investing activities		
Purchase of tangible assets	(1,057)	(2,638)
Purchase of investments	(1,444)	(9)
Proceeds from sale of investments	516	37
Interest received	215	735
Dividends received	—	2
Net cash used in investing activities	(1,770)	(1,873)
Cash flows from financing activities		
Interest paid	(9)	(20)
Loan to holding company written off and accounted for as a dividend	—	(21,800)
Dividend paid	(3,000)	—
Net cash used in financing activities	(3,009)	(21,820)
Net increase / (decrease) in cash and cash equivalents	24,495	(25,207)
Cash and cash equivalents at the start of the year	99,970	129,744
Exchange losses on cash and cash equivalents	(900)	(4,567)
Cash and cash equivalents at the end of the year	123,565	99,970

The notes on pages 22 to 38 form part of these consolidated financial statements.

Barings Europe Limited

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

Barings Europe Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

The financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

The financial statements are prepared in pounds sterling, which is the functional currency of the Company, and are presented in thousands.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. In preparing the separate financial statements of the parent company, advantage has been taken of the following exemptions available in FRS 102 and the Companies Act 2006:

- The parent company has not included its own Profit and Loss Account (permitted under section 408 of the Companies Act 2006) or Statement of Cash Flows;
- Only one reconciliation of the number of shares outstanding at the beginning and end of the year has been presented as the reconciliations for the Group and the parent company are identical;
- Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosures have been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries ("the Group") as if they formed a single entity. The consolidated financial statements incorporate the results of business combinations using the merger accounting method.

The Group was formed in 2017 and these financial statements were derived using the merger accounting method as permitted by FRS 102 paragraphs 19.27 to 19.33.

A merger is a business combination that results in the creation of a new reporting entity formed from the combining parties, in which rather than one party acquiring control of another, the parties come together to share in the future risks and benefits of the combined entity. A common control combination may be effected using the newly formed parent company to issue shares as consideration for the transfer to it of shares in the other parties to the combination.

The difference between the nominal value of the shares issued plus the fair value of any other consideration given, and the nominal value of the shares received in exchange has been shown as other reserves in the consolidated financial statements.

Where the combining entities include an entity previously acquired from a third party, the financial statement items of such an entity are only included in the consolidated financial statements of the combined entity from the date of acquisition using the acquisition values recognised at that date.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Statement of Comprehensive Income. The Company's profit after tax for the year was £2,946,000 (2019: Loss £40,000).

Foreign currencies

Transactions effected in foreign currencies are translated into pounds sterling using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated, using the contracted rate or the rate of exchange ruling at the balance sheet date, and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to other comprehensive income.

Barings Europe Limited

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Measurement convention

The financial statements are prepared on the historical cost basis except for financial instruments, which are classified as fair value through profit and loss, and derivatives which are stated at their fair value.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report. In addition the Group Directors' Report states how the Group manages its risks. The details of its financial instruments are described in note 19.

The ultimate responsibility for managing capital lies with the Board of Directors. The Company and the Group have considerable financial resources. The Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

In particular, the Board has considered the impact of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility in global equity and bond markets. The main risks resulting from COVID-19 for the Group are:

1. the impact on the valuation of assets under management and the associated effect on revenues; and
2. the impact on cash if certain clients are unable to pay fees due to liquidity constraints.

In this respect, a range of forecast scenarios have been considered at the Group level, including the impact of a material fall in AUM and a reverse stress test scenario to determine the circumstances that would need to arise before the Group ran out of cash. The results of these tests indicated that even in extreme scenarios, the Group should be able to maintain sufficient liquidity and capital resources to comply with its regulatory requirements and to continue to trade as a going concern. Consequently, the Board does not consider that COVID-19 will have a significant impact on the going concern basis of accounting in preparing the financial statements.

Investments

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to the initial recognition, investments that can be measured reliably are measured at fair value with changes recognised in the profit and loss account.

Investments by the Company in subsidiary undertakings are included at cost and assessed for impairment if indications exist. In the opinion of the Directors, the aggregate value of the subsidiary undertakings is not less than the aggregate amount at which the assets are included in the Company's balance sheet.

Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on a straight-line basis to spread the cost of fixed assets over their expected useful lives as follows:

Computer equipment	3-4 years, except for software below the equivalent of US\$ 250,000, which is expensed
Furniture & fittings	5 years, except paintings, which are not depreciated
Leasehold improvements	10 years; or over the remainder of the lease term, if shorter
Leasehold property	Not depreciated if the lease is greater than 100 years; over the remainder of the lease term, if shorter

Barings Europe Limited

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Research and development

Where it is considered that expenditure on research and development will bring an on-going benefit to the Group, the expenditure is capitalised and amortised to the profit and loss account over four years. All other expenditure on research and development is written off to the profit and loss account in the year that it is incurred.

Basic financial instruments

Trade and other debtors are recognised on the balance sheet, when the Group or the Company becomes a party to the contractual provisions of the instrument, at the transaction price less the attributable transaction costs.

Trade and other creditors are recognised initially at the transaction price plus the attributable transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group or Company has also transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the liability is discharged.

Other financial instruments

Derivative financial instruments and holdings in mutual funds are designated as at fair value through profit and loss and are measured at subsequent reporting dates at fair value. Where securities are designated at fair value through profit and loss, gains and losses arising from changes in fair value are included in the profit or loss for the accounting period. The Group and Company determines the classification of its financial instruments on initial recognition.

The Group and Company may use derivative financial instruments to hedge against foreign exchange risk and also to limit the impact of market fluctuations on management fee income. Derivative financial instruments are classified as held for trading and carried at fair value as assets or liabilities. Fair values for forward exchange deals are based upon closing rates adjusted for future interest rate differentials. Changes in fair value are recognised in the profit and loss account.

Cash and cash equivalents

Cash is represented by cash in hand and investments in money market mutual funds repayable without penalty on notice of no more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash.

In the Consolidated cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are redeemable on demand and form an integral part of the Group's cash management.

Turnover

Revenue comprises the fair value of the consideration received or receivable for the provision of investment management services.

Revenue is recognised on an accruals basis over the period of management. Performance fees are recognised when the fee crystallises and becomes due to the Group.

Income is shown net of any value added tax and discounts. Front-end fees on mutual funds are recorded net of commission.

Sub-letting income

The Group has entered into an agreement with a non Group company where the third party manages the sub letting of part of the Group's premises. The revenue earned from the subletting is split between the two parties in accordance with an agreed waterfall. The Group has accrued for rent that will be earned in future periods in order that the expected profit to be made over the minimum life of the agreement, namely 5 years, is earned evenly over this period. The rent, and thus the profit, that will be earned in the future periods is dependent on the ability to sublet the premises and therefore has been estimated.

Rebates of management fees

Rebates of mutual fund management fees have been netted off turnover if they are payable to the investor in the mutual fund, otherwise they are shown as an expense.

Barings Europe Limited

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Post-retirement benefits

The Group operates a number of different pension retirement plans for its staff. Defined contributions, in respect of all eligible employees, are charged to profits in respect of the current accounting period. The assets resulting from contributions are held separately from those of the Group.

Deferred compensation

The Group makes deferred compensation awards to some senior members of staff. The deferred compensation awards are expensed over the period from the date that the award is granted to the date the award is paid. Deferred compensation awards are based on the profitability of the Group and Barings LLC.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease. Lease incentives received are recognised in the profit and loss account over the term of the lease as an integral part of the total lease expense.

Interest Receivable and Interest Payable

Interest receivable and similar income includes gains on derivative instruments, dividend income and net foreign exchange gains that are recognised in the profit and loss account (see foreign currencies accounting policy). Interest payable and similar expense comprises losses on derivative instruments and net foreign exchange losses. Interest income and interest payable are recognised in profit and loss as they accrue.

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax, or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or relieved on differences between the amount at which an asset or liability is recognised in the Group and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Barings Europe Limited

Notes to the Financial Statements (continued)

2. Segmental information - Group

The table below sets out information for each of the Group's geographic areas of operation. The segmental area is determined by where the contractual company is based.

	UK		Europe ex UK		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover						
Management fees	184,562	186,340	191,085	187,731	375,647	374,071
Performance fees	15,412	9,938	6,864	4,885	22,276	14,823
Other income	21,811	17,186	5,073	4,485	26,884	21,671
Sub-total	221,785	213,464	203,022	197,101	424,807	410,565
Inter-segment	(83,940)	(81,639)	(6,571)	(6,541)	(90,511)	(88,180)
	<u>137,845</u>	<u>131,825</u>	<u>196,451</u>	<u>190,560</u>	<u>334,296</u>	<u>322,385</u>

3. Expenses and auditor's remuneration

	2020	2019
	£'000	£'000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditor's remuneration:		
Group:		
- audit of financial statements of the subsidiaries of the Company	417	474
- tax advisory services	27	10
- audit-related assurance services	80	78
- all other services	26	21
Company:		
- audit of these financial statements	168	50

Amounts receivable by the Company's auditor and its associates in respect of the audit of financial statements of associated pension schemes are £nil (2019: £19,000).

4. Administration expenses

	2020	2019
	£'000	£'000
Staff costs (note 6)	128,130	129,908
Management fees payable to Barings LLC & its subsidiaries	64,573	61,584
Fee rebates	31,644	32,415
Other operating expenses	71,606	77,903
	<u>295,953</u>	<u>301,810</u>

Barings Europe Limited

Notes to the Financial Statements (continued)

5. Remuneration of directors - Group

	2020	2019
	£'000	£'000
Directors' emoluments	1,543	1,400
Amounts receivable under long-term incentive schemes	526	518
Company contributions to money purchase pension schemes	15	17

	2020	2019
Highest paid director	£'000	£'000
Director's emoluments	688	725
Amounts receivable under long-term incentive schemes	255	317

The remuneration of directors who are employed by Barings LLC (the Company's indirect holding company) is not recharged and therefore is not disclosed above.

6. Staff numbers and costs - Group

	2020	2019
	Number of Employees	
The average number of persons employed by the Group (including directors) during the year	<u>565</u>	<u>587</u>

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£'000	£'000
Wages and salaries	108,009	109,376
Social security costs	14,518	14,881
Defined contributions	5,603	5,651
	<u>128,130</u>	<u>129,908</u>

7. Interest receivable and similar income - Group

	2020	2019
	£'000	£'000
Interest receivable	215	735
Dividend income	—	2
Gain on derivative	37	—
Net gain on financial assets measured at fair value through profit and loss	194	413
	<u>446</u>	<u>1,150</u>

Barings Europe Limited

Notes to the Financial Statements (continued)

8. Interest payable and similar charges – Group

	2020	2019
	£'000	£'000
Interest expense	9	20
Net foreign exchange losses	834	4,628
	<u>843</u>	<u>4,648</u>

9. Taxation – Group

a) Analysis of charge for the year

	2020	2019
	£'000	£'000
<i>Current tax</i>		
UK corporation tax on profits for the period of 19% (2019:19%)	2,458	(228)
Foreign tax on income for the year	2,313	2,423
Overseas tax withheld at source	26	22
Adjustments in respect of previous periods	(11)	398
Total current tax	<u>4,786</u>	<u>2,615</u>
<i>Deferred tax (see note 13)</i>		
Origination and reversal of timing differences:		
Current year	3,158	1,515
Impact of change in enacted tax rate on opening balances	(1,064)	—
Adjustments in respect of previous periods	14	(1,291)
Total deferred tax	<u>2,108</u>	<u>224</u>
Tax charge for the year	<u>6,894</u>	<u>2,839</u>

All of the tax charge is recognised in the profit and loss account.

b) Factors affecting the tax charge for the year

The tax charge for the year is lower (2019: the charge was lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%).

Barings Europe Limited

Notes to the Financial Statements (continued)

9. Taxation – Group (continued)

b) Factors affecting the tax charge for the year (continued)

	2020 £'000	2019 £'000
Profit on ordinary activities before taxation	<u>39,644</u>	<u>17,194</u>
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2019:19%)	7,532	3,267
<i>Effects of:</i>		
Non-taxable income	(582)	(453)
Expenses not deductible for tax purposes	721	551
Income subject to foreign taxation	259	563
Effects of measurement of deferred tax at future rate of UK corporation tax	(1,064)	(196)
Capital gain	25	—
Prior year adjustment	3	(893)
Total tax charge for the year	<u>6,894</u>	<u>2,839</u>

c) Factors that may affect future, current and total tax charges

On 3 March 2021, the UK Government announced a proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and the effective tax rate in the future when the change is substantively enacted. The Group expects that, in line with the rate increase proposed, there will be an increase to the effective tax rate for periods from 2023 onwards. The impact on the deferred tax asset if the proposal had been substantively enacted at the current balance sheet date is estimated to be an increase of £505,000. It is considered that there will not be a significant impact on the deferred tax liability as a result of this proposal.

10. Intangible assets - Group

Acquired contracts

	£'000
<i>Cost</i>	
At 1 January 2020	4,615
Disposal	(4,876)
Foreign exchange movements	261
At 31 December 2020	<u>—</u>
<i>Amortisation and impairment</i>	
At 1 January 2020	2,538
Charge for the year	443
Disposal	(3,127)
Foreign exchange movements	146
At 31 December 2020	<u>—</u>
<i>Net book value</i>	
At 1 January 2020	2,077
At 31 December 2020	<u>—</u>

Barings Europe Limited

Notes to the Financial Statements (continued)

10. Intangible assets - Group (continued)

The intangible comprised the estimated value of the client contracts obtained through the purchase of Barings Real Estate Advisers GmbH (Barings Germany) on 3 July 2014.

In 2020 Barings Germany repositioned its strategy to focus purely on investment management business. As a consequence Barings Germany novated the above contracts to a non Group company.

11. Tangible fixed assets – Group

	Leasehold property & improvements £'000	Furniture & fittings £'000	Computer equipment £'000	Research & development £'000	Total £'000
<i>Cost</i>					
At 1 January 2020	28,086	3,957	3,313	2,239	37,595
Additions	494	25	538	—	1,057
Retired/written off	—	(185)	(147)	(1,330)	(1,662)
Exchange translation differences	—	30	19	12	61
At 31 December 2020	28,580	3,827	3,723	921	37,051
<i>Depreciation</i>					
At 1 January 2020	3,226	1,088	2,433	1,877	8,624
Charged in year	2,772	664	785	278	4,499
Retired/written off	—	(162)	(139)	(1,330)	(1,631)
Exchange translation differences	—	24	20	12	56
At 31 December 2020	5,998	1,614	3,099	837	11,548
<i>Net Book Value</i>					
At 1 January 2020	24,860	2,869	880	362	28,971
At 31 December 2020	22,582	2,213	624	84	25,503

12. Investments in subsidiaries - Company and Group

Investments in subsidiaries - Company

	£'000
Investments in subsidiaries	
Balance as at 1 January 2020	64,096
Balance as at 31 December 2020	64,096

The directly held subsidiary undertakings of the Company, which are 100% owned, are as follows:

Barings Europe Limited

Notes to the Financial Statements (continued)

12. Investments in subsidiaries - Company and Group (continued)

Investments in subsidiaries - Company (continued)

Name of Company	Country of Incorporation	Registered Address	Principal Activity
Baring Asset Management Limited	England and Wales	20 Old Bailey, London, EC4M 7BF	Investment management
Barings Real Estate UK Holdings Limited	England and Wales	20 Old Bailey, London, EC4M 7BF	Holding company
Barings Finland Oy	Finland	Aleksanterinkatu 50A, 00100, Helsinki	Dormant
Barings Italy Srl	Italy	Via Fatebenefratelli, Milan	Client liaison and marketing
Barings Asset Management Spain SL	Spain	C/Serrano, 38, 28001, Madrid	Client liaison and marketing
Barings Sweden AB	Sweden	Norrlandsgatan 22, 11143, Stockholm	Client liaison and marketing
Barings Netherlands B.V.	Netherlands	Gustav Mahlerplein 28, Amsterdam	Client liaison and marketing

Investments in subsidiaries - Group

The indirectly held subsidiary undertakings of the Company are as follows:

Name of Company	Country of Incorporation	Percentage Held	Registered Address	Principal Activity
Baring International Investment Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Investment management
Baring Fund Managers Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Investment management
Baring Investment Services Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Administration services
Baring International Investment Management Holdings	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Holding company
Baring Pension Trustees Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
Baring Asset Management UK Holdings Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Holding company
Baring International Fund Managers (Ireland) Limited	Ireland	100%	Georges Court, 70 Rogerson's Quay, Dublin 2, Ireland	Investment management
Baring France SAS	France	100%	35 Avenue Franklin Roosevelt, 75008 Paris, France	Client liaison and marketing
Baring Asset Management GmbH	Germany	100%	Guiollettstraße 54, 60325 Frankfurt am Main, Germany	Dormant
Baring Asset Management Switzerland S.à r.l.	Switzerland	100%	Rue du Marché 28, 1204, Geneva, Switzerland	Client liaison and marketing
Barings Real Estate (Continental Europe) Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
Barings Real Estate Advisers Europe LLP	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
Barings Real Estate Advisers Europe Finance LLP	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
BREAE AIFM LLP	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
Protego Real Estate Investors GP Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
PREIF Holdings Limited Partnership	Scotland	100%	Blue Square House, 272 Bath Street, Glasgow, G2 4JR	Dormant
Barings Real Estate Advisers GmbH	Germany	100%	Guiollettstraße 54, 60325 Frankfurt am Main, Germany	Investment management

Barings Europe Limited

Notes to the Financial Statements (continued)

12. Investments in subsidiaries - Company and Group (continued)

Investments in subsidiaries - Group (continued)

Name of Company	Country of Incorporation	Percentage Held	Registered Address	Principal Activity
Bremerhaven General Partner GmbH	Germany	100%	Mareisring 14, 83620 Feldkirchen-Westerham,	General Partner
Cornerstone German Retail Fund General Partner B.V.	Netherlands	90%	Beursplein 37, 3011 AA Rotterdam, The Netherlands	General Partner
Lanario General Partner B.V.	Netherlands	100%	Beursplein 37, 3011 AA Rotterdam, The Netherlands	General Partner
Munster Borkstrasse General Partner B.V.	Netherlands	100%	Beursplein 37, 3011 AA Rotterdam, The Netherlands	General Partner
Triguero General Partner B.V.	Netherlands	100%	Beursplein 37, 3011 AA Rotterdam, The Netherlands	General Partner
Zafferano General Partner B.V.	Netherlands	100%	Beursplein 37, 3011 AA Rotterdam, The Netherlands	General Partner
Barings European Core Property Fund GP S.à r.l.	Luxembourg	100%	6 Rue Eugène Ruppert, L-2453 Luxembourg	General Partner
Barings Core Fund Feeder 1 GP S.à r.l.	Luxembourg	100%	6 Rue Eugène Ruppert, L-2453 Luxembourg	General Partner
Barings European Core Property Fund LP S.à r.l.	Luxembourg	100%	6 Rue Eugène Ruppert, L-2453 Luxembourg	Limited Partner
Barings Real Estate Value Add 1 GP S.à r.l.	Luxembourg	100%	6 Rue Eugène Ruppert, L-2453 Luxembourg	General Partner
Barings Real Estate European Value Add 1 LP S.à r.l.	Luxembourg	100%	6 Rue Eugène Ruppert, L-2453 Luxembourg	Limited Partner
N.R.F. Management Company S.à r.l.	Luxembourg	100%	2-8 Avenue Charles de Gaulle, L1653 Luxembourg	Investment management
Barings Global Advisers Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Investment management
Almack Mezzanine Fund II Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
Almack Mezzanine GP III Limited	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	Dormant
Barings European Direct Lending I GP LLP	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	General partner
BCGSS 2 GP LLP	England and Wales	100%	20 Old Bailey, London, EC4M 7BF	General partner
Barings GPC GP S.à r.l.	Luxembourg	100%	80 Route d'Esch L-1470, Luxembourg	General partner
Barings Investment Fund (LUX) GP S.à r.l.	Luxembourg	100%	80 Route d'Esch L-1470, Luxembourg	General partner
Barings BME GP S.à r.l.	Luxembourg	100%	6 Rue Eugène Ruppert, L-2453 Luxembourg	General partner
Barings Umbrella Fund (LUX) GP S.à r.l.	Luxembourg	100%	2-4 Rue Eugène Ruppert, L-2453 Luxembourg	General partner
Barings China Aggregate Bond Private Securities Investment Fund No.1	China	100%	4501 IFC2, 8 Century Avenue, Pudong New District, Shanghai, China	Open ended private fund

The Company has provided a guarantee for all outstanding liabilities to which the below subsidiary companies are subject at the end of the financial year to which the guarantee relates, until they are satisfied in full, and the guarantee is enforceable against the Company by any person to whom the subsidiary is liable in respect of these liabilities.

Barings Europe Limited

Notes to the Financial Statements (continued)

12. Investments in subsidiaries - Company and Group (continued)

Investments in subsidiaries - Group (continued)

The subsidiary companies, by virtue of the guarantee, are entitled to an exemption from an audit under section 479A of the Companies Act:

- Barings Real Estate UK Holdings Limited
- Barings Real Estate (Continental Europe) Limited
- Barings Real Estate Advisers Europe LLP
- BREAE AIFM LLP
- Barings Real Estate Advisers Europe Finance LLP
- Baring Investment Services Limited
- Baring International Investment Management Holdings
- Baring Asset Management UK Holdings Limited
- Almack Mezzanine Fund II Limited
- Almack Mezzanine GP III Limited
- Barings European Direct Lending 1 GP LLP
- BCGSS 2 GP LLP

13. Deferred taxation - Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Difference between accumulated depreciation and capital allowances	11	3	(283)	(212)	(272)	(209)
Unused tax losses	3,609	6,051	—	(430)	3,609	5,621
Other timing differences	3,553	3,518	(92)	—	3,461	3,518
Deferred tax asset/(liabilities)	<u>7,173</u>	<u>9,572</u>	<u>(375)</u>	<u>(642)</u>	<u>6,798</u>	<u>8,930</u>

In addition to the deferred tax asset above, the Group has unrecognised deferred tax assets relating to tax losses of £595,000 (2019: £533,000). Deferred tax assets with respect to losses have only been recognised to the extent that profits which will be available to offset the losses are forecasted in future periods. The Group also has an unrecognised deferred tax asset of £963,000 (2019: £881,000) which arises due to timing differences with respect to deferred compensation arrangements where there is not sufficient certainty regarding the timing of payments to staff to be able to justify that the potential deferred tax asset would reverse in the next five years.

The deferred tax asset expected to reverse in 2021 is £3,024,000 (2020: £3,326,000). The reversal relates primarily to deferred tax assets expected to reverse in expected realisation of unused tax losses. The 2020 reversal also relates primarily to deferred tax assets expected to reverse in expected realisation of unused tax losses.

The deferred tax liability expected to reverse in 2021 is £134,000 (2020: £133,000). The reversal is primarily due to tax allowances for qualifying fixed assets being expected to be less than the depreciation accounted for on these assets in the year. The 2020 reversal primarily relates to the amortisation of a deferred tax liability with respect to the difference between the fair value of investment and asset management contracts acquired with the purchase of Barings Real Estate Advisers GmbH.

Barings Europe Limited

Notes to the Financial Statements (continued)

14. Debtors - Group and Company

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Fee debtors	34,023	23,976	—	—
Mutual fund debtors	14,309	7,954	—	—
Amounts owed by MassMutual group undertakings	14,751	17,196	—	77
Other debtors	12,103	6,076	13	9
Prepayments and accrued income	29,764	25,605	—	—
	104,950	80,807	13	86

All debtors are due within one year.

15. Current asset investments and other financial assets - Group

	2020	2019
	£'000	£'000
Current asset investments		
Financial assets designated as fair value through profit and loss		
Investments in mutual funds to hedge potential liabilities	5,291	5,600
Underlying investments in fund seeded	1,438	—
Investments in mutual funds to provide seed capital	57	38
Other investments in unlisted shares and collective investment schemes	81	107
Forward foreign exchange contracts	37	—
	6,904	5,745

The potential tax liability if the investments were sold at this value would be £92,000 (2019: £82,000).

The following tables show the fair value hierarchy for current asset investments and other financial assets:

As at 31 December 2019	Level 1	Level 2	Level 3
	£'000	£'000	£'000
Investments in mutual funds to hedge potential liabilities	5,600	—	—
Investments in mutual funds to provide seed capital	38	—	—
Other investments in unlisted shares and collective investment schemes	—	90	17
As at 31 December 2020	Level 1	Level 2	Level 3
	£'000	£'000	£'000
Investments in mutual funds to hedge potential liabilities	5,291	—	—
Underlying investments in fund seeded	—	1,438	—
Investments in mutual funds to provide seed capital	57	—	—
Other investments in unlisted shares and collective investment schemes	—	64	17
Forward foreign exchange contracts	—	37	—

16. Cash and cash equivalents - Group

	2020	2019
	£'000	£'000
Cash at bank and in hand	123,565	99,970
	123,565	99,970

Barings Europe Limited

Notes to the Financial Statements (continued)

17. Creditors - Group and Company

	Restated			
	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Current				
Mutual fund creditors	14,628	7,046	—	—
Amounts owed to MassMutual group undertakings	17,539	14,790	8,214	8,200
Accruals and deferred income	78,896	82,197	34	67
Other creditors including taxation and social security	20,893	14,511	—	—
	<u>131,956</u>	<u>118,544</u>	<u>8,248</u>	<u>8,267</u>
	Restated			
	Group	Group		
	2020	2019		
	£'000	£'000		
Non-current				
Accruals and deferred income	8,037	8,673		
Other creditors including taxation and social security	9,705	11,190		
	<u>17,742</u>	<u>19,863</u>		

In the prior year financial statements, a proportion of the deferred rent free liability at December 2019 that should have been classified as non-current, was classified as current. The comparatives for the Group creditors have been updated and £10,039,000 of the balance previously disclosed under "Current - Other creditors including taxation" has been disclosed as non-current.

18. Pension scheme costs - Group

	2020	2019
	£'000	£'000
Defined contribution scheme costs	5,603	5,651
	<u>5,603</u>	<u>5,651</u>

19. Financial instruments

a) Carrying amount of financial instruments

The carrying amount of the financial assets and liabilities include:

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Assets measured at fair value through profit and loss	6,904	5,745	—	—
Assets measured at cost less impairment	104,950	80,807	64,109	64,182

Barings Europe Limited

Notes to the Financial Statements (continued)

19. Financial instruments (continued)

b) Financial instruments measured at fair value

Financial instruments at fair value are shown in note 15. The valuation of investments has been categorised by levels. Level 1 is the quoted market price and level 2, in the absence of a quoted price, is the net asset value of the underlying investment at the year end. The level 3 investment is not material. The market price, when it was last dealt, has been used as the best approximation for its value.

The credit risk for investments in mutual funds cannot be reliably measured.

Financial risk management

The principal risk types faced by the Group are in relation to financial instruments, whether held directly on the statement of financial position: balance sheet or indirectly through client mandates, are as follows:

- Credit risk: the risk of loss resulting from the failure of a third party to meet its financial obligations to the Group, including failure to perform them in a timely manner.
- Market risk: the risk that changes in the level of interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an adverse impact on the results of operations or financial condition of the Group.
- Liquidity risk: the failure of the Group to maintain sufficient liquidity levels to enable it to meet its financial obligations as they fall due.
- Operational risk: see the Directors' Report.

The Group's approach to managing each of these risks is set out below and in the Directors' Report.

Market risk

The Group does not run a trading book and is not directly exposed to market risk other than in the investments recorded in note 15 which comprise:

- investments in mutual funds to hedge potential liabilities
- investments in mutual funds to provide seed capital
- an allocation of membership shares in SWIFT
- investments in closed private equity real estate funds
- forward foreign exchange contract

The Group is exposed to the Chinese Renminbi due to the investment in the Barings China Aggregate Bond Private Securities Investment Fund No. 1. The balance sheet exposure caused by the investment has been hedged with a forward foreign exchange contract.

A 5% decrease in the value of Pound Sterling would change the value of the forward foreign exchange contract outstanding at the year end (a 5% increase would have the opposite impact) by £176,442.

Liquidity risk

The Group ensures that adequate levels of liquidity are maintained well in excess of its current and total liabilities.

20. Share capital

	2020	2019
	£'000	£'000
Allotted, called up and fully paid		
Ordinary shares at £1 each	—	—

In 2020 the Company undertook a capital reduction whereby one of its three ordinary shares that had been allotted at 31 December 2019 was cancelled and distributed to the sole member of the Company. Therefore at 31 December 2020 there are 2 ordinary shares allotted, called up and fully paid.

Barings Europe Limited

Notes to the Financial Statements (continued)

21. Operating leases – Group

Annual commitments under non-cancellable operating leases are as follows:

	2020	2019
	£'000	£'000
Land and buildings		
Non-cancellable operating lease rental payable as follows:		
Less than one year	9,483	4,926
Between one and five years	36,746	35,387
Over five years	58,579	64,628
	<u>104,808</u>	<u>104,941</u>

During the year £8,004,000 was recognised as an expense in the profit and loss account in respect of operating leases (2019: £7,748,000).

22. Contingencies - Group

The Group has guaranteed any remaining performance of the lease at 155 Bishopsgate London (its former office) in the event that the party the lease has been assigned to is unable to fulfill its obligations under the contract. The lease expires in October 2025. The potential annual payment for each of the years from 2021 to 2024 is £4.9 million and in 2025 £2.5million (based upon the rent and service charge for the building in 2020).

23. Immediate and ultimate parent company

The Company's immediate parent company is Barings Guernsey Limited, which does not prepare consolidated financial statements.

As at 31 December 2020, the Company's ultimate parent company is Massachusetts Mutual Life Insurance Company, which is incorporated in the U.S.A. The ultimate controlling party is Massachusetts Mutual Life Insurance Company. Massachusetts Mutual Life Insurance Company prepares consolidated financial statements that can be found on their website.

24. Related Party disclosure - Group

As the Company is a wholly owned, indirect subsidiary of Massachusetts Mutual Life Insurance Company which prepares consolidated financial statements, the Company has taken advantage of the exemption contained in paragraph 33.1A of FRS 102 and has therefore not separately disclosed transactions or balances with entities which form part of the Massachusetts Mutual Life Insurance Group.

The Company only has related parties which are members of the Group, but its subsidiaries provide investment management services to open and closed ended funds which are related parties external to the Massachusetts Mutual Life Insurance Group. The Group receives management fees as set out in the agreements with those funds. The total amount of management and performance fees received from the funds in 2020, included in note 2, was £223,110,000 (2019: £222,627,000). As at 31 December, in respect of the Group, the total amounts due from and to the funds included in notes 14 and 17 are respectively £50,886,000 (2019: £38,588,000) and £14,628,000 (2019: £7,046,000). There were no other related party transactions.

25. Loan Waiver

In 2019 Barings Global Advisers Limited, a subsidiary of the Group, waived its right to the repayment of its loan of £21,800,000 to Barings Guernsey Limited, the holding company of Barings Europe Limited.

The release from the obligation by the subsidiary gave rise to an effective distribution by the company. This distribution was in excess of the available profits within Barings Europe Limited and accordingly a receivable of £101,000 has been recognised by Barings Europe Limited from Barings Guernsey Limited.

Barings Europe Limited

Notes to the Financial Statements (continued)

26. Judgements in applying accounting policies and key sources of estimation uncertainty

The directors do not believe that there are any judgements or estimates that they have made in the application of the accounting policies that have a significant effect on the financial statements or have a significant risk of material adjustment in the next year.

27. Subsequent events

There are no subsequent events that have occurred up until the date that the financial statements were available to be issued that the Company believes necessitates disclosure or adjustment.