

VANGUARD ASSET SERVICES, LTD.
REPORT OF THE DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2021

Company Number: 07242969

THURSDAY



ABB6D8GX

A05

25/08/2022

#245

COMPANIES HOUSE

VANGUARD ASSET SERVICES, LTD.

Contents	Page(s)
Directors and other information	1
Strategic report	2-6
Report of the Directors	7-11
Independent auditors' report to the Member of Vanguard Asset Services, Ltd.	12-14
Consolidated Statement of Comprehensive Income	15
Statements of Financial Position	16
Cash Flow Statements	17
Statements of Changes in Equity	18
Notes to the consolidated financial statements	19-41

VANGUARD ASSET SERVICES, LTD.

Directors and other information

Directors	Sean P. Hagerty Kathleen Bock Daniel Waters John Bendl Maureen Erasmus
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 2021.

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.

The Vanguard Europe strategy is a focused one, with clear target clients across our key geographies – the UK, Germany, Italy and Switzerland. Our target clients include:

- 1) **Retail direct** – In 2021, our UK Personal Investor execution-only platform grew rapidly, as we invested in technology and operational enhancements to enhance client experience. We also expanded our UK retail direct offer with the launch of an advice service, Vanguard Personal Financial Planning (VPFP).
- 2) **Intermediary retail & Intermediary wholesale** – Vanguard’s intermediary channels account for the majority of distribution in the UK, Germany, Italy and Switzerland. In 2021, Vanguard continued to commit 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.

To better serve clients across all channels, Vanguard invested especially in our ESG offer throughout 2021. We clarified our positioning of ESG investing with the development of our ‘Engage, Allocate and Avoid’ framework. In terms of ‘Engage’, we evolved our communication posture on our Stewardship programme by becoming more transparent about our activities, especially around climate risk. For ‘Allocate’ and ‘Avoid’, we developed a robust product plan. We launched four active ESG funds on the UK fund platform in Q4 2021 to support our ‘Allocate’ offer as well as two exclusionary index UCITS ETFs in Q2 2021 for the ‘Avoid’ category. Finally, we mobilised and funded the significant work necessary to comply with new ESG regulations.

In terms of strategic objectives, Vanguard Europe has created more alignment in cross-regional business strategy for the coming years, specifically with the development of three overarching objectives, to: 1) Deliver superior client outcomes, 2) Earn a sufficient risk-adjusted return for Vanguard, and 3) Create an environment where all crew can thrive.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

Business strategy (continued)

In 2022, Vanguard Europe will align efforts throughout the business to our three overarching objectives. Key efforts include:

- 1) In order to deliver superior client outcomes, we are focused on delivering top investment performance, better understanding a range of client outcomes through investment in stronger measurements, and also managing our top risks with investments in a first-class risk and controls environment.
- 2) To earn a risk-adjusted return, at the highest level, we are focused on key financial and efficiency measures. Vanguard Europe's commitment to financial discipline has been designed to accelerate our flywheel and in turn lower costs for investors.
- 3) All of these business outcomes will not be achieved if our crew are not able to thrive. We will rely on key measures to assess this objective such as our internal engagement and inclusion scores. In addition, we will continue our work to cultivate a more diverse workplace.

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 2021 was 4.2% (2020: 7.7%).

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 2021 are set out in detail on page 15. The year-end financial position of the Group is set out on page 16.

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.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

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.

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 2021, 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 2022, the Board will continue to focus on growing the existing business, expanding services capabilities, launching additional products and focusing on risk management.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

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

- 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.
- 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.
- The Board will continue to keep engagement methods under review to ensure they remain effective.

How we engaged with our employees ("crew") in 2021

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 2021, the Board remained highly engaged in relation to crew's well-being through regular updates on responses to annual surveys and more regular focussed "pulse" surveys and the oversight of return to office arrangements set by management.

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.

VANGUARD ASSET SERVICES, LTD.

Strategic report (continued)

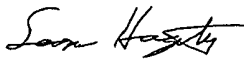
Statement in respect of section 172(1) of the Companies Act 2006 (continued)

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 ongoing development of Vanguard's UK Personal Investor offering).

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
25 April 2022

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 2021.

Review of operations

The results of the Group for the year ended 31 December 2021 are set out in detail on page 15. 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 2021 (2020: nil).

Significant changes in the state of affairs

There were no Director appointments in the year.

The following Director resignations occurred in the year: Katie Smith (resigned 17th November 2021).

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 Company 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 regulatory 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 Company continuing to monitor and evaluate such at the time of finalisation of these financial statements.

Market disruptions associated with the COVID-19 pandemic and geopolitical events 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 preparing the financial statements as at 31 December 2021, management considered the impact of subsequent events occurring through 25 April 2022 for potential recognition or disclosure in these financial statements.

Market disruptions associated with events in Russia and Ukraine have had a global impact, and uncertainty exists as to their 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. Management is continuing to monitor this development and evaluate its impact on the financial position and operating results of the Group.

Management has determined that there are no additional material events or transactions that have occurred subsequent to 31 December 2021 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.

VANGUARD ASSET SERVICES, LTD.

Report of the Directors (continued)

Indemnities and insurance premiums

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 certain 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. Disability policies have been disclosed on page 3 of 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 page 3.

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 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.

VANGUARD ASSET SERVICES, LTD.

Report of the Directors (continued)

Streamlined Energy & Carbon Reporting (continued)

Our plan to achieve carbon neutrality includes avoiding, reducing, and offsetting all Scope 1 and Scope 2 emissions, as well as emissions from a number of Scope 3 categories:

- Category 1 - Purchased goods and services
- Category 3 - Fuel- and energy-related activities
- Category 5 - Waste generated in operations
- Category 6 - Business travel
- Category 7 - Employee commuting
- Category 8 - Upstream leased assets

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 3 emissions for the year ended 31 December 2021 along with intensity ratios based on the Group's full-time employees ("FTE") and square footage. CO₂e (carbon dioxide equivalent) represents the number of metric tons of CO₂ emissions. The Group did not have significant Scope 1 or 2 emissions for the years ended 31 December 2021 or 2020.

	Year ended 31-Dec-2021				Year ended 31-Dec-2020			
	kg '000				kg '000			
Global Green House Gas (GHG) emissions	CO ₂ e	CO ₂	CH ₄	N ₂ O	CO ₂ e	CO ₂	CH ₄	N ₂ O
Scope 3: Electricity consumption from managed assets	275	272	1	2	159	157	1	1
Scope 3: Business Travel - Air	130	129	-	1	1,137	1,132	-	6
Scope 3: Business Travel - Rail	3	3	-	-	-	-	-	-
Total	408	404	1	3	1,296	1,289	1	7

Intensity ratios	Year ended 31-Dec-2021	Year ended 31-Dec-2020
CO ₂ e per FTE (kilograms)	518	2,542
Electricity usage per square foot (kilowatt hours)	15	2

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 and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have 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 and company's auditors are aware of that information.

VANGUARD ASSET SERVICES, LTD.

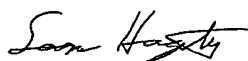
Report of the Directors (continued)

Directors

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

Sean P. Hagerty
Kathleen Bock
Katie Smith (resigned 17th November 2021)
Daniel Waters
John Bendl
Maureen Erasmus

Signed on behalf of the board of Directors:



Sean P. Hagerty
Director
25 April 2022

Independent auditors' report to the directors 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 2021 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 UK-adopted international accounting standards; 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 Consolidated Group and Company Statements of Financial Position as at 31 December 2021; the Consolidated Statement of Comprehensive Income, the Consolidated Group and Company Cash Flow Statements, and the Consolidated Group and 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 2021 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 by the engagement team 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 meeting 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 directors 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
25 April 2022

VANGUARD ASSET SERVICES, LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note(s)	Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000
Revenue from continuing operations	4	295,510	258,170
Total revenue from continuing operations		295,510	258,170
Employee benefits expense	5,22	(132,873)	(109,200)
Administration and other costs	5	(37,980)	(34,374)
Rental expense	5	(1,032)	(1,391)
Fund expenses	5	(12,482)	(15,762)
Depreciation expense	5,7	(1,738)	(2,462)
Depreciation – Right of Use Asset	5,21	(5,668)	(5,394)
IT and consultancy costs	5	(18,902)	(27,538)
Administrative service fee expense	5	(63,292)	(28,762)
Total expenses from continuing operations		(273,967)	(224,883)
Finance costs		(1,057)	(1,297)
Profit before income tax	14	20,486	31,990
Income tax expense	6	(3,005)	(5,888)
Profit for the year		17,481	26,102
Other comprehensive (loss)/income:			
Currency translation differences		(76)	202
Total comprehensive income for the year		17,405	26,304
Total comprehensive income is attributable to:			
Owner of Vanguard Asset Services, Ltd.		17,405	26,304

Continuing Operations

All gains and losses recognised in the Consolidated 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 Consolidated Statement of Comprehensive Income.

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

VANGUARD ASSET SERVICES, LTD.

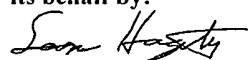
STATEMENTS OF FINANCIAL POSITION

As at 31 December 2021

	Note(s)	Consolidated Group		Company	
		31-Dec-21 £'000	31-Dec-20 £'000	31-Dec-21 £'000	31-Dec-20 £'000
Assets					
Non-current assets					
Property and equipment	7	7,521	6,847	7,422	6,829
Long-term investment in subsidiaries		-	-	62,564	19,565
Trade and other receivables	8	167	155	-	-
Prepayments		468	140	496	156
Right of Use Asset	21	36,547	39,574	35,529	38,359
Deferred tax asset	6	6,037	4,980	4,596	3,393
		<u>50,740</u>	<u>51,696</u>	<u>110,607</u>	<u>68,302</u>
Current Assets					
Trade and other receivables	8	145,544	145,476	14,720	24,961
Prepayments		3,946	4,566	3,018	3,801
Cash and cash equivalents	15	211,778	138,098	88,618	83,923
		<u>361,268</u>	<u>288,140</u>	<u>106,356</u>	<u>112,685</u>
Total assets		<u>412,008</u>	<u>339,836</u>	<u>216,963</u>	<u>180,987</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	88,294	70,813	28,363	22,868
Other comprehensive income		367	443	-	-
Total equity		<u>154,394</u>	<u>136,989</u>	<u>93,181</u>	<u>87,686</u>
Liabilities					
Non-current liability					
Trade and other payables	9	11,998	9,219	11,989	9,214
Provisions	11	2,779	2,780	2,727	2,727
Lease liability	21	36,758	40,498	35,919	39,489
		<u>51,535</u>	<u>52,497</u>	<u>50,635</u>	<u>51,430</u>
Current liabilities					
Trade and other payables	9	161,800	106,486	66,923	35,637
Borrowings	10	37,842	33,362	-	-
Income tax payable		-	4,192	-	153
Lease liability	21	6,437	6,310	6,224	6,081
		<u>206,079</u>	<u>150,350</u>	<u>73,147</u>	<u>41,871</u>
Total liabilities		<u>257,614</u>	<u>202,847</u>	<u>123,782</u>	<u>93,301</u>
Total equity and liabilities		<u>412,008</u>	<u>339,836</u>	<u>216,963</u>	<u>180,987</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 £5,495,000 (2020: £8,860,000) and this is further disclosed in Note 13 of the notes to the financial statements.

The financial statements on pages 15 through 41 were approved by the board of Directors on 25 April 2022 and signed on its behalf by:



Sean P. Hagerty
 Director, 25 April 2022
 Company number: 07242969

VANGUARD ASSET SERVICES, LTD.

CASH FLOW STATEMENTS

For the year ended 31 December 2021

	Note	Consolidated Group		Company	
		Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000	Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000
Cash flows from operating activities					
Cash generated from operations	14	89,012	17,293	59,055	10,704
Interest paid		(1,057)	(1,353)	(799)	(1,080)
Taxation paid		(9,723)	(5,428)	(3,074)	(3,628)
Net cash generated from operating activities		78,232	10,512	55,182	5,996
Cash flows from investing activities					
Purchase of property and equipment		(2,341)	(9,563)	(2,310)	(7,268)
Investment in subsidiaries		-	-	(43,000)	-
Interest (paid)/ received	4	(6)	146	-	80
Net cash used in investing activities		(2,347)	(9,417)	(45,310)	(7,188)
Cash flows from financing activities					
Repayment of finance lease liability	21	(6,321)	4,668	(6,087)	2,609
Proceeds from/(repayment of) other borrowings	10	4,480	(1,520)	-	-
Net cash (used in)/generated from financing activities		(1,841)	3,148	(6,087)	2,609
Net increase in cash and cash equivalents		74,044	4,243	3,785	1,417
Other comprehensive (expense)/income		(364)	160	910	-
Opening cash and cash equivalents		138,098	133,695	83,923	82,506
Closing cash and cash equivalents	15	211,778	138,098	88,618	83,923

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

VANGUARD ASSET SERVICES, LTD.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital £'000	Capital contribution £'000	Share premium £'000	Retained earnings £'000	Other comprehensive income £'000	Total equity £'000
Consolidated Group						
Balance at 1 January 2020	-	5,200	60,533	44,711	241	110,685
Comprehensive income						
Profit for the year	-	-	-	26,102	-	26,102
Other comprehensive income	-	-	-	-	202	202
Total comprehensive income for the year	-	-	-	26,102	202	26,304
Balance at 31 December 2020	-	5,200	60,533	70,813	443	136,989
Comprehensive income/(expense)						
Profit for the year	-	-	-	17,481	-	17,481
Other comprehensive expense	-	-	-	-	(76)	(76)
Total comprehensive income for the year	-	-	-	17,481	(76)	17,405
Balance at 31 December 2021	-	5,200	60,533	88,294	367	154,394
Company						
Balance at 1 January 2020	-	5,200	59,618	14,008	-	78,826
Comprehensive income						
Profit for the year	-	-	-	8,860	-	8,860
Total comprehensive income for the year	-	-	-	8,860	-	8,860
Balance at 31 December 2020	-	5,200	59,618	22,868	-	87,686
Comprehensive income						
Profit for the year	-	-	-	5,495	-	5,495
Total comprehensive income for the year	-	-	-	5,495	-	5,495
Balance at 31 December 2021	-	5,200	59,618	28,363	-	93,181

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 2021

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

On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards on 1 January 2021. This change constitutes a change in accounting framework. However, this has no impact on recognition, measurement or disclosure in the period as a result of the change in framework.

The Group's financial statements have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and the legal requirements of the Companies Act 2006. The Group's financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with UK-adopted International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

After making enquiries, the Directors have a reasonable expectation that the Group 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 2021

1. Principal accounting policies (continued)

(c) Use of estimates and judgements (continued)

In accordance with its policy, VAS reviews the estimated useful lives of its fixed assets on an ongoing basis. This review indicated that the actual lives of certain property and equipment were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective January 1, 2021, the Company changed its estimates of the useful lives of its property and equipment to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of Leasehold Improvements that previously averaged 5 years were increased to a useful life of the lesser of 8 years or the remaining lease life. The effect of this change in estimate was to reduce 2021 depreciation expense by £522,929. Management did not consider this a material impact and therefore a restatement of prior year financial statements was not considered necessary as a result of this change.

Assuming the assets are held until the end of their estimated useful lives, depreciation in future years in relation to these assets will be (decreased)/increased by the following amounts:

Year ending 31 December	£'000
2022	(523)
2023	(520)
2024	(154)
2025	623
2026	608
2027	191
2028	(10)

(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.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Principal accounting policies (continued)

d) Foreign currencies (continued)

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 that 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.

(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.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Principal accounting policies (continued)

(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.

(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 & telephone equipment	3 - 5 years
Software	3-5 years
Leasehold improvements	shorter of 8 years or remaining lease life
Furniture & fittings	7 years

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Principal accounting policies (continued)

(j) Property, plant and equipment (continued)

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.

(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 total equity, as shown on the Consolidated Statement of Financial Position, to be Common Equity Tier 1 capital.

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.

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 2021

1. Principal accounting policies (continued)

(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 adopted the following amendments to standards which became effective for annual reporting period beginning on 1 January 2021. The amendments have been issued and endorsed by the UK and do not have an impact on the Group's financial statements.

(i) Amendments to IFRS 16 Leases: COVID-19 related rent concessions (published by the IASB in May 2020)

(ii) Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (published by the IASB in August 2020)

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Group.

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have an impact on the Group's financial statements:

(i) Amendments to IFRS 16 Leases: COVID-19 related rent concessions beyond 30 June 2021
Published by the IASB in March 2021. The amendments are effective for annual reporting beginning on or after 1 April 2021 and have been endorsed by the UK.

(ii) Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use.
Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

(iii) Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Costs of Fulfilling a Contract.
Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

(iv) Annual Improvements to IFRSs 2018-2020 Cycle.
Published by the IASB in May 2020, these improvements consist of amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture. These amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. New standards and amendments (continued)

(vi) Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies. Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

(vii) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates. Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

(viii) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. Published by the IASB in in May 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

(ix) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Noncurrent. Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

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.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. Financial risk management (continued)

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-21 £'000	31-Dec-20 £'000
Cash and cash equivalents	211,778	138,098
Property and equipment	7,521	6,847
Trade and other receivables	145,711	145,631
	<u>365,010</u>	<u>290,576</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. All non-taxation current assets and current liabilities are due within one month. Taxation liabilities are due within 3 to 12 months.

d. 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.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. Revenue from continuing operations (continued)

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 was considered a contract modification, however the change was not 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 was recognised as an adjustment to administrative service fee relating to taxable years 2014 to 2019 in 2020, totalling £13,079,684. The Group 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). The GSA mark-up is 9.7% in 2021.

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.

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-21 £'000	Year ended 31-Dec-20 £'000
Administrative service fee	204,951	196,935
Management fees		
Pooled funds	72,076	48,745
Unit trusts	8,110	6,300
Separately managed accounts	-	955
Interest income	6	146
Platform fees	10,367	5,089
	<u>295,510</u>	<u>258,170</u>

Fund investor rebates charged during the year amounted to £2,094,326 (2020: £1,966,800).

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. Revenue from continuing operations (continued)

The following table reflects changes in the balances of receivables from contracts with customers for the years ended 31 December 2021 and 2020:

	Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000
Beginning Balance	145,631	108,848
Increase in contract receivables	80	36,783
Ending Balance	<u>145,711</u>	<u>145,631</u>

5. Operating expenses

	Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000
Depreciation		
<i>Property and equipment</i>	1,738	2,462
<i>Right of Use asset</i>	5,668	5,394
	<u>7,406</u>	<u>7,856</u>
Employee benefits expense		
<i>Compensation and benefits</i>	126,621	103,711
<i>Defined contribution scheme</i>	6,252	5,489
	<u>132,873</u>	<u>109,200</u>
Administration and other costs	37,980	34,374
Fund expenses	12,482	15,762
Rental expense	1,032	1,391
IT and consultancy costs	18,902	27,538
Administrative service fee expense	63,292	28,762
Total expenses from continuing operations	<u>273,967</u>	<u>224,883</u>

The fees payable to the Group's auditors for the audit of the consolidated financial statements are £37,253 (2020: £31,160). The fees payable to the Group's auditors for the audit of the subsidiaries financial statements are £74,901 (2020: £52,485). Fees payable to the Group's auditors and its associates for other services include audit-related assurance services, £120,000 (2020: £120,000) and tax compliance services, £128,648 (2020: £82,263).

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. Income tax expense

Group	Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000
(a) Current tax charge		
Current year	4,713	7,498
Prior Year	(651)	60
Total	<u>4,062</u>	<u>7,558</u>
Deferred tax credit		
Current year	(1,796)	(1,600)
Prior Year	739	(69)
Total	<u>(1,057)</u>	<u>(1,669)</u>
Total tax expense	<u><u>3,005</u></u>	<u><u>5,888</u></u>

Group	Year ended 31-Dec-21 £'000	Year ended 31-Dec-20 £'000
(b) Factors affecting current year tax expense		
Profit before income tax	20,486	31,990
Income tax expense at the UK corporation tax rate *	<u>3,892</u>	<u>6,078</u>
Effects of:		
Expenses not deductible for tax purposes	135	170
Adjustments in respect of prior periods	88	(10)
Effect of (increase)/decrease in planned UK Corporation Tax rate	(1,123)	(390)
Effect of tax rate differences due to Advanced Pricing Agreement	-	73
Tax rate differences in foreign jurisdictions	13	(33)
Total tax expense	<u><u>3,005</u></u>	<u><u>5,888</u></u>

* The Company's profits for this accounting period are taxed at the standard rate of Corporation Tax in the U.K. of 19% (2020: 19%).

As noted on page 26, 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 2020 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. During 2021, the Group paid tax of £3,366,357 in relation to APA adjustments to prior 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, 2021 and 2020.

Deferred taxes at the balance sheet date have been measured using the enacted tax rates at which the balances are expected to unwind and reflected in these financial statements. These reflect a planned increase in standard rate of UK Corporation Tax to 25%, effective 1 April 2023.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. Income tax expense (continued)

Group

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

	Year Ended 31-Dec-21 £'000	Year Ended 31-Dec-20 £'000
Deferred tax assets:		
– To be recovered after more than 12 months	6,037	4,980
Net deferred tax assets	<u>6,037</u>	<u>4,980</u>

There were no deferred tax liabilities for the accounting years ended 31 December 2021 and 2020.

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

	2021 £'000	2020 £'000
At 1 January	4,980	3,311
Income statement credit	<u>1,057</u>	<u>1,669</u>
At 31 December	<u>6,037</u>	<u>4,980</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:

	Accelerated tax depreciation £'000	Other £'000	Total £'000
Deferred tax assets			
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	2,332	2,648	4,980
At 1 January 2021	2,332	2,648	4,980
Credited to the deferred tax accounts	<u>374</u>	<u>683</u>	<u>1,057</u>
At 31 December 2021	2,706	3,331	6,037

At 31 December 2021, deferred tax assets of £6,037k (2020: £4,980k) 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-21 £'000	31-Dec-20 £'000
Deferred tax assets:		
– To be recovered after more than 12 months	4,596	3,393
Net deferred tax assets	<u>4,596</u>	<u>3,393</u>

There were no deferred tax liabilities for the accounting years ended 31 December 2021 and 2020.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. Income tax expense (continued)

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

	2021 £'000	2020 £'000
At 1 January	3,393	2,426
Income statement credit	1,203	967
At 31 December	4,596	3,393

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 2020	397	2,029	2,426
Credited to the deferred tax accounts	967	-	967
At 31 December 2020	1,364	2,029	3,393
At 1 January 2021	1,364	2,029	3,393
Credited to the deferred tax accounts	521	682	1,203
At 31 December 2021	1,885	2,711	4,596

At 31 December 2021, deferred tax assets of £4,596k (2020: £3,393k) 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 & telephone equipment £'000	Software £'000	Furniture & fittings £'000	Total £'000
Cost					
At 1 January 2021	13,514	4,770	-	3,943	22,227
Additions	60	2,242	69	41	2,412
Disposals	-	(262)	-	-	(262)
At 31 December 2021	13,574	6,750	69	3,984	24,377
Accumulated depreciation					
At 1 January 2021	8,819	3,566	-	2,995	15,380
Charge for the year	758	634	68	278	1,738
Disposals	-	(262)	-	-	(262)
At 31 December 2021	9,577	3,938	68	3,273	16,856
Net book value					
At 31 December 2020	4,695	1,204	-	948	6,847
At 31 December 2021	3,997	2,812	1	711	7,521

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. Property and Equipment (continued)

Company	Leasehold improvements	Computer & telephone equipment	Software	Furniture & fittings	Total
Cost	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	13,514	4,684	-	3,796	21,994
Additions	13	2,229	69	-	2,311
Disposals	-	(262)	-	-	(262)
At 31 December 2021	13,527	6,651	69	3,796	24,043
Accumulated depreciation					
At 1 January 2021	8,819	3,499	-	2,847	15,165
Charge for the year	758	626	68	266	1,718
Disposals	-	(262)	-	-	(262)
At 31 December 2021	9,577	3,863	68	3,113	16,621
Net book value					
At 31 December 2020	4,695	1,185	-	949	6,829
At 31 December 2021	3,950	2,788	1	683	7,422

8. Trade and other receivables

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Fund sales/cancellations	88,443	96,738	-	-
Inter-company receivable	28,390	31,555	12,441	22,399
Other receivables	21,078	11,252	2,196	2,428
Lease deposits	250	289	83	134
Trade receivables	7,550	5,797	-	-
	145,711	145,631	14,720	24,961
Non-current	167	155	-	-
Current	145,544	145,476	14,720	24,961
	145,711	145,631	14,720	24,961

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 2021

9. Trade and other payables

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Fund repurchases/creations	51,548	64,236	-	-
Accruals	59,161	47,484	51,766	42,001
Other payables*	47,951	2,649	18,951	2,637
Trade payables	4,814	213	3,174	213
Intercompany payables	10,324	1,123	5,021	-
	<u>173,798</u>	<u>115,705</u>	<u>78,912</u>	<u>44,851</u>

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Non-current	11,998	9,219	11,989	9,214
Current	161,800	106,486	66,923	35,637
	<u>173,798</u>	<u>115,705</u>	<u>78,912</u>	<u>44,851</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.

*Includes amounts in respect of a prepayment of administrative service fee from VGI.

10. Borrowings

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Bank overdraft	<u>37,842</u>	<u>33,362</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 2021

11. Provisions

	Group		Company	
	Dilapidation provision	Total	Dilapidation provision	Total
	£'000	£'000	£'000	£'000
At 1 January 2021	2,780	2,780	2,727	2,727
Effects of movement in exchange rates	(1)	(1)	-	-
At 31 December 2021	<u>2,779</u>	<u>2,779</u>	<u>2,727</u>	<u>2,727</u>

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Non-current	<u>2,779</u>	<u>2,780</u>	<u>2,727</u>	<u>2,727</u>
	<u>2,779</u>	<u>2,780</u>	<u>2,727</u>	<u>2,727</u>

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 2020	9	-	5,200	60,533	65,733
Issued during the year	-	-	-	-	-
Balance at 31 December 2020	9	-	5,200	60,533	65,733
Issued during the year	-	-	-	-	-
Balance at 31 December 2021	<u>9</u>	<u>-</u>	<u>5,200</u>	<u>60,533</u>	<u>65,733</u>

The table above represents the consolidated position of ordinary shares as at 31 December 2021.

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	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Balance at 1 January	70,813	44,711	22,868	14,008
Retained profit for the year	17,481	26,102	5,495	8,860
Balance at 31 December	<u>88,294</u>	<u>70,813</u>	<u>28,363</u>	<u>22,868</u>

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. Cash generated from operations

	<u>Group</u>		<u>Company</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Profit before tax	20,486	31,990	6,642	11,780
Adjustments for:				
Depreciation	7,406	7,856	7,208	7,572
Finance costs	1,057	1,150	-	-
Foreign currency translation	(42)	(51)	-	-
Decrease/(Increase) in trade and other receivables	1,721	(36,783)	10,701	(11,554)
Decrease/(Increase) in prepayments	292	(708)	443	(682)
Increase/(decrease) in trade and other payables	49,195	12,246	24,296	(1,084)
Increase in accruals	8,898	1,590	9,765	4,672
(Decrease)/Increase in provisions	(1)	3	-	-
Cash generated from operations	<u>89,012</u>	<u>17,293</u>	<u>59,055</u>	<u>10,704</u>

15. Cash and cash equivalents

	<u>Group</u>		<u>Company</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Cash at bank	211,778	138,098	88,618	83,923
Cash and cash equivalents	<u>211,778</u>	<u>138,098</u>	<u>88,618</u>	<u>83,923</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 2021.

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. Long-term investment in subsidiaries

	Country of incorporation	Ownership interest	
		2021	2020
		%	%
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.

In December 2021 a capital contribution of £43m was approved and paid by the Company to VAM.

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 are disclosed in Notes 4 and 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 £6,585,434 (2020: £6,608,000) and £99,309,417 (2020: £82,965,000) 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 £7,550,000 (2020: £5,709,000).

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

18. Related party transactions (continued)

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

	2021	2020
	£'000	£'000
<u>Administrative services received:</u>		
The Vanguard Group, Inc	(55,881)	(48,146)
Vanguard Group Ireland	-	(459)
Vanguard Group Ireland, Italy	(107)	-
Vanguard Asset Management, Ltd.	(5,780)	-
Vanguard Investments UK, Ltd.	(945)	-
Vanguard Asset Services, Ltd.	(41,566)	-
Total	<u>(104,279)</u>	<u>(48,605)</u>

	2021	2020
	£'000	£'000
<u>Administrative services provided:</u>		
The Vanguard Group, Inc	208,440	200,731
Vanguard Group Ireland	290	1,214
Vanguard Group Ireland, Italy	-	198
Vanguard Group Ireland, Germany	8	-
Vanguard Group Europe, GmbH	9,331	2,487
Vanguard Asset Management, Ltd.	34,202	-
Vanguard Investments UK, Ltd.	2,039	-
Vanguard Asset Services, Ltd.	18,303	-
Vanguard Investments Canada Inc.	180	297
Total	<u>272,793</u>	<u>204,927</u>

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

	2021	2020
	£'000	£'000
<u>Balances outstanding at the year-end:</u>		
The Vanguard Group, Inc	13,925	27,750
Vanguard Group (Ireland) Limited, Germany	8	(1)
Vanguard Group Ireland, Italy	-	187
Vanguard Group Europe, GmbH	4,038	2,426
Vanguard Investments Canada	41	28
Vanguard Group (Ireland) Limited	54	42
Total	<u>18,066</u>	<u>30,432</u>

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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:

	2021 £'000	2020 £'000
Mutual funds	49,913	35,076
Fund of funds	32,421	22,748
	<u>82,334</u>	<u>57,824</u>

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

	2021 £'000	2020 £'000
Mutual funds	68,394,107	51,890,503

The AUM figure above includes AUM from both mutual funds and fund of funds. These funds of funds also contain some elements of UK and Irish mutual funds. Therefore, the figure above includes £17,637,948k (2020: £13,226,677k) of AUM invested in fund of funds.

The Group did not transfer any assets to these entities during the year ended 31 December 2021.

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:

	2021 £'000	2020 £'000
Directors' emoluments	1,390	3,170
Long-term incentive schemes	-	147
Pension contributions	37	73
	<u>1,427</u>	<u>3,390</u>

The emoluments of the highest paid Director were £940,000 (2020: £1,207,000), which included pension contributions of nil (2020: £73,000). As at 31 December 2021 retirement benefits are accruing under defined contribution schemes for 1 Director (2020: 1 Director).

The Directors of the Group recommended that no dividend be paid for the year ended 31 December 2021 (2020: nil).

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

	2021	2020
Right-of-use Assets (£'000)	Property	Property
Balance at January 1	39,574	41,082
Additions	4,273	3,818
Depreciation charge for the year	(5,668)	(5,340)
Retirements	(1,595)	-
Translation	(37)	14
Balance at December 31	36,547	39,574

Company

	2021	2020
Right-of-use Assets (£'000)	Property	Property
Balance at January 1	38,359	40,775
Additions	4,256	2,699
Depreciation charge for the year	(5,490)	(3,789)
Retirements	(1,596)	(1,326)
Balance at December 31	35,529	38,359

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

21. Leases (continued)

The following table presents certain information related to the lease costs during 2021.

(£'000)	Group	Company
Finance lease cost		
Depreciation of leased assets	(5,668)	(5,490)
Interest of lease liabilities	(904)	(904)
Expenses relating to short-term leases	(273)	(273)
Total lease cost	<u>(6,845)</u>	<u>(6,667)</u>

The table below presents supplemental cash flow information related to leases during 2021:

(£'000)	Group	Company
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for financing leases	5,414	4,553
Financing cash flows for financing leases	904	904

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
2022	£7,194	£4,931
2023	£5,551	£5,333
2024	£5,289	£5,067
2025	£4,871	£4,644
2026	£4,795	£4,622
Thereafter	£18,739	£18,739
Total minimum lease payments	<u>£46,439</u>	<u>£43,336</u>
Less: amount of lease payments representing interest	(£3,244)	(£1,193)
Present value of future minimum lease payments	<u>£43,195</u>	<u>£42,143</u>
Current	£6,437	£6,224
Non-Current	£36,758	£35,919

VANGUARD ASSET SERVICES, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

22. Employee benefits expense

The average monthly number of employees (including executive Directors) during the year was 700 (2020: 510). For 2021 and 2020, this can be broken down as follows:

	2021	2020
Sales	45	48
Investment management	231	158
Operations & client services	206	145
Marketing	41	43
Portfolio review	26	22
Legal and compliance	36	32
Other shared services	99	50
Management	17	12
	<u>701</u>	<u>510</u>

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

	2021	2020
Sales	45	44
Investment management	262	200
Operations and client services	260	152
Marketing	36	46
Portfolio review	28	23
Legal and compliance	38	33
Other shared services	107	90
Management	15	19
	<u>791</u>	<u>607</u>

	2021	2020
	£'000	£'000
Wages and salaries	107,107	77,019
Social security costs	10,663	8,152
Pension costs	6,252	5,489
Other payroll taxes	844	1,384
Benefits	3,118	3,072
Other employee and personnel costs	4,889	14,084
	<u>132,873</u>	<u>109,200</u>

23. Subsequent events

Market disruptions associated with events in Russia and Ukraine have had a global impact, and uncertainty exists as to their 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. Management is continuing to monitor this development and evaluate its impact on the financial position and operating results of the Group.