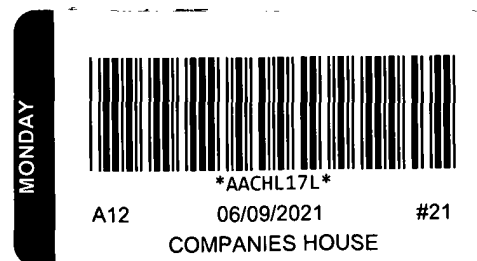


VANGUARD ASSET SERVICES, LTD.
REPORT OF THE DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2020

Company Number: 07242969



VANGUARD ASSET SERVICES, LTD.

| Contents | Page(s) |
|---|---------|
| Directors and other information | 1 |
| Strategic report | 2-6 |
| Report of the Directors | 7-10 |
| Independent auditors' report to the Member of Vanguard Asset Services, Ltd. | 11-13 |
| Consolidated Statement of Comprehensive Income | 14 |
| Statements of Financial Position | 15 |
| Cash Flow Statements | 16 |
| Statements of Changes in Equity | 17 |
| Notes to the consolidated financial statements | 18-39 |

VANGUARD ASSET SERVICES, LTD.

Directors and other information

| | |
|-----------------------------|---|
| Directors | Sean P. Hagerty Kathleen Bock Katie Smith Daniel Waters John Bendl (appointed 20 January 2020) Maureen Erasmus (appointed 3 February 2020) |
| Registered office | 4th Floor, The Walbrook Building 25 Walbrook London EC4N 8AF |
| Registered number | 07242969 |
| Independent Auditors | PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT |
| Bankers | HSBC Bank plc Level 37 8 Canada Square London E14 5HQ |

VANGUARD ASSET SERVICES, LTD.

Strategic report

The Directors present their Strategic Report on Vanguard Asset Services, Ltd (the “Company”) for the year ended 31 December 2020.

Principal activities

The Company is registered in England and was incorporated in the United Kingdom (“UK”) on 4 May 2010 as a private limited company, limited by shares, to act as a holding company and to render services to its affiliates and subsidiaries, Vanguard Asset Management, Ltd. (“VAM”), Vanguard Investments UK, Limited (“VIUK”), Vanguard Investments Switzerland, GmbH (“VISG”), Vanguard UK Nominees Limited (“VUN”) and Vanguard Pension Trustee UK Limited (“VPTUK”), together the “Group”, in the ordinary course of the Company’s activities.

VIUK acts as an Authorised Corporate Director or manager of UCITS funds domiciled in the UK. VAM is an FCA regulated UK MiFID investment firm. VAM has been appointed by Vanguard Group (Ireland), Limited (“VGIL”) as a distributor of certain Irish domiciled funds and by VIUK as a distributor of certain UK domiciled funds. VAM provides investment services to certain investment accounts. VISG acts as a distributor of Irish domiciled funds in Switzerland. VPTUK and VUN act as nominee companies within the Group (VPTUK also acts as the corporate trustee to the Vanguard Self Invested Personal Pension (SIPP)).

Business strategy

The Group’s core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. In practice the Group primarily focuses on offering low-cost, high quality pooled investment products and services to retail investors, financial intermediaries, and institutional clients. The activities that differentiate the Group include its client focus, enduring and long-term investment philosophy, organisational discipline, and highly effective and engaged employees.

The growth and development of the business model in Europe is built upon its mission, strong and deeply held values of service excellence, low cost and protection of Vanguard’s reputation through risk mitigation and internal controls. Vanguard Europe is comprised of three distribution channels:

- 1) **Direct to Consumer (D2C)** In 2020, Vanguard reached another milestone to serve more individual investors by expanding our service offering with the addition of the SIPP in the UK, the launch of a brand campaign in the UK through the “Value to Investors” slogan, and a plan for an advice offering by the end of the year.
- 2) **Deepen relationships with Advisers.** Vanguard’s intermediary channel accounts for the majority of distribution in the UK, Germany, Italy and Switzerland. Vanguard continue to be committed to building long-term relationships with the adviser community by providing high-quality, low-cost product solutions and a varied programme of educational content and thought leadership. In 2021, Vanguard aims to increase client loyalty and our market share among Independent Financial Advisors (“IFAs”) by providing a more robust Vanguard Portfolio Solutions offer (VPS). Vanguard will also aim to expand its presence in the intermediary wholesale segment in Europe.
- 3) In 2021 Vanguard will **drive scale with digital and technology.** Through various technology projects across Europe, Vanguard will continuously improve its client experience to provide the very best service to all clients. This new strategic priority for 2021 will also drive efficiency to achieve its goal of being a self-sustaining business.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

Business strategy (continued)

The Group also launched a number of new propositions in 2020, including the Vanguard ESG Developed World All Cap Equity Index Fund (UK) and ESG Emerging Markets All Cap Equity Index Fund. The Group continued to focus on maintaining and enhancing its risk management and resiliency and on attracting and developing high-calibre employees. The position of the Group and Company at year-end is set out in the Statement of Financial Position.

In 2021 the Group will primarily continue many of the same efforts, including growing its existing business, expanding its service capabilities, launching additional products, and focusing on risk management.

Key performance indicators (“KPIs”)

Given the straightforward nature of the business, the Company’s Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance, or position of the business.

Capital Requirements Directive IV (“CRD IV”) – Public disclosure on return on assets (Un-audited)

In accordance with the FCA requirements of the Prudential Sourcebook for Investment Firms (“IFPRU”), Chapter 9, which implements article 90 (Public disclosure of return on assets), of CRD IV, the Group is required to publish in its annual report and financial statements among the key indicators its return on assets. The return on assets for the year is calculated as the net profit divided by the total statement of financial position. The Group’s return on assets for the year ended 31 December 2020 was 7.7% (2019: 3.3%).

European Union Capital Requirement Directive – Pillar 3 (Un-audited)

In accordance with Part Eight, “Disclosure by Institutions”, of the Capital Requirements Regulation (“CRR”), the Group is required to publish further information to allow external parties to assess the capital adequacy of the organisation, referred to as Pillar 3 disclosures.

The Pillar 3 document is available on the Vanguard UK website, www.vanguard.co.uk.

Development and performance of the business

The results of the Group for the year ended 31 December 2020 are set out in detail on page 13. The year-end financial position of the Group is set out on page 14.

Disability Disclosure

Vanguard is an equal opportunity employer and its employees (crew members) and applicants for employment shall not be disadvantaged by any policies or conditions of service which cannot be justified as necessary for operational purposes. The recruitment processes aim to ensure that no job applicant receives less favourable treatment because of any disability. Vanguard reviews regularly these processes to ensure that individuals are treated on the basis of their relevant merits and abilities and that diverse sectors of the community are reached. If an employee is disabled, or becomes disabled in the course of their employment with Vanguard, Vanguard works with the individual to make adjustments to their working conditions, any particular duty of the job, and training, which can assist the individual in performance of their duties. The aim of Vanguard’s policies are to ensure that all employees should be offered equal opportunities to achieve their full potential.

Risk management policies

The Group’s operations expose it to a number of financial risks which are detailed in Note 3.

The Group’s Directors monitor risks associated with the Group and work closely with the risk department to identify potential risks, establishing policies and procedures for effective control and risk management.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

Risk management policies (continued)

Operational risk exposures can give rise to losses from inadequate or failed internal processes, people and systems or from external events. Such risks are formally identified and assessed as part of the risk management framework. Appropriate management actions are implemented to reduce risk exposures and actions are tracked to completion.

The Group has entered into an intercompany services arrangement (the “Global Services Agreement” or “GSA”) with The Vanguard Group, Inc., (“VGI”) which allows it to receive and retain arm’s length profit equal to a guaranteed return on its costs in return for services provided by the Group in the local market. This arrangement transfers many of the financial risks associated with operations of the business to the ultimate parent. In exchange for services provided by VGI, the use of VGI’s intangibles, and the assumption of this risk, the transfer pricing agreement requires the Group to make payments to VGI when the Group earns profits above the arm’s length profit agreed in the GSA.

Statement in respect of section 172(1) of the Companies Act 2006

The Board of Directors of the Company both individually and together, consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company (having regard to the matters set out in section 172(1) of the Companies Act 2006) during the year ended 31 December 2020, and in doing so have had regard to a range of matters including:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between the Company's members.

In particular:

- As referred to in this Strategic Report (see the ‘Business strategy’ section above), Vanguard’s core purpose is: *“To take a stand for all investors, to treat them fairly and to give them the best chance for investment success”*. The Board’s long-term strategy planning and decision making is directly aligned to this purpose and designed to have a long-term beneficial impact for the Company and to deliver success for investors. In furtherance of this, the Board ensured that key strategic initiatives were delivered across the year, the Company operated in line with its financial control tolerances and took account of its applicable legal and regulatory requirements and obligations. As noted in the ‘Business strategy’ section, in 2021, the Board will continue to focus on growing the existing business, expanding services capabilities, launching additional products and focusing on risk management.
- The Board understands that Vanguard’s crew are fundamental to its success and looks to take into account crew interests proactively and in a meaningful way – please refer to the section below entitled *‘How we engage with our employees’* for further detail on this.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

Statement in respect of section 172(1) of the Companies Act 2006 (continued)

- Fostering relationships with service providers, investors and other stakeholders (such as industry bodies and regulators) is integral to the success of the Company, which is recognised by the Board – please refer to the section below entitled '*How we engage with our stakeholders*' for further detail in this regard.
- The Board recognises the important role which Vanguard plays in the community. Vanguard, through its Community Stewardship programme, has consistently looked to give back to its communities over the course of the year, supporting non-profit organisations, and encouraging employees to support charitable activities with their personal time, talent and funds. The Board also recognises the role Vanguard has with respect to the environment and ensures that this is a consideration in decision-making and strategy, where relevant.
- Conduct and culture is integral to Vanguard's business and is a key consideration in the actions and planning undertaken by the Board. Key cultural values are embedded within the business and reinforced at both management and Board level. In addition, Vanguard employees must adhere to a Code of Ethics which sets out the expectation and framework around Vanguard's strong conduct/culture ethos. Vanguard's policies on a wide range of business and ethics related practices are regularly reviewed and updated as necessary so as to ensure continued compliance with legal and regulatory requirements and good industry practice.
- The Board at all times, in alignment with Vanguard's core purpose, acts fairly and responsibly with respect to its investors. As referred to above, Board strategy and planning is aimed at ensuring long-term success for the Company and investors.
- The Board will continue to keep engagement methods under review to ensure they remain effective.

How we engage with our employees

Vanguard is committed to creating a workplace where crew can thrive and do their best work for our investors.

Crew engagement is one of the ways the Company, both at Board and management level, ensures that this is the case by taking account of employee interests. Engagement (and ensuring crew are kept up-to-date) is conducted via a number of channels (for example, via weekly business updates, quarterly town halls and an annual crew survey) and across every aspect of the crew experience at Vanguard, including onboarding, day-to-day work, career development opportunities and annual assessments.

In response to the crew engagement outlined above, meaningful action planning is formalised and implemented, so that crew experience positive and tangible improvements within the workplace.

How we engage with our stakeholders

Vanguard relies on service providers and suppliers in the delivery and operation of its services. Establishing and maintaining good relationships ensures that services are delivered effectively and at efficient cost. Relationship Teams manage and interact with key service providers across the business: providing service providers with confidence, trust and transparency in respect of the way Vanguard operates. The Board also maintains direct relationships with key service providers and works collaboratively with them to drive the highest standards possible and drive its strategic planning, where appropriate (for example, such as in the development of Vanguard's UK Personal Investor offering).

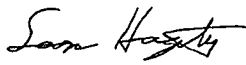
VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

Statement in respect of section 172(1) of the Companies Act 2006 (continued)

Vanguard also ensures that it fosters and maintains its key relationships with regulators, other authorities and industry bodies. The Company looks to be proactive in this regard, seeking engagement with these stakeholders, as appropriate, and implementing change projects, as and when required. The Board ultimately oversees these relationships, ensuring that the Company meets all expectations and requirements in this regard.

Signed on behalf of the board of Directors:



Sean P. Hagerty
Director
26 April 2021

VANGUARD ASSET SERVICES, LTD.

Report of the Directors

The Directors present, herewith, their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

Review of operations

The results of the Group for the year ended 31 December 2020 are set out in detail on page 13. Both the level of business and the year-end financial position were satisfactory and the Directors expect an increased level of activity in the future.

Dividends

The Directors of the Group recommended that no dividend be paid for the year ended 31 December 2020 (2019: nil).

Significant changes in the state of affairs

The following Director appointments occurred in the year: John Bendl (appointed 20th January 2020) and Maureen Erasmus (appointed 3rd February 2020).

The following Director resignations occurred in the year: Michael Gower (resigned 16 December 2020) and James Norris (resigned 31 December 2020).

The transition period for the UK leaving the European Union ("EU"), commonly referred to as "Brexit", ended 31 December 2020, and accordingly the UK is no longer part of the EU's single market and customs union. The Group considered the implications of Brexit and took certain mitigating steps prior to the original exit date of 29 March 2019. Following the Brexit Withdrawal Agreement between the UK and the EU, a Trade and Cooperation Agreement between the EU and the UK came into effect from 1 January 2021, however financial equivalence (assessment of the equivalence of the UK and EU's financial regulator systems) was not agreed. Accordingly, uncertainty remains for certain aspects of financial services in terms of future equivalence between the UK and EU and the future lapsing of any derogations in place, with the Group continuing to monitor and evaluate such at the time of finalisation of these financial statements.

Political instability and economic uncertainty may lead to speculation and subsequent market volatility, particularly for assets denominated in British pounds. Vanguard continues to encourage investors to follow its core investing principles, including maintaining long-term discipline. The implications of Brexit extend well beyond the UK economy and financial markets, affecting multinational organisations globally. Vanguard remains committed to safeguarding our investors' assets and their long-term interests and has devoted significant resources to developing plans to manage the impact of Brexit.

Market disruptions associated with the COVID-19 pandemic have had a global impact and uncertainty exists as to the long-term implications. Such disruptions can adversely affect revenues the Group receives for services provided where such revenues are based on the value of assets under management. The Group's total revenue is not expected to be adversely impacted by any decrease in revenue from such services due to the GSA between the Group and VGI.

In December 2020, Vanguard concluded discussions with the IRS and HMRC in relation to a requested Advanced Pricing Agreement ("APA") covering the taxable years 2014 to 2020 which changed the GSA mark-up from 7.5% to 9.7% (refer notes 4 and 6 for further details).

VANGUARD ASSET SERVICES, LTD.

Report of the Directors (continued)

Significant events after the year-end

In preparing the financial statements as at 31 December 2020, management considered the impact of subsequent events occurring through 26 April 2021 for potential recognition or disclosure in these financial statements.

Management has determined that there are no additional material events or transactions that have occurred subsequent to 31 December 2020 that would require recognition or disclosure in these financial statements.

Future developments

The Company will continue to act as a holding company for the Group and to render services to its subsidiaries and affiliates.

Indemnities and insurance premiums for officers or auditors

Indemnification

Under the Group's constitution, the Directors and officers were indemnified by the Group, with such indemnity obligation insured with a qualifying third party during the year and at the date of approval of the financial statements, out of the Group's assets for any loss, damage, expense or other liability incurred by him or her in properly performing or exercising any of his or her powers, duties or rights in relation to the Group.

Insurance premiums

VAS paid the premium for an insurance policy for the benefit of the Directors and employees of the Group and related bodies.

The liabilities that are insured are legal costs that might be incurred in defending civil or criminal proceedings that may be brought against the Directors and officers in their capacity as Directors and officers of the Group, and any other payments arising from liabilities incurred by the Directors and officers in connection with such proceedings.

Engagement with Employees

Please refer to the section entitled '*How we engage with our employees*' in the Strategic Report above.

Engagement with Suppliers, Investors and Others in a Business Relationship

Please refer to the section entitled '*How we engage with our stakeholders*' in the Strategic Report above.

Risk management policies

The Group's risk management policies are disclosed in the Strategic report on pages 3 and 4.

VANGUARD ASSET SERVICES, LTD.

Report of the Directors (continued)

Streamlined Energy & Carbon Reporting

Vanguard cares deeply about the long-term impact of climate change because it represents a profound, fundamental risk to our long-term investors and the way companies, including Vanguard, will operate in the future.

Vanguard has committed to the Net Zero Managers Initiative (“NZAM”). Founded in December 2020, NZAM is a group of global asset managers committed to supporting the goal of net zero greenhouse gas emissions, in line with global efforts to limit global warming to 1.5 degrees Celsius, and to support investing aligned with net zero emissions, both by 2050 or sooner.

In early 2020, Vanguard established new goals to curb emissions and reduce its carbon footprint throughout its global operations. These commitments include:

- Achieving 100% renewable energy in our global operations in 2021.
- Reaching carbon neutrality (a net-zero carbon footprint) throughout our global operations in 2025.

Vanguard uses guidance from the Greenhouse Gas (GHG) Protocol to calculate its carbon footprint. The protocol provides standards and tools to help businesses and other organizations measure and report greenhouse gas emissions. Under the protocol, a company’s emissions are classified in three “scopes.”

- Scope 1 is direct emissions from owned or controlled sources;
- Scope 2 is indirect emissions from the use of energy sources such as electricity, and;
- Scope 3 is indirect emissions that occur in a company’s value chain.

Our carbon neutrality commitment includes avoiding, reducing, and offsetting all emissions from owned or controlled sources of Scope 1 and Scope 2 emissions, as well as business travel, employee commuting, waste from operations, and upstream and downstream leased assets from Scope 3.

Vanguard remains committed to responsibly managing the carbon intensity of our electricity generation.

Using an operational control approach, Vanguard accounts for 100% of Scope 2 electricity emissions from properties in which it has control. Emissions from facilities outside of Vanguard’s operational control are calculated and accounted for under Scope 3. Within the UK, our energy usage consists primarily of the electricity consumption of the office space we lease.

The table below shows the Group’s Scope 2 emissions for the year ended 31 December 2020 along with the intensity ratio based on the Group’s full time employees (“FTE”). CO₂e (carbon dioxide equivalent) represents the number of metric tons of CO₂ emissions. The Group did not have significant Scope 1 or 3 emissions for the year ended 31 December 2020.

| Global Green House Gas (GHG) emissions | Year ended 31-Dec-20 |
|--|-----------------------------|
| Total Scope 2 emissions (CO ₂ e) | 174,399 |
| Electricity usage (kilowatt hours) | 121,697 |
| Intensity ratios | |
| CO ₂ e per FTE (kilograms) | 342 |
| Electricity usage per square foot (kilowatt hours) | 1.4 |

VANGUARD ASSET SERVICES, LTD.

Report of the Directors (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Report of the Directors, and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditors

In the case of each Director in office at the date the Report of the Directors is approved:

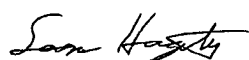
- (a) so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware;
- (b) the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Directors

The Directors serving during the year and up to the date of signing the financial statements were:

James M. Norris (resigned 31 December 2020)
Sean P. Hagerty
Michael Gower (resigned 16 December 2020)
Kathleen Bock
Katie Smith
Daniel Waters
John Bendl (appointed 20 January 2020)
Maureen Erasmus (appointed 3 February 2020)

Signed on behalf of the board of Directors:



Sean P. Hagerty
Director
26 April 2021

Independent auditors' report to the members of Vanguard Asset Services, Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Vanguard Asset Services, Ltd's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report of the Directors and Consolidated Financial Statements (the "Annual Report"), which comprise: the group and parent company Statements of Financial Position as at 31 December 2020; the Consolidated Statement of Comprehensive Income, the group and parent Cash Flow Statements, and the group and parent company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct

Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue or expenses, and management bias in accounting estimates. Audit procedures performed included:

- Reviewing correspondence with the Financial Conduct Authority in relation to compliance with laws and regulations;
- Identifying and testing journal entries, where any such journal entries that met our specific risk based criteria were identified;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing over areas such as manual journal entries and cash reconciliations; and
- Review of relevant board of directors minutes.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Thomas Norrie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 April 2021

VANGUARD ASSET SERVICES, LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Note | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
|--|------|----------------------------------|----------------------------------|
| Revenue from continuing operations | 4 | 258,170 | 195,529 |
| Total revenue from continuing operations | | 258,170 | 195,529 |
| Employee benefits expense | 5,22 | (109,200) | (100,745) |
| Administration and other costs | 5 | (34,374) | (27,353) |
| Rental expense | 5 | (1,391) | (1,687) |
| Fund expenses | 5 | (15,762) | (11,998) |
| Depreciation expense | 5,7 | (2,462) | (2,329) |
| Depreciation – Right of Use Asset | 5,21 | (5,394) | (5,231) |
| IT and consultancy costs | 5 | (27,538) | (13,095) |
| Administrative service fee expense | 5 | (28,762) | (18,536) |
| Total expenses from continuing operations | | (224,883) | (180,974) |
| Finance costs | | (1,297) | (1,511) |
| Profit before income tax | 14 | 31,990 | 13,044 |
| Income tax expense | 6 | (5,888) | (3,291) |
| Profit for the year | | 26,102 | 9,753 |
| Other comprehensive income/(loss): | | | |
| Currency translation differences | | 202 | (82) |
| Total comprehensive income for the year | | 26,304 | 9,671 |
| Total comprehensive income is attributable to: | | | |
| Owner of Vanguard Asset Services, Ltd. | | 26,304 | 9,671 |

Continuing Operations

All gains and losses recognised in the Statement of Comprehensive Income were generated from continuing activities.

There are no recognised gains or losses in the financial year or preceding financial year other than those dealt with in the Statement of Comprehensive Income.

The accompanying accounting policies and notes form an integral part of these financial statements.

VANGUARD ASSET SERVICES, LTD.

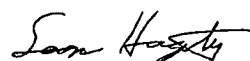
STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020

| | Note | Consolidated Group | | Company | |
|--------------------------------------|------|--------------------|--------------------|--------------------|--------------------|
| | | 31-Dec-20 £'000 | 31-Dec-19 £'000 | 31-Dec-20 £'000 | 31-Dec-19 £'000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property and equipment | 7 | 6,847 | 8,543 | 6,829 | 8,513 |
| Long-term investment in subsidiaries | | - | - | 19,565 | 19,565 |
| Trade and other receivables | 8 | 155 | 280 | - | 372 |
| Prepayments | | 140 | 372 | 156 | 155 |
| Right Of Use Asset | 21 | 39,574 | 41,082 | 38,359 | 40,775 |
| Deferred tax asset | 6 | 4,980 | 3,311 | 3,393 | 2,426 |
| | | <u>51,696</u> | <u>53,588</u> | <u>68,302</u> | <u>71,806</u> |
| Current Assets | | | | | |
| Trade and other receivables | 8 | 145,476 | 108,568 | 24,961 | 13,035 |
| Prepayments | | 4,566 | 3,626 | 3,801 | 3,120 |
| Cash and cash equivalents | 15 | 138,098 | 133,695 | 83,923 | 82,506 |
| | | <u>288,140</u> | <u>245,889</u> | <u>112,685</u> | <u>98,661</u> |
| Total assets | | <u>339,836</u> | <u>299,477</u> | <u>180,987</u> | <u>170,467</u> |
| Equity and liabilities | | | | | |
| Owners' equity | | | | | |
| Share capital | 12 | - | - | - | - |
| Capital Contribution | 12 | 5,200 | 5,200 | 5,200 | 5,200 |
| Share premium | 12 | 60,533 | 60,533 | 59,618 | 59,618 |
| Retained earnings | 13 | 70,813 | 44,711 | 22,868 | 14,008 |
| Other comprehensive income | | 443 | 241 | - | - |
| Total equity | | <u>136,989</u> | <u>110,685</u> | <u>87,686</u> | <u>78,826</u> |
| Liabilities | | | | | |
| Non-current liability | | | | | |
| Trade and other payables | 9 | 9,219 | 7,962 | 9,214 | 7,712 |
| Provisions | 11 | 2,780 | 2,777 | 2,727 | 2,727 |
| Lease liability | 21 | 40,498 | 42,947 | 39,489 | 42,798 |
| | | <u>52,497</u> | <u>53,686</u> | <u>51,430</u> | <u>53,237</u> |
| Current liabilities | | | | | |
| Trade and other payables | 9 | 106,486 | 93,907 | 35,637 | 33,551 |
| Borrowings | 10 | 33,362 | 34,883 | - | - |
| Income tax payable | | 4,192 | 2,172 | 153 | 894 |
| Lease liability | 21 | 6,310 | 4,144 | 6,081 | 3,959 |
| | | <u>150,350</u> | <u>135,106</u> | <u>41,871</u> | <u>38,404</u> |
| Total liabilities | | <u>202,848</u> | <u>188,792</u> | <u>93,301</u> | <u>91,641</u> |
| Total equity and liabilities | | <u>339,836</u> | <u>299,477</u> | <u>180,987</u> | <u>170,467</u> |

Under section 408 of the Companies Act 2006, a parent company that has elected to take the exemption from presenting its own Statement of Comprehensive Income is required to disclose profit or loss for the year on its Statement of Financial Position. The Company made a retained profit of £8,860,000 (2019: £2,982,000) and this is further disclosed in Note 13 of the notes to the financial statements.

The financial statements on pages 13 through 38 were approved by the board of Directors on 26 April 2021 and signed on its behalf by:



Sean P. Hagerty
Director, 26 April 2021
Company number: 07242969

VANGUARD ASSET SERVICES, LTD.

CASH FLOW STATEMENT

For the year ended 31 December 2020

| | Note | Consolidated Group | | Company | |
|---|------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
| Cash flows from operating activities | | | | | |
| Cash generated from operations | 14 | 17,293 | 21,663 | 10,704 | 18,886 |
| Interest paid | | (1,353) | (1,511) | (1,080) | - |
| Taxation paid | | (5,428) | (3,483) | (3,628) | (1,760) |
| Net cash generated from operating activities | | 10,512 | 16,669 | 5,996 | 17,126 |
| Cash flows from investing activities | | | | | |
| Purchase of property and equipment | | (9,563) | (14,251) | (7,268) | (7,465) |
| Transfer of net assets of branches | | - | (68) | - | - |
| Proceeds from the sale of fixed assets | | - | 6,768 | - | - |
| Interest received | 4 | 146 | 652 | 80 | - |
| Net cash used in investing activities | | (9,417) | (6,899) | (7,188) | (7,465) |
| Cash flows from financing activities | | | | | |
| Proceeds of sale of branches | 12 | - | 915 | - | - |
| Lease liability eliminated on disposal | | - | 1,228 | - | - |
| Repayment of finance lease liability | 21 | 4,668 | (5,700) | 2,609 | (5,487) |
| Repayment of other borrowings | 10 | (1,520) | 362 | - | - |
| Proceeds from issue of share capital | 12 | - | 17,500 | - | 17,500 |
| Net cash generated from financing activities | | 3,148 | 14,305 | 2,609 | 12,013 |
| Net increase in cash and cash equivalents | | 4,243 | 24,075 | 1,417 | 21,674 |
| Other comprehensive expense | | 160 | (37) | - | - |
| Opening cash and cash equivalents | | 133,695 | 109,657 | 82,506 | 60,832 |
| Closing cash and cash equivalents | 15 | 138,098 | 133,695 | 83,923 | 82,506 |

The accompanying accounting policies and notes form an integral part of these financial statements.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Principal accounting policies

The principal accounting policies and estimation techniques applied in the preparation of these financial statements are set out below. These policies have remained unchanged and been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006, applicable to companies reporting under IFRS. The Group has consistently applied the same accounting policies in the financial statements at each statement of financial position date, and throughout each year.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis and under the historical cost convention.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Management exercise a degree of judgement in the estimate of the useful lives of fixed assets. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Group's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

The Group is required to restore the leased premises of its office to its original condition at the end of the lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Principal accounting policies (continued)

(c) Use of estimates and judgements (continued)

The most significant judgement made in preparing the Group's financial statements is the determination that the Group exercises its power as agent, rather than principal, in respect of funds that it manages and, therefore, does not have control over them. A parent controls another entity when it has power over the investee, exposure to variable returns from it and is able to use its power to affect the level of returns. The Group typically has power over the funds that it manages through its investment management and other agreements with them.

In assessing whether it is agent or principal, the Group considers a number of factors, including the scope of its decision-making over the funds' relevant activities, rights held by investors and others, remuneration that it earns from the funds, and the Group's exposure to variable returns from all sources (including fees) for each fund.

(d) Foreign currencies

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the Group's functional and presentational currency.

Transaction and balances

Income and expenditure expressed in foreign currencies is translated into Pounds Sterling at the daily exchange rate in which the transactions are recorded. Differences arising on translation are included in the Statement of Comprehensive Income.

Assets and liabilities expressed in foreign currencies are translated into Pounds Sterling at rates of exchange ruling at the Statement of Financial Position date. Differences arising on translation are included in the Statement of Comprehensive Income.

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;

(b) income and expenses for each income statement are translated at average daily exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

(e) Cash, cash equivalents and borrowings

Cash and cash equivalents comprise cash in hand, money market deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

The borrowings represent an interest bearing overdraft at HSBC Bank plc utilised to cover delayed settlement from clients.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Principal accounting policies (continued)

(f) Revenue

The Group earns service fee, management fee, and platform fee revenue for services provided to customers. Each distinct service promised in the Group's agreements is considered a performance obligation and is the basis for determining the timing of revenue recognition. Fees are allocated to each distinct performance obligation in a contract and revenue is recognised when, or as, the Group satisfies its promises to customers. The timing of client billings varies in accordance with agreed-upon contractual terms. For the majority of agreements, billing occurs after the Group has recognised revenue, which results in accounts receivable and accrued revenue.

(g) Current and deferred tax

Current income taxes are calculated on the basis of the tax laws enacted or substantively enacted at the Statement of Financial Position date in the United Kingdom and Switzerland where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in the translation other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(h) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is defined as an entity controlled by the company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(i) Financial instruments

The Group's financial instruments are comprised of cash in interest bearing and non-interest bearing accounts, an interest bearing overdraft, money market deposits and receivables and payables balances that arise from its daily operations. These balances are classified as receivables or financial liabilities under IFRS 9. The Group's risk exposure is discussed in Note 3.

The Group does not use derivative financial instruments for risk management purposes. The Group does not trade financial instruments for its own account.

All the Group's financial liabilities are accounted for at amortised cost. Therefore, no analysis of the categories of financial instruments been prepared.

(i) Cash and overdraft

All cash and overdraft accounts are recognised initially at their fair market value and subsequently measured at amortised cost.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Principal accounting policies (continued)

(i) Financial instruments (continued)

(ii) Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer) they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(iii) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(j) Property, plant and equipment

On initial recognition, property and equipment are recognised at cost. Historical acquisition or production cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management as well as directly attributable costs. After initial recognition, property and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation on assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|------------------------|--|
| Computer equipment | 3 - 5 years |
| Telephone equipment | 5 years |
| Leasehold improvements | shorter of 5 years or remaining lease life |
| Furniture & fittings | 7 years |

The fair value of property and equipment recognised as a result of transfers between business combinations is the carrying value of the assets at the point of transfer between the group entities.

(k) Right-of-use assets

New arrangements are reviewed at inception to evaluate whether the Company substantially obtains all the economic benefits of and has the right to control the use of an asset. If an arrangement is determined to qualify as a lease, a lease liability and a corresponding asset is recognised upon the lease's commencement date. The lease liability is initially measured at the present value of the future minimum lease payments over the lease term using the rate implicit in the arrangement or, if not available, the Company's incremental borrowing rate. The lease right-of-use asset ("ROU") is measured initially at the value of the lease liability less any lease incentives plus any initial direct costs incurred.

Amortisation of the lease ROU asset and interest expense associated with the lease liability is recognised each period in the income statement. The amortisation expense is recognised on a straight-line basis, while interest expense is calculated based on the balance of the lease liability and the discount rate. The lease liability is reduced using the effective interest method for finance leases.

(l) Pension costs accounting policy

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Principal accounting policies (continued)

(m) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group considers its capital to be its total equity as shown on the Consolidated Statement of Financial Position.

The Group's Individual Capital Adequacy Assessment Process ("ICAAP"), assesses the amount of capital required to mitigate the risks to which the Group is exposed over a 36 month time horizon. The Group considers the impacts of future business plans as well as potential adverse scenarios (such as market downturns or significant operational errors) on the capital resources of the Group, so that regulatory capital requirements are met at all times.

The Group maintains sufficient capital¹ to meet UK regulatory requirements. On a quarterly basis the Group files the required regulatory capital requirement report with the U.K. Financial Conduct Authority ("FCA"). In line with these requirements, the Group maintains the higher of Pillar 1 and Pillar 2 capital requirements. The adequacy of the capital held by the Group, assessed at least annually as part of the ICAAP, is subject to formal sign off by the Company's Board of Directors (the "Board").

Based upon its regulatory permissions and scope of activities, the Group is subject to the capital requirements of an IFPRU limited licence firm. The Group's Pillar 1 capital requirements are calculated based on the ratio of the Group's "Own Funds" (its capital reserves) and its "total risk exposure amount" ("TREA"). The Group's TREA is currently driven by the fixed overhead requirement ("FOR"), being higher than the sum of its market risk and credit risk exposures.

The Pillar 3 document is available on the Vanguard UK website, www.vanguard.co.uk.

(n) Interest in funds managed by the Group

IFRS 12, Disclosure of Interest in Other Entities, includes the requirement for all forms of interests in other entities including joint arrangements, associates, and structured entities.

The Group has determined that investment funds that it manages are structured entities as a result of the Group's power conveyed through its investment management and other agreements with the funds which permit the Group to participate in their investing and operating decisions. The Group's interests in these funds include the management fees that it earns from them.

Structured entities include entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when the relevant activities are directed by means of a contractual relationship. As the Group directs the investing activities of the funds through its investment management and other agreements with them, it considers them to be structured entities.

2. New standards and amendments

The Group has considered all newly issued accounting guidance that is applicable to its operations and the preparation of its consolidated financial statements, including those it has not yet adopted. The Group does not believe that any such guidance has or will have a material effect on its financial position or results of operations.

¹ As defined under the UK FCA General Prudential Sourcebook

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Financial risk management

The financial instruments held by the Group expose it to a variety of financial risks: market risk, credit risk and liquidity risk. In addition, the Group is indirectly exposed to market risk through management fee income which is determined by the assets under management. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange, and ageing analysis for credit risk.

a. Market risk

(i) Foreign exchange risk

The Group is exposed to minimal foreign exchange risk arising from various currency exposures, primarily with the US Dollar, Euro and Swiss Franc. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Company and Group's boards of Directors (the "Board") has assessed that foreign exchange risk does not represent a significant risk to the Group.

(ii) Interest rate risk

The Group's exposure to interest rate risk on assets is limited to the cash and cash equivalent accounts. The risk is managed by the Group maintaining the cash and cash equivalent accounts in on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to minimal changes in value. The Board has assessed that interest rate risk does not represent a significant risk to the Group.

The Group's exposure to interest rate risk on liabilities is limited to borrowings. The risk is managed due to the short term nature of borrowings, which arise from settlement delays by clients. In addition, if settlement of purchase monies is not made within a reasonable period, then the Group reserves the right to make an administration charge and/or cancel the application for units and recover any shortfall. The Board has assessed that the interest rate risk does not represent a significant risk to the Group.

b. Credit risk

Credit risk arises from cash and cash equivalents, property plant and equipment, deposits with banks and custodians as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. Credit risk is considered to be minimal, given the nature of the transactions, customer assets held by the Vanguard funds and significant receivables being due from the Group.

The primary source of credit risk arises from placing funds at banks. It is the Group's policy to place funds with high quality financial institutions. The table below represents the Group's on-balance sheet credit risk exposure at 31 December.

| | 31-Dec-20 | 31-Dec-19 |
|-----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Cash and cash equivalents | 138,098 | 133,695 |
| Property and equipment | 6,847 | 8,543 |
| Trade and other receivables | 145,631 | 108,848 |
| | <u>290,576</u> | <u>251,086</u> |

c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, to meet the obligations associated with financial liabilities. The Group manages liquidity risk by continuously monitoring forecasts and actual cash flows. The Group maintains significant liquid financial assets which are sufficient to meet projected liabilities, cash flow obligations and regulated capital. The liquidity risk exposure is considered to be minimal. All non-taxation current assets and current liabilities are due within one month. Taxation liabilities are due within 3 to 12 months.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Financial risk management (continued)

d. Impact of Brexit

The impact of Brexit has been discussed in the Report of the Directors on page 7.

e. Impact of Coronavirus

The impact of Coronavirus has been discussed in the Report of the Directors on page 7.

4. Revenue from continuing operations

The Group derives revenue from the transfer of services over time in the following major product lines:

Service Fees

The Group earns fees pursuant to the GSA for the rendering of services in the ordinary course of the Group's activities. This allows the Group to receive and retain arm's length profit equal to a guaranteed return on its costs in return for services provided by the Group in the local market. In exchange for services provided by VGI, the use of VGI's intangibles, and the assumption of this risk, the transfer pricing agreement requires the Group to make payments to VGI when the Group earns profits above the arm's length profit agreed in the GSA.

The GSA has a single performance obligation as the promised services are not separately identifiable from other promises in the agreement and, therefore, are not distinct. Performance obligations for providing services are satisfied over time and revenue is recognised as services are performed. Service fee amounts due to and from VGI are settled on a monthly basis.

In December 2020, Vanguard concluded discussions with the IRS and HMRC in relation to a requested APA covering the taxable years 2014 to 2020 which changed the GSA mark-up from 7.5% to 9.7%. The transaction price for services previously provided by the company to VGI under the GSA changed as a result of these discussions, which represents a change in transaction price under IFRS 15. The change in transaction price is considered a contract modification however the change has not been accounted for as a separate contract as there has not been a change in the scope of the contract. As the service fee relates to performance obligations satisfied in previous periods, the change in transaction price is recognised as an adjustment to administrative service fee relating to taxable years 2014 to 2019 in the current reporting period, totalling £13,079,684. The Group has also recognised a corresponding tax liability and tax expense in respect of additional revenue for 2014 through 2020, calculated at the UK corporation tax rates in effect for those years (see Note 6).

Management Fees

The Group earns fees from the management and administration of exchange traded funds, pooled funds, separately managed accounts, and unit trusts. These fees represent variable consideration as such fees are based on assets under management, which changes based on fluctuations in financial markets, investor subscriptions, and investor redemptions. Fees are shown net of rebates, which represent monies paid back to certain investors. These rebates are paid in the form of reinvestments or cash based on individual fee agreements. The Group's management agreements have a single performance obligation as the promised services are not separately identifiable from other promises in the agreements and, therefore, are not distinct. Performance obligations for providing management services are satisfied over time and revenue is recognised as services are performed. Payments for management fee amounts owed to the Group for services performed are due from customers on a quarterly basis.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. Revenue from continuing operations (continued)

Platform Fees

The Group earns platform fees for personal investor services. These fees represent variable consideration as such fees are based on assets under management, which changes based on fluctuations in financial markets, investor subscriptions, and investor redemptions. The Group's platform fee agreements have a single performance obligation as the promised services are not separately identifiable from other promises in the agreements and, therefore, are not distinct. Performance obligations for providing management services are satisfied over time and revenue is recognised as services are performed. Payments for platform fee amounts owed to the Group are due from customers on a quarterly basis.

| | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
|-----------------------------|-------------------------------------|-------------------------------------|
| Administrative service fee | 196,935 | 152,862 |
| Management fees | | |
| Pooled funds | 48,745 | 32,921 |
| Unit trusts | 6,300 | 6,448 |
| Separately managed accounts | 955 | 945 |
| Interest income | 146 | 652 |
| Platform fees | 5,089 | 1,701 |
| | <u>258,170</u> | <u>195,529</u> |

Fund investor rebates charged during the year amounted to £1,966,800 (2019: £2,391,900).

The following table reflects changes in the balances of receivables from contracts with customers for the years ended 31 December 2020 and 2019:

| | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Beginning Balance | 108,848 | 78,535 |
| Increase in contract receivables | 36,783 | 30,459 |
| Transfer of net assets of branches | - | (146) |
| Ending Balance | <u>145,631</u> | <u>108,848</u> |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. Operating expenses

| | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
|---|-------------------------------------|-------------------------------------|
| Depreciation | | |
| <i>Property and equipment</i> | 2,462 | 2,329 |
| <i>Right of Use asset</i> | 5,394 | 5,231 |
| | <u>7,856</u> | <u>7,560</u> |
| Employee benefits expense | | |
| <i>Compensation and benefits</i> | 103,711 | 95,756 |
| <i>Defined contribution scheme</i> | 5,489 | 4,989 |
| | <u>109,200</u> | <u>100,745</u> |
| Administration and other costs | 34,374 | 27,353 |
| Fund expenses | 15,762 | 11,998 |
| Rental expense | 1,391 | 1,687 |
| IT and consultancy costs | 27,538 | 13,095 |
| Administrative service fee expense | 28,762 | 18,536 |
| Total expenses from continuing operations | <u>224,883</u> | <u>180,974</u> |

The fees payable to the Group's auditors for the audit of the consolidated financial statements are £31,160 (2019: £31,160). The fees payable to the Group's auditors for the audit of the subsidiaries financial statements are £52,485 (2019: £52,485). Fees payable to the Group's auditor and its associates for other services include audit-related assurance services, £120,000 (2019: £186,434) and tax compliance services, £82,263 (2019: £51,803).

6. Income tax expense

| Group | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
|------------------------|-------------------------------------|-------------------------------------|
| (a) Current tax charge | | |
| Current year | 7,498 | 3,939 |
| Prior Year | 60 | 43 |
| Total | <u>7,558</u> | <u>3,982</u> |
| Deferred tax credit | | |
| Current year | (1,600) | (634) |
| Prior Year | (70) | (57) |
| Total | <u>(1,670)</u> | <u>(691)</u> |
| Total tax expense | <u>5,888</u> | <u>3,291</u> |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. Income tax expense (continued)

| Group | Year ended 31-Dec-20 £'000 | Year ended 31-Dec-19 £'000 |
|--|----------------------------------|----------------------------------|
| (b) Factors affecting current year tax expense | | |
| Profit before income tax | 31,990 | 13,044 |
| Income tax expense at the UK corporation tax rate * | 6,078 | 2,478 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 170 | 256 |
| Disposal of goodwill | - | 172 |
| Adjustments in respect of prior periods | (10) | (13) |
| Effect of (increase)/decrease in planned UK Corporation Tax rate | (390) | 303 |
| Effect of tax rate differences due to Advanced Pricing Agreement | 73 | - |
| Tax rate differences in foreign jurisdictions | (33) | 95 |
| Total tax expense | <u>5,888</u> | <u>3,291</u> |

* The Company's profits for this accounting period are taxed at the standard rate of Corporation Tax in the U.K. of 19% (2019: 19%). A planned reduction in rate of corporation tax to 17% from April 2020 has been postponed, however this postponement was not enacted into law by the year-end.

As noted on page 23, in December 2020, Vanguard concluded discussions with the IRS and HMRC in relation to a requested APA covering the taxable years 2014 to 2020. The Group's current tax expense includes £2,557,970 in respect of the additional revenue for 2014 to 2019, calculated at the UK Corporation Tax rates in effect for those years.

The tax expenses reflect the total taxes accrued by the Company and its subsidiaries: VIUK, VAM, and VISG for the accounting years ended 31 December, 2020 and 2019.

Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | Year Ended 31-Dec-20 £'000 | Year Ended 31-Dec-19 £'000 |
|---|----------------------------------|----------------------------------|
| Deferred tax assets: | | |
| – To be recovered after more than 12 months | 4,980 | 3,311 |
| – To be recovered within 12 months | - | - |
| | <u>4,980</u> | <u>3,311</u> |
| Net deferred tax assets | <u>4,980</u> | <u>3,311</u> |

There were no deferred tax liabilities for the accounting years ended 31 December 2020 and 2019.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. Income tax expense (continued)

The gross movement on the deferred income tax account is as follows:

| | 2020 £'000 | 2019 £'000 |
|-------------------------|---------------|---------------|
| At 1 January | 3,311 | 2,620 |
| Income statement credit | 1,669 | 691 |
| At 31 December | <u>4,980</u> | <u>3,311</u> |

The movement in deferred income tax assets and liabilities during the year, without taking in to consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| Deferred tax assets | Accelerated tax depreciation £'000 | Other £'000 | Total £'000 |
|---------------------------------------|--|----------------|----------------|
| At 1 January 2019 | 2,590 | 30 | 2,620 |
| Credited to the deferred tax accounts | 691 | - | 691 |
| Reclass of deferred tax movements | (1,999) | 1,999 | - |
| At 31 December 2019 | <u>1,282</u> | <u>2,029</u> | <u>3,311</u> |
| At 1 January 2020 | 1,282 | 2,029 | 3,311 |
| Credited to the deferred tax accounts | 1,050 | 619 | 1,669 |
| At 31 December 2020 | <u>2,332</u> | <u>2,648</u> | <u>4,980</u> |

At 31 December 2020, deferred tax assets of £4,980k (2019: £3,311k) were recognised arising from differences in accounting and tax depreciation, and the recognition of deferred compensations.

Company

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | 31-Dec-20 £'000 | 31-Dec-19 £'000 |
|---|--------------------|--------------------|
| Deferred tax assets: | | |
| – To be recovered after more than 12 months | 3,393 | 2,426 |
| – To be recovered within 12 months | - | - |
| Net deferred tax assets | <u>3,393</u> | <u>2,426</u> |

There were no deferred tax liabilities for the accounting years ended 31 December 2020 and 2019.

The gross movement on the deferred income tax account is as follows:

| | 2020 £'000 | 2019 £'000 |
|-------------------------|---------------|---------------|
| At 1 January | 2,426 | 1,940 |
| Income statement credit | 967 | 486 |
| At 31 December | <u>3,393</u> | <u>2,426</u> |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. Income tax expense (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| Deferred tax assets | Accelerated tax depreciation £'000 | Other £'000 | Total £'000 |
|--------------------------------------|---|----------------|----------------|
| At 1 January 2019 | 395 | 1,545 | 1,940 |
| Charged to the deferred tax accounts | 2 | 484 | 486 |
| At 31 December 2019 | 397 | 2,029 | 2,426 |
| At 1 January 2020 | 397 | 2,029 | 2,426 |
| Charged to the deferred tax accounts | 967 | - | 967 |
| At 31 December 2020 | 1,364 | 2,029 | 3,393 |

At 31 December 2020, deferred tax assets of £3,393k (2019: £2,426k) were recognised arising from differences in accounting and tax depreciation, and the recognition of deferred compensations.

7. Property and Equipment

| Group | Leasehold improvements £'000 | Computer equipment £'000 | Telephone equipment £'000 | Furniture & fittings £'000 | Total £'000 |
|---|------------------------------------|--------------------------------|---------------------------------|----------------------------------|----------------|
| Cost | | | | | |
| At 1 January 2020 | 13,837 | 1,173 | 3,255 | 3,898 | 22,163 |
| Additions | 298 | 114 | 302 | 51 | 765 |
| Disposals | (660) | (54) | (26) | (15) | (755) |
| Effect of movement in exchange rates | 39 | - | 6 | 9 | 54 |
| At 31 December 2020 | 13,514 | 1,233 | 3,537 | 3,943 | 22,227 |
| Accumulated depreciation | | | | | |
| At 1 January 2020 | 8,158 | 655 | 2,223 | 2,584 | 13,620 |
| Charge for the year | 1,282 | 279 | 483 | 418 | 2,462 |
| Disposals | (660) | (54) | (26) | (15) | (755) |
| Effect of movement in exchange rates | 39 | - | 6 | 8 | 53 |
| At 31 December 2020 | 8,819 | 880 | 2,686 | 2,995 | 15,380 |
| Net book value | | | | | |
| At 31 December 2019 | 5,679 | 518 | 1,032 | 1,314 | 8,543 |
| At 31 December 2020 | 4,695 | 353 | 851 | 948 | 6,847 |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. Property and Equipment (continued)

| Company | Leasehold improvements | Computer equipment | Telephone equipment | Furniture & fittings | Total |
|---------------------------------|------------------------|--------------------|---------------------|----------------------|--------|
| Cost | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2020 | 13,216 | 1,165 | 3,156 | 3,760 | 21,297 |
| Additions | 298 | 114 | 302 | 51 | 765 |
| Disposals | - | (46) | (7) | (15) | (68) |
| At 31 December 2020 | 13,514 | 1,233 | 3,451 | 3,796 | 21,994 |
| Accumulated depreciation | | | | | |
| At 1 January 2020 | 7,537 | 649 | 2,149 | 2,449 | 12,784 |
| Charge for the year | 1,282 | 279 | 475 | 413 | 2,449 |
| Disposals | - | (46) | (7) | (15) | (68) |
| At 31 December 2020 | 8,819 | 882 | 2,617 | 2,847 | 15,165 |
| Net book value | | | | | |
| At 31 December 2019 | 5,679 | 516 | 1,007 | 1,311 | 8,513 |
| At 31 December 2020 | 4,695 | 351 | 834 | 949 | 6,829 |

8. Trade and other receivables

| | Group | | Company | |
|--------------------------|---------|---------|---------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Fund sales/cancellations | 96,738 | 84,714 | - | - |
| Inter-company receivable | 31,555 | 13,994 | 22,399 | 11,727 |
| Other receivables | 11,252 | 5,037 | 2,428 | 1,220 |
| Lease deposits | 289 | 368 | 134 | 460 |
| Trade receivables | 5,797 | 4,735 | - | - |
| | 145,631 | 108,848 | 24,961 | 13,407 |
| Non-current | 155 | 280 | - | 372 |
| Current | 145,476 | 108,568 | 24,961 | 13,035 |
| | 145,631 | 108,848 | 24,961 | 13,407 |

The carrying amount of the financial assets listed above approximates their fair value.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. Trade and other payables

| | Group | | Company | |
|----------------------------|----------------|----------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Fund repurchases/creations | 64,236 | 50,494 | - | - |
| Accruals | 47,484 | 44,637 | 42,001 | 37,329 |
| Other payables | 2,649 | 2,616 | 2,637 | 2,546 |
| Trade payables | 213 | 1,597 | 213 | 1,388 |
| Intercompany payables | 1,123 | 2,525 | - | - |
| | <u>115,705</u> | <u>101,869</u> | <u>44,851</u> | <u>41,263</u> |

| | Group | | Company | |
|-------------|----------------|----------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Non-current | 9,219 | 7,962 | 9,214 | 7,712 |
| Current | 106,486 | 93,907 | 35,637 | 33,551 |
| | <u>115,705</u> | <u>101,869</u> | <u>44,851</u> | <u>41,263</u> |

The carrying amount of the financial liabilities listed above approximates their fair value.

Related party payables/receivables from the entity are non-interest bearing and are not secured. No guarantees were made by the entity in respect of any payables. The payables will be settled in accordance with normal credit terms.

10. Borrowings

| | Group | | Company | |
|----------------|---------------|---------------|----------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank overdraft | <u>33,362</u> | <u>34,883</u> | <u>-</u> | <u>-</u> |

At the year-end, the Group utilised an interest bearing overdraft at HSBC Bank plc to cover the delayed settlement of fund creations from clients. The movement in borrowings is presented directly in the cash flow statement and the Group does not consider any other items as part of its net debt, hence a separate net debt reconciliation has not been presented. The fair value of the borrowings equal their carrying amount. They are unsecured and payable on demand.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. Provisions

| | Group | | Company | |
|---------------------------------------|-------------------------------|--------------|-------------------------------|--------------|
| | Dilapidation provision | Total | Dilapidation provision | Total |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2020 | 2,777 | 2,777 | 2,727 | 2,727 |
| Effects of movement in exchange rates | 3 | 3 | - | - |
| At 31 December 2020 | 2,780 | 2,780 | 2,727 | 2,727 |

| | Group | | Company | |
|-------------|--------------|--------------|----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Non-current | 2,780 | 2,777 | 2,727 | 2,727 |
| | 2,780 | 2,777 | 2,727 | 2,727 |

The carrying amount of the financial liabilities listed above approximates their fair value.

12. Ordinary shares

| | Number of shares | Share capital £'000 | Capital contribution £'000 | Share premium £'000 | Total £'000 |
|---|-------------------------|----------------------------|-----------------------------------|----------------------------|--------------------|
| Allotted and fully paid - ordinary shares of £1 each | | | | | |
| Balance at 1 January 2019 | 8 | - | 5,200 | 42,118 | 47,318 |
| Issued during the year | 1 | - | - | 17,500 | 17,500 |
| Proceeds from sale of branches | - | - | - | 915 | 915 |
| Balance at 31 December 2019 | 9 | - | 5,200 | 60,533 | 65,733 |
| Issued during the year | - | - | - | - | - |
| Balance at 31 December 2020 | 9 | - | 5,200 | 60,533 | 65,733 |

The table above represents the consolidated position of ordinary shares as at 31 December 2020.

All shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends which the Company may declare by ordinary resolution.

13. Retained earnings

| | Group | | Company | |
|---|--------------|--------------|----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January | 44,711 | 34,916 | 14,008 | 11,026 |
| Retained profit for the year | 26,102 | 9,753 | 8,860 | 2,982 |
| FX on translation of foreign operations | - | 42 | - | - |
| Balance at 31 December | 70,813 | 44,711 | 22,868 | 14,008 |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. Cash generated from operations

| | <u>Group</u> | | <u>Company</u> | |
|---|---------------|---------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Profit before tax | 31,990 | 13,044 | 11,780 | 4,158 |
| Adjustments for: | | | | |
| Depreciation | 7,805 | 7,560 | 7,572 | 7,490 |
| Finance costs | 1,150 | 859 | - | - |
| Increase in trade and other receivables | (36,783) | (31,498) | (11,554) | 3,484 |
| Increase in prepayments | (708) | (617) | (682) | (696) |
| Increase in trade and other payables | 12,246 | 21,509 | (1,084) | 1,809 |
| Increase in accruals | 1,590 | 10,086 | 4,672 | 1,864 |
| Increase in provisions | 3 | 720 | - | 777 |
| Cash generated from operations | <u>17,293</u> | <u>21,663</u> | <u>10,704</u> | <u>18,886</u> |

15. Cash and cash equivalents

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------|----------------|----------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Cash at bank | 138,098 | 133,695 | 83,923 | 82,506 |
| Cash and cash equivalents | <u>138,098</u> | <u>133,695</u> | <u>83,923</u> | <u>82,506</u> |

The carrying amount of the cash listed above approximates their fair value.

16. Holding company

The immediate parent undertaking is Zealous Inc., incorporated in the United States of America.

The ultimate parent undertaking and controlling party is VGI, a company incorporated in the United States of America.

VGI is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2020.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. Subsidiaries

| | Country of incorporation | Ownership interest | |
|---|--------------------------|--------------------|------|
| | | 2020 | 2019 |
| | | % | % |
| Vanguard Asset Management, Ltd.* | UK | 100 | 100 |
| Vanguard Investments Switzerland GmbH** | Switzerland | 100 | 100 |
| Vanguard Investments UK, Limited* | UK | 100 | 100 |
| Vanguard UK Nominees Limited* | UK | 100 | 100 |
| Vanguard Pension Trustee UK Limited* | UK | 100 | 100 |

* The registered address for these entities is: 4th Floor, The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF.

** The registered address for this entity is: Bleicherweg 30, CH—8002 Zurich, Switzerland.

18. Related party transactions

The GSA allows the Group to receive and retain an arm's length profit equal to a guaranteed return on its costs in return for the services provided by the Group in the local market. The GSA also requires the Group to make payments to VGI when the Group earns profits above the arm's length profit agreed in the GSA. The Group's administrative service fees is disclosed in Note 5.

The Company receives compensation ("Holding Company Service Fees"), from VAM and VIUK for certain overhead and administrative expenses incurred by the Company in providing services to each of these subsidiaries. These expenses generally consist of salaries and related benefits paid to corporate personnel, administrative, record keeping, accounting, information management, legal and other services. Allocation of costs are based primarily on actual usage and on the number of corporate personnel dedicated to the entities activities. Holding Company Service Fees of £6,608,000 (2019: £6,428,000) and £82,965,000 (2019: £73,130,000) were charged to VIUK and VAM respectively during the year.

The Group has entered into management agreements with Vanguard Investments Funds ICVC and Vanguard LifeStrategy Funds ICVC (for which VIUK is the Authorised Corporate Director), and is the Manager of Vanguard FTSE U.K All Share Index Unit Trust and Vanguard FTSE 100 Index Unit Trust (established by trust deeds). Under these arrangements, the Group incurs the following expenses on behalf of the Funds: Fund Investment Management Fees, Fund Transaction Fees, Fund Marketing Fees, Fund Audit Fees, Fund Accounting Fees, Fund Trustee Fees, Fund Legal Fees, Fund Platform Fees and Fund professional fees. The Group's fund expenses are disclosed in Note 5.

VIUK acts as principal in respect of all transactions of units in the trust and of shares in the open-ended investment companies (OEICs). Amounts receivable in respect of management charges from the related funds were £5,709,000 (2019: £2,526,000).

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. Related party transactions (continued)

During the year the below transactions took place between the consolidated group and other entities within the Vanguard Group.

| | 2020 | 2019 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| <u>Administrative services received:</u> | | |
| VGI | (48,146) | (32,417) |
| VGIL | (459) | (229) |
| Vanguard Investments Australia, Ltd | - | (406) |
| Total | <u>(48,605)</u> | <u>(33,052)</u> |

| | 2020 | 2019 |
|--|----------------|----------------|
| | £'000 | £'000 |
| <u>Administrative services provided:</u> | | |
| VGI | 200,731 | 154,404 |
| VGIL | 1,214 | 1,225 |
| Vanguard Group Ireland, Italy | 198 | - |
| Vanguard Group Europe, GmbH | 2,487 | - |
| Vanguard Investments Australia, Ltd | - | 15 |
| Vanguard Investments Canada Inc. | 297 | 214 |
| Total | <u>204,927</u> | <u>155,858</u> |

The consolidated group has the following intercompany balances with entities within the group of undertakings for which VGI is the parent.

| | 2020 | 2019 |
|--|---------------|---------------|
| | £'000 | £'000 |
| <u>Balances outstanding at the year-end:</u> | | |
| The Vanguard Group, Inc | 27,750 | 11,295 |
| Vanguard Investments Australia, Ltd | - | (1) |
| Vanguard Group (Ireland) Limited, Germany | (1) | - |
| Vanguard Group Ireland, Italy | 187 | - |
| Vanguard Group Europe, GmbH | 2,426 | - |
| Vanguard Investments Canada | 28 | 30 |
| Vanguard Group (Ireland) Limited | 42 | 145 |
| Total | <u>30,432</u> | <u>11,469</u> |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. Sponsored structured entities

The Group establishes, markets and manages investment funds, under its brand as VIUK, which it considers to be sponsored structured entities. During the year, the Group received the following management fees from these entities:

| | 2020 | 2019 |
|---------------|---------------|---------------|
| | £'000 | £'000 |
| Mutual funds | 35,076 | 29,997 |
| Fund of funds | 22,748 | 11,888 |
| | <u>57,824</u> | <u>41,885</u> |

The aggregate net asset values of the funds managed by the Group were as follows at 31 December:

| | 2020 | 2019 |
|--------------|------------|------------|
| | £'000 | £'000 |
| Mutual funds | 51,890,503 | 40,784,773 |

The AUM figure above includes AUM from both mutual funds and fund of funds. These fund of funds also contain some elements of UK and Irish mutual funds. Therefore, the figure above includes £13,226,677k (2019: £9,383,469k) of AUM invested in fund of funds.

The Group did not transfer any assets to these entities during the year ended 31 December 2020.

Each of these funds is a mutual fund trust that has been legally established and conducts its trading activities in the United Kingdom, which might include the trading of foreign securities. The funds invest for the purpose of long-term capital growth and do not employ leverage.

None of the funds are quoted in active markets and they finance their operations by issuing units to qualified investors.

The Group does not invest in the funds that it manages and therefore its maximum exposure to losses is represented by amounts due from funds (see Note 18).

20. Directors' emoluments

Emoluments of the Directors of the Company were as follows:

| | 2020 | 2019 |
|-----------------------------|--------------|--------------|
| | £'000 | £'000 |
| Directors' emoluments | 3,170 | 3,870 |
| Long-term incentive schemes | 147 | 71 |
| Pension contributions | 73 | 36 |
| | <u>3,390</u> | <u>3,977</u> |

The emoluments of the highest paid Director were £1,207,000 (2019: £1,415,000), which included pension contributions of £73,000 (2019: £36,000). As at 31 December 2020 retirement benefits are accruing under defined contribution schemes for 1 Director (2019: 2 Directors).

The Directors of the Group recommended that no dividend be paid for the year ended 31 December 2020 (2019: nil).

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. Leases

The Company primarily leases property with lease terms of 10 to 20 years. Leases may contain renewal options, early termination options, and future rent escalations. Lease terms include periods covered by options to extend when it is reasonably certain that such options will be exercised. Lease terms may also include periods covered by options to terminate when it is reasonably certain that such options will not be exercised.

Lease ROU assets and lease liabilities are recognised at commencement date based on the present value of lease payments over the lease term. The lease liability may include payments that depend on a rate or index, measured using the rate or index at the commencement date. Payments that vary because of changes in facts or circumstances occurring after the commencement date are considered variable. These payments are not recognised as part of the lease liability and are expensed in the period incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. For property leases, the Company has elected not to separate lease and non-lease components of contracts.

When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most leases do not provide a readily determinable implicit rate. Therefore, an estimated incremental borrowing rate is used to discount the lease payments based on information available at lease commencement.

The Company leases assets including property. Information about these leases for which the Company is a lessee is presented below.

Group

| | 2020 | 2019 |
|------------------------------------|-----------------|-----------------|
| Right-of-use Assets (£'000) | Property | Property |
| Balance at January 1, 2020 | 41,082 | 48,108 |
| Additions | 3,818 | - |
| Depreciation charge for the year | (5,340) | (5,231) |
| Disposal – sale of branches | - | (1,228) |
| Retirements | - | (473) |
| Translation | 14 | (94) |
| Balance at December 31, 2020 | 39,574 | 41,082 |

Company

| | 2020 | 2019 |
|------------------------------------|-----------------|-----------------|
| Right-of-use Assets (£'000) | Property | Property |
| Balance at January 1, 2020 | 40,775 | 45,498 |
| Additions | 2,699 | 813 |
| Depreciation charge for the year | (3,789) | (5,252) |
| Retirements | (1,326) | (284) |
| Balance at December 31, 2020 | 38,359 | 40,775 |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. Leases (continued)

The following table presents certain information related to the lease costs during 2020.

| (£'000) | Group | Company |
|--|---------------|---------------|
| Finance lease cost | | |
| Depreciation of leased assets | 5,340 | 3,789 |
| Interest of lease liabilities | 991 | 991 |
| Variable lease cost | 6,060 | 5,770 |
| Expenses relating to short-term leases | 89 | 1,256 |
| Total lease cost | <u>12,480</u> | <u>11,806</u> |

The table below presents supplemental cash flow information related to leases during 2020:

| (£'000) | Group | Company |
|---|---------|---------|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows for financing leases | (3,676) | (1,618) |
| Financing cash flows for financing leases | (991) | (991) |

The table below reconciles the undiscounted cash flows for each of the next five years and total of the remaining years to the operating and finance lease liabilities recorded on the balance sheet.

| (£'000) | Group | Company |
|--|----------------|----------------|
| 2021 | £5,820 | £5,593 |
| 2022 | £5,231 | £5,013 |
| 2023 | £4,845 | £4,622 |
| 2024 | £4,849 | £4,622 |
| 2025 | £4,854 | £4,622 |
| Thereafter | £24,692 | £24,517 |
| Total minimum lease payments | <u>£50,291</u> | <u>£48,989</u> |
| Less: amount of lease payments representing interest | (£3,483) | (£3,419) |
| Present value of future minimum lease payments | <u>£46,808</u> | <u>£45,570</u> |
| Current | £6,310 | £6,081 |
| Non-Current | £40,498 | £39,489 |

22. Employee benefits expense

The average monthly number of employees (including executive Directors) during the year was 510 (2019: 444). For 2020 and 2019, this can be broken down as follows:

| | 2020 | 2019 |
|------------------------------|------------|------------|
| Sales | 48 | 67 |
| Investment management | 158 | 110 |
| Operations & client services | 145 | 122 |
| Marketing | 43 | 38 |
| Portfolio review | 22 | 22 |
| Legal and compliance | 32 | 35 |
| Other shared services | 50 | 44 |
| Management | 12 | 6 |
| | <u>510</u> | <u>444</u> |

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. Employee benefits expense (continued)

As at 31 December the employee category breakdown is as follows:

| | 2020 | 2019 |
|--------------------------------|------------|------------|
| Sales | 44 | 54 |
| Investment management | 200 | 174 |
| Operations and client services | 152 | 136 |
| Marketing | 46 | 37 |
| Portfolio review | 23 | 21 |
| Legal and compliance | 33 | 32 |
| Other shared services | 90 | 84 |
| Management | 19 | 9 |
| | <u>607</u> | <u>547</u> |

| | 2020 | 2019 |
|------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Wages and salaries | 77,019 | 70,462 |
| Social security costs | 8,152 | 8,192 |
| Pension costs | 5,489 | 5,132 |
| Other payroll taxes | 1,384 | 634 |
| Benefits | 3,072 | 3,215 |
| Other employee and personnel costs | 14,084 | 13,110 |
| | <u>109,200</u> | <u>100,745</u> |

23. Subsequent events

The Group has performed a review of events subsequent to the statement of financial position date through to 26 April 2021 (the date the financial statements were issued) and determined that there were no such events requiring recognition or disclosure in the financial statements.