Schroders

Pillar 3 disclosures as at 31 December 2014

Schroders

CONTENTS

Overview	01
Risk management framework	02
Scope of application	04
Own funds	05
Capital requirements	07
Credit risk	08
Interest rate risk in the non-trading book	12
Non-trading book exposure in equities	13
Remuneration	14
Annex 1	17

OVERVIEW

	Total regulatory capital* (£m)	Solvency ratio (%)	Pillar 1 capital requirement (£m)
2014	1,973.9	509.4	387.5
2013	1,672.6	488.5	342.4

*after supervisory deductions

Table 1: Pillar 1 overview

Risk weighted exposure	2014 £m	2013 £m
Credit risk	2,097.9	1,645.1
Market risk	115.7	232.7
Operational risk	2,626.3	2,401.3
Credit valuation adjustment	3.2	–
Total risk weighted exposure	**4,843.1**	**4,279.1**

Capital required	2014 £m	2013 £m
Credit risk	167.8	131.7
Market risk	9.3	18.6
Operational risk	210.1	192.1
Credit valuation adjustment	0.3	–
Total capital required	**387.5**	**342.4**

Introduction

The main purpose of this document is to set out the Schroders Group (the Group) Pillar 3 disclosures on risk management and capital as at 31 December 2014. Please also refer to the Schroders plc Annual Report and Accounts 2014 (Annual Report and Accounts).

Pillar 3 disclosures are provided to meet the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III agreement in the European Union. This regulatory framework is supplemented by a number of technical standards issued by the European Banking Authority that have been adopted by the Group where relevant.

Prior to 2014 the Pillar 3 disclosures were presented in accordance with Chapter 11 of BIPRU (the Prudential Sourcebook for Banks, Building Societies and Investment Firms) as required by the Financial Services Authority. This UK framework was superseded by the implementation of CRD IV, described above, and as a result the Group capital position is presented on a different basis to that reported in 2013. Where appropriate comparative information contained within these disclosures has been aligned with the new requirements under CRD IV, however, the capital position has not been restated as the CRD III position continues to reflect the capital requirements at 31 December 2013.

Basis and frequency of disclosures

Schroders plc is supervised on a consolidated basis in the United Kingdom by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The PRA receives information on the capital adequacy of, and sets capital requirements for the Group as a whole. Individual subsidiaries are, in some cases, directly regulated by their local supervisors who set and monitor the local capital adequacy requirements.

In accordance with the requirements of Part Eight of the CRR, the disclosures included in this document relate to the Schroders Group as consolidated on a regulatory basis. The regulatory basis of consolidation differs from the accounting consolidation as it excludes certain insurance related subsidiaries. Information about the principal subsidiaries that impact the consolidated profits or net assets of the Group, including the regulated entities of the Group, is provided in note 34 of the Schroders plc Annual Report and Accounts.

The capital and risk disclosures required under Pillar 3 are required to be produced at least annually and published in conjunction with the date of publication of the Annual Report and Accounts. Schroders plc has an accounting reference date of 31 December and these disclosures are made as at 31 December 2014. These disclosures are not subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements.

Means of disclosures

These disclosures are published on the Schroders plc corporate website (www. schroders.com).

RISK MANAGEMENT FRAMEWORK

The Group believes that active and effective risk management is a core competence which it can demonstrate to clients, consultants, regulators, counterparties and other interested parties.

Approach to risk management

Schroders' approach to risk management builds on the following core principles.

- Authority to manage the business, is delegated from the Schroders plc Board of Directors (Board) to the Chief Executive as described in the Annual Report and Accounts on page 51;
- The Chief Executive delegates primary responsibility for the risk and controls framework within the Group and the independent monitoring and reporting of risk and controls to the Chief Financial Officer (CFO);
- The Group Management Committee (GMC) is the principal executive committee responsible for the monitoring and reporting of risks and controls;
- The Group Risk Committee (GRC) supports the CFO and the GMC in discharging their risk responsibilities; and
- The key issues covered by the GRC are included in the reports provided regularly to the Audit and Risk Committee.

Underpinning Schroders' philosophy is the principle of individual responsibility and accountability across the firm, supported by guidance and training as required. This is subject to independent challenge and oversight via risk specialists, the Group Head of Risk and the CFO. This approach is independently tested through the monitoring provided by Group Internal Audit.

The Group's corporate governance structure supports this framework, and is outlined in the Annual Report and Accounts on page 51. This includes line management responsibility for the management of risk in the execution of strategy supported through GMC and independent oversight of risk management supported by the GRC and Audit and Risk Committee.

Schroder plc's credit rating of A+ from Fitch reflects its strong and conservative risk culture. It has a diversified investment management business, strong capital position, positive cash generation, and no leverage.

Risk management systems and techniques used

Risk identification and assessment

Schroders identifies and assesses its risk through both structured and ad hoc processes. The structured process is principally operated through the Internal Capital Adequacy Assessment Process (ICAAP) and the Risk & Control Assessment (RCA) infrastructure.

The ICAAP (Internal Capital Adequacy Assessment Process) focuses on the principal risks to the consolidated balance sheet and examines each risk category to identify exposures that might put the Group's equity capital at risk. Risks are assessed using the most appropriate technique, the outputs from which are measured and monitored as part of the risk management and oversight process.

The ICAAP process is integrated with the RCA framework, which focuses on operational risks and controls. Business heads are responsible for identifying and assessing the risk and controls in their units and the outputs from the RCAs support the operational risk capital assessment within the ICAAP. The Group also operates ongoing processes to identify and assess risks that are less easy to quantify such as strategic, reputational, conduct, regulatory and legal risks. The results of these processes are overseen by the GRC and GMC.

In addition, the Group operates processes to identify and assess emerging risks, including geopolitical events, cyber risk and terrorism. These are also overseen by the GRC and GMC and are integrated into the structured processes as and when necessary.

Risk mitigation

The Group is exposed to a range of risks, which if not managed properly, increase the probability of the Group not being able to meet its objectives.

A variety of techniques are used to mitigate risks, depending on the nature of the risk. These include use of controls, outsourcing, contingency planning, insurance and capital allocation.

Risk monitoring and reporting

Monitoring and communication are key to an effective risk management framework. Significant risk matters are escalated to senior management and, ultimately, to the GMC and Board where significant. The Group Risk function undertakes independent review and oversight work, reporting to the GRC and Audit and Risk Committee in accordance with the governance structure outlined above.

Key risks faced

The key risks relevant to these Pillar 3 disclosures are set out in the Annual Report and Accounts on pages 34 to 39.

The ICAAP is that part of the Pillar 2 assessment undertaken by firms. The ICAAP is the means by which the Group assesses the level of capital that adequately supports all of the relevant current and future risks in its business. The PRA uses the ICAAP during its supervisory reviews of the Group to set individual capital guidance and capital buffers.

The ICAAP is updated, and formally reviewed by the Board, on at least an annual basis, with more frequent reviews if appropriate, in the event of a fundamental change to our business or the environment in which we operate. The ICAAP assesses the capital required to meet unexpected losses over a one-year horizon, calculated at a confidence level specified by the Board. Scenario analysis and stress testing are also performed to assess the Group's exposure to extreme events and to ensure that appropriate mitigating plans are in place. Details of the process for

RISK MANAGEMENT FRAMEWORK (continued)

assessing the most significant risk types are shown below. The following provides supplementary information for relevant risks in the determination of regulatory capital to that contained in pages 34 to 39 of the Annual Report and Accounts.

Operational risk

The operational risk analysis makes use of scenario analysis workshops and statistical modelling of key risk categories for the Group, with additional stress testing of the output. The modelling process makes uses of business knowledge, internal loss event data and external loss event data to estimate the operational risk capital requirement. External loss event data are sourced from the Operational Risk exchange consortium, of which the Group is a member.

Credit risk

Credit risk capital requirements are assessed using a risk-weighted asset approach. This includes an assessment of credit risk concentration, with additional capital being held where appropriate. In addition stress testing is performed considering both Group deposits and the Wealth Management lending exposures.

Market risk

The Group's exposure to market risk in its investment capital portfolio is assessed using a value-at-risk approach, supplemented by scenario analysis and stress testing. In addition, the sensitivity of the Group's consolidated balance sheet to changes in FX rates is assessed using historical market rates.

Interest rate risk in the non-trading book

The Group has a small exposure to changes in interest rates in its Wealth Management business. The capital requirement is estimated using the PV200 approach which is the policy limit set for the economic impact of a 200 basis point shift in interest rates.

Reputational/business risk

The capital requirement for reputational and business risk is assessed by considering a number of scenarios that might give rise to an unexpected loss. These include the loss of key fund managers, loss of clients and loss of assets under management in significant funds.

Third party service provider risk

The Group outsources functions to a number of third-party service providers. The ICAAP identifies those that are at risk of failure within the specified confidence interval and time horizon and additional capital is held to meet the replacement cost of "at risk" providers.

Pension obligation risk

The risk of deficit in the defined benefit section of the Schroders Retirement Benefit Scheme ('the Scheme'), which was closed to future accrual on 30 April 2011, is assessed through stress tests of the key liability factors inherent in the valuation of the Scheme as well as consideration of stresses on asset values. This is performed in line with the PRA's Supervisory Statement LSS6/13, dated April 2013. Pension obligation risk is an add-on to the Group's minimum capital requirement.

Liquidity risk

The Group uses a range of liquidity risk assessments and stress tests to assess its ability to meet its obligations as they fall due.

Board Risk Management Declaration

The Board is responsible for the risk management framework of the Group as detailed in the Annual Report and Accounts on page 32.

Risk statement

The Group's Risk Statement is provided in Annex 1. This is approved by the Audit and Risk Committee, on behalf of the Board. The Board maintains a risk approach which is regularly monitored with formal reviews of the risk measures in conjunction with the long-term planning process. During 2014 the risk profile of the Group has been maintained within the key financial exposure limits.

Information on governance arrangements

Please refer to the Annual Report and Accounts on pages 50 to 63 for further information on the Group's governance arrangements.

SCOPE OF APPLICATION

Accounting consolidation

The basis of consolidation for the purpose of financial accounting under International Financial Reporting Standards is described on page 134 of the Annual Report and Accounts.

Regulatory consolidation

The consolidation for regulatory purposes is on the same basis as above, although certain entities are excluded from the regulatory consolidation for reasons outlined below. Entities excluded from the regulatory consolidation are insurance related subsidiaries.

Insurance related subsidiaries

Insurance and the broking of insurance are not financial activities for the purpose of regulatory consolidation, and are subject to the Prudential Sourcebook for Insurers (INSPRU). As a result Schroder Pension Management Limited and Burnaby Insurance (Guernsey) Limited are excluded. Although Schroder Pension Management Limited, the Group's unit-linked life assurance business, and Burnaby Insurance (Guernsey) Limited, the Group's captive insurance company are excluded from these disclosures, the businesses are subject to the same risk management framework as the rest of the Group.

Table 2: Reconciliation of the statement of financial position - financial accounting to regulatory scope of consolidation

	31 December 2014 (audited) £m	Deconsolidation of insurance entities £m	Other* £m	Regulatory balance sheet £m
Cash and cash equivalents	3,535.3	(5.0)	–	3,530.3
Trade and other receivables	541.0	(28.7)	–	512.3
Financial assets	1,763.4	(30.9)	–	1,732.5
Associates and joint ventures	92.6	–	–	92.6
Property, plant and equipment	29.9	–	–	29.9
Goodwill and intangible assets	474.5	–	–	474.5
Deferred tax	47.8	–	–	47.8
Retirement benefit scheme surplus	103.7	–	–	103.7
Assets backing unit-linked liabilities	**13,658.4**	**(13,658.4)**	**–**	**–**
Total assets	**20,246.6**	**(13,723.0)**	**–**	**6,523.6**
LIABILITIES				
Trade and other payables	752.1	(30.2)	(33.7)	688.2
Financial liabilities	3,193.5	–	–	3,193.5
Current tax	44.1	(0.7)	–	43.4
Provisions	54.0	–	–	54.0
Deferred tax	0.4	–	–	0.4
Retirement benefit scheme deficits	6.3	–	–	6.3
Unit-linked liabilities	**13,658.4**	**(13,658.4)**	**–**	**–**
Total liabilities	**17,708.8**	**(13,689.3)**	**(33.7)**	**3,985.8**
Net assets	**2,537.8**	**(33.7)**	**33.7**	**2,537.8**
Equity	**2,537.8**	**(33.7)**	**33.7**	**2,537.8**

*Other consists of adjustments to reconcile shareholder equity.

OWN FUNDS

Tier 1 capital

Tier 1 capital is the going concern capital which allows a firm to continue its activities and helps prevent insolvency. Tier 1 can be sub-divided into Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1). The highest form of Tier 1 capital is CET1 capital because it is the most effective at absorbing losses. CET1 capital consists of two classes of ordinary share capital, of which ordinary shares account for 80% of the total share capital. The premium on ordinary shares also qualifies for inclusion as CET1 capital. The non-voting ordinary shares represent the remaining 20% and carry the same rights as ordinary shares except that they do not confer the right to attend or vote at any general meeting of Schroders plc, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares. Also included in CET1 capital are retained profits and certain other reserves.

Deductions in arriving at total Tier 1 capital as at 31 December 2014 include intangible assets of £474.5m, which consist mainly of goodwill of £357.3m. Goodwill includes £222.3m in relation to the acquisition of Cazenove Capital and £19.3m relating to the acquisition of STW, both of which completed in 2013.

Tier 2 capital

Under Basel II firms were required to include certain unrealised gains as Tier 2 capital, however under CRD IV, any unrealised gains are not recognised in capital.

Tier 3 capital

Tier 3 capital was abolished under CRD IV.

Table 3: Composition of regulatory capital

	2014 CRD IV £m	2013 CRD III £m
Paid up capital instruments	282.5	282.7
Share premium	119.4	119.3
Retained earnings and other reserves	2,336.0	2,072.1
Sub-total	**2,737.9**	**2,474.1**
Deduction for own shares held	(200.1)	(229.9)
Total	**2,537.8**	**2,244.2**
Deductions from Tier 1		
Goodwill	(357.3)	(357.0)
Other intangible assets[1]	(102.9)	(132.0)
Defined pension fund assets[1,2]	(76.7)	0.0
Other transitional adjustments to CET1 Capital[3]	(27.0)	0.0
Tier 1 after deductions	**1,973.9**	**1,755.2**
Tier 2		
Revaluation reserves[4]	0.0	24.3
Deductions from total of tiers one and two capital		
Material and qualifying holdings[5]	0.0	(100.4)
Other supervisory deductions[6]	0.0	(6.5)
Total capital resources	**1,973.9**	**1,672.6**

[1]Other intangible assets and defined benefit pension fund assets are deducted net of associated deferred tax liabilities.

[2]Pre CRD IV the pension fund asset was not deducted.

[3]Transitional adjustment not in operation under CRD III.

[4]Revaluation reserves not allowable as Tier 2 capital under CRD IV.

[5]Investments in Joint Ventures and Associates and Insurance businesses, are below the threshold to be deducted as significant investments under CRD IV.

[6]Investments in entities that were immaterial in 2013 but are within the scope of application in 2014.

OWN FUNDS (continued)

Leverage ratio

CRD IV requires firms to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The purpose of monitoring and managing this metric is to enable Regulators to constrain the build-up of excessive leverage.

The leverage ratio is calculated based on the Group's average capital over a three month period. Capital is defined as tier 1 capital defined according to CRD IV on an 'end point' basis (assuming the full impact of CRD IV requirements on Tier 1 capital were in force with no transitional provisions). Exposures are defined as the total of on and off balance sheet exposures less the deductions applied to Tier 1 capital.

The Basel Committee has implemented a monitoring period which runs to January 2017, during which time a minimum leverage ratio of 3% should apply. This limit will be reassessed in 2017 before becoming mandatory in 2018.

As at 31 December 2014 Schroders leverage ratio was 26%.

CAPITAL REQUIREMENTS

As part of the assessment of the adequacy of its capital, the Group considers its risk appetite, the key risks facing the Group and the management strategies in place for dealing with such risks. This is included within the Group's ICAAP which is reviewed by the Board. The capital adequacy at an individual company level is also regularly reviewed.

It is the Group's policy that all entities within the Group have sufficient capital to:

- meet regulatory requirements;
- keep an appropriate credit standing with counterparties; and
- maintain sufficient liquid funds to meet working capital requirements.

In the event that additional capital is required by an entity, this may be provided by the parent undertaking subject to internal approvals by the Group Capital Committee chaired by the Chief Finance Officer.

Calculation of the Group's capital resources requirement

The capital resources requirement of the Group for regulatory reporting purposes is the total of the credit risk, market risk and operational risk capital requirements.

Credit risk

Schroders has elected to adopt the standardised approach for credit risk to calculate the minimum credit risk capital requirement under Pillar 1 of CRD IV. Under the standardised approach firms must calculate the minimum credit risk capital requirement as 8 per cent. of the total risk weighted exposures.

Market risk

Schroders calculates its market risk capital requirement for Pillar 1 in accordance with the CRR Title IV. Market risk is mainly due to foreign exchange position risk which arises as a result of movements in relative currencies.

Operational risk

Operational risk is defined in regulation (EU) 575/2013 as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk". Schroders has adopted the standardised approach for calculating the Pillar 1 capital requirements for operational risk. Under the standardised approach institutions divide their activities into certain business lines, each with a relevant beta factor. The average gross revenues, over the past three years, for each business line is then multiplied by the relevant beta factor to give an operational risk capital requirement.

During the year to 31 December 2014 the Group, and all regulated entities within the Group (including those excluded from the regulatory consolidation), complied at all times with all of the externally imposed regulatory capital requirements.

Table 4: Total consolidated capital resources requirement of the Group under Pillar 1.

	31 December 2014 (unaudited) £m	31 December 2013 (unaudited) £m
Institutions	28.6	34.0
Central government and central banks	–	–
Corporate/Private clients	87.0	54.2
Regulatory high-risk categories (i)	19.0	18.3
Claims secured by mortgages on residential property	2.2	3.9
Claims secured by mortgages on commercial real estate	3.6	4.2
Other items (ii)	27.4	17.1
Total credit risk capital requirement	**167.8**	**131.7**
Market risk		
In respect of foreign exchange (iii)	**9.3**	**18.6**
Operational risk		
Calculated in accordance with the Standardised Approach	**210.1**	**192.1**
Credit valuation adjustment		
Calculated in accordance with the Standardised Approach	**0.3**	**–**
Total capital requirement Pillar 1	**387.5**	**342.4**

(i) High risk exposures include seed capital and private equity.

(ii) Other items as per CRR article 134 include accrued income, fee debtors, settlement accounts, tax, prepayments and other debtors.

(iii) Calculated as per CRR article 352.

CREDIT RISK

Credit risk adjustments

Credit risk is the exposure to loss arising from counterparty's failure to meet its contractual obligations, either as a result of business failure or intentional withholding of amounts due. As the operator of both asset management and wealth management businesses, the Group is exposed to a range of credit risks, including those taken on at a Group level for balance sheet management and hedging. The Group's credit risks include loans and advances to customers, cash held on deposit with banks, cash held on deposit with central banks, fixed income investments, trade and other receivables, derivative contract exposure, interest rate and equity hedges and principal settlement risk.

Past due and impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. An exposure is classified as impaired when the carrying value exceeds the amount expected to be recovered through use or sale or as non performing when the principal interest on fees remain unpaid more than 90 days after the due date. The Group assesses its financial assets for indication of impairment. Indicators of impairment may include, but are not restricted to: non-payment of interest; a fall in credit worthiness or a reduction of cover/collateral below the required minimum.

Provisions against lending arrangements

The Group makes specific impairment provisions for potential recoverability of debts from lending arrangements and other debtors.

Lending arrangements principally arise in the Group's Wealth Management business. The relevant Wealth Management Credit Committee determines whether it is necessary to make a provision against a credit exposure. Non-performing exposures will not automatically merit the creation of a provision.

The decision to create or write-back a provision is undertaken on a case-by-case basis, reviewed by the relevant Wealth Management Credit Committee and approved by the Board of the appropriate subsidiary.

Table 5: Movement in provisions during the year

	31 December 2014 (unaudited) £m	31 December 2013 (unaudited) £m
At 1 January	13.0	16.2
Bad and doubtful debts credited	(12.2)	(3.9)
Reclassifications	–	–
Foreign exchange	(0.7)	0.7
	0.1	**13.0**

Other debtors consist mainly of fee debtors which arise principally within the Group's Asset Management business and amounts are monitored regularly by local offices. Although the Group manages client assets which represent a large multiple of the amount owed to the Group by the client, the Group does not generally hold any of the assets it invests on behalf of its clients as collateral in relation to its fees.

The Group's fee debtors that are past due (i.e. items that are past their contractually agreed settlement date) but are not considered to be impaired as at 31 December 2014 are presented over the page. Factors considered in determining whether impairment should be recorded include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty and knowledge of specific events that could influence a debtor's ability to repay an amount due.

CREDIT RISK (continued)

Table 6: Fee debtors that are past due but not impaired

	31 December 2014 (unaudited) £m	31 December 2013 (unaudited) £m
Up to and including 3 months	8.9	8.9
Over 3 months up to 1 year	4.5	1.1
	13.4	**10.0**

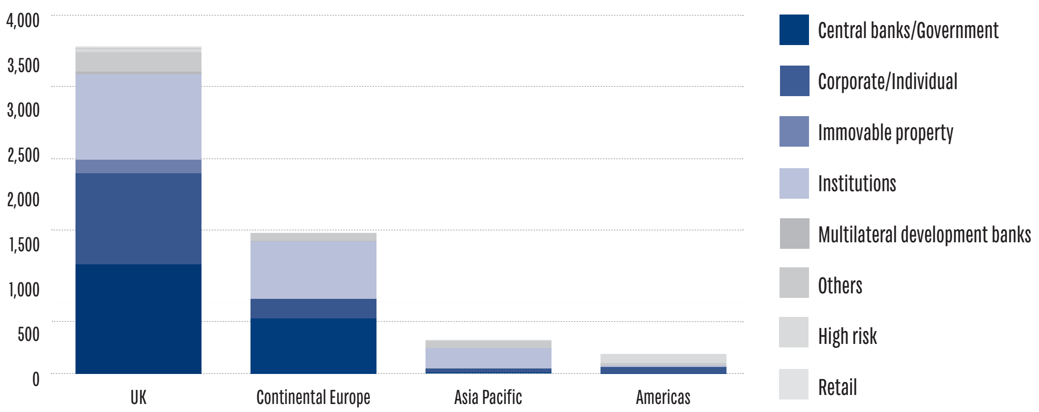
Analysis of credit risk exposures

Table 7: Analysis by exposure class of the Group's credit risk exposure

	31 December 2014 (unaudited)		31 December 2013 (unaudited)	
	Credit risk exposure £m	Risk weighted assets £m	Credit risk exposure £m	Risk weighted assets £m
Institutions	1,843.1	357.2	2,271.2	424.4
Central government and central banks	1,867.8	–	900.3	–
Corporate/Private clients	1,345.7	1,086.8	983.3	677.2
Regulatory high-risk categories	158.1	237.1	164.1	228.4
Claims secured by mortgages on residential property	124.2	43.6	132.2	48.2
Claims secured by mortgages on commercial real estate	30.1	30.1	52.9	52.9
Other items	417.0	343.1	433.8	214.0
Total	**5,786.0**	**2,097.9**	**4,937.8**	**1,645.1**

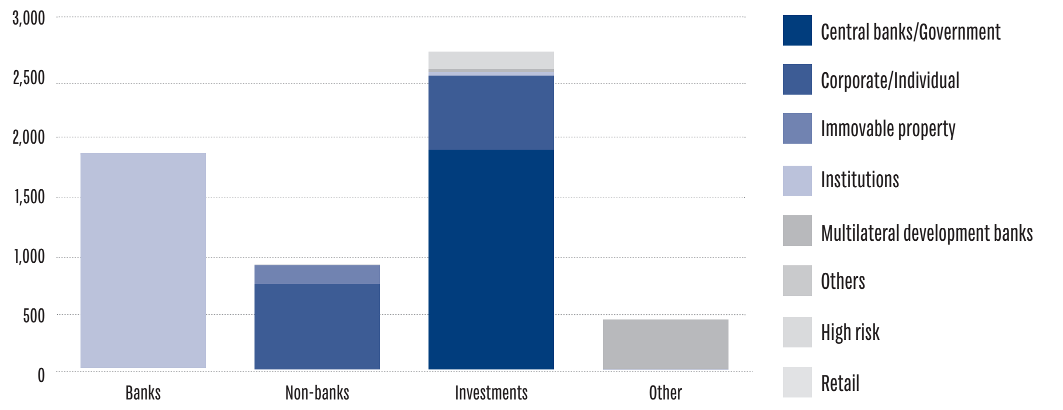
The following graphs provide further breakdown by geographic region, counterparty type and residual maturity.

Graph 1: Exposure by geographic distribution

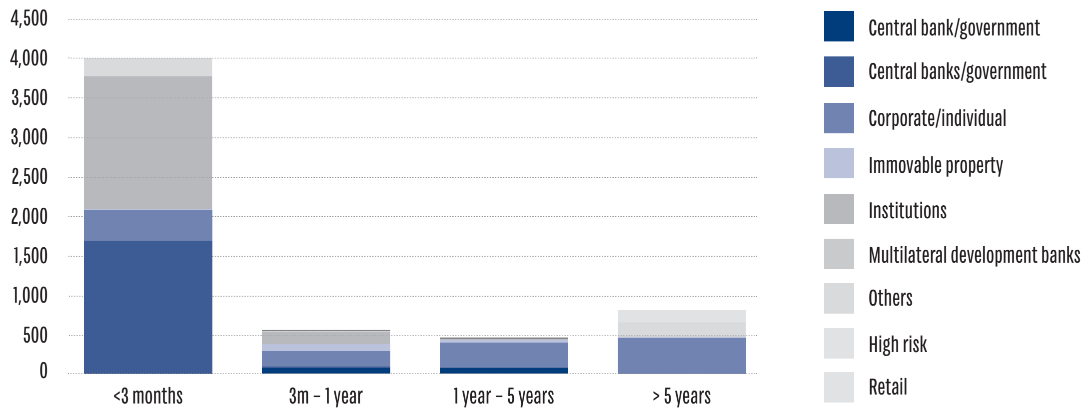


CREDIT RISK (continued)

Graph 2: Exposure by counterparty type



Graph 3: Exposure by residual maturity



CREDIT RISK (continued)

Use of External Credit Assessment Institutions

The External Credit Assessment Institution (ECAI) used by the Group is Fitch. Fitch Ratings are recognised as an eligible ECAI and are used to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale that is set out in the CRR Title 2 Chapter 2 Section 3 – use of ECAIs.

The Group currently use Fitch to rate exposure classes for Institutions and Sovereigns and daily alerts of rating changes from Fitch are used to update existing ratings as appropriate.

The following table gives details of the exposure value before and after credit risk mitigation (after application of CRR Title II Chapter 4) associated with each credit quality assessment step.

The main types of collateral taken by the Group are:

– Financial collateral including cash and client portfolios to support client lending. Financial collateral is marked to market daily and compared to loans outstanding.

– Other assets such as property and guarantees. Other assets are valued less often depending on the type of assets held and property is valued according to the requirements of CRR article 208(3).

Table 8: Details of the exposure value before and after credit risk mitigation at 31 December 2014

Credit quality step	Credit rating	Exposure before eligible financial collateral £m	Exposure after eligible financial collateral £m
1	AAA to AA-	2,550.3	671.0
2	A+ to A-	1,452.2	1,341.0
3	BBB+ to BBB-	116.3	116.3
4	BB+ to BB-	8.8	8.8
5	B+ to B-	5.6	5.6
6	CCC+ and below	3.0	3.0
unrated*		1,649.8	1,447.7
Total		**5,786.0**	**3,593.4**

* unrated includes loans to individuals, seed capital and equity investments plus other balance sheet exposures not subject to credit rating such as trade and other receivables, tax balances and fixed assets.

Table 9: Analysis of unrated exposures

	31 December 2014 (unaudited) £m	31 December 2013 (unaudited) £m
Loans and advances to customers	582.3	619.2
Financial assets	392.8	220.6
Trade and other receivables	412.2	538.7
Cash and cash equivalents	13.9	7.9
Seed capital	106.2	96.3
Tax balances	58.1	65.2
Undrawn commitments	31.5	50.0
Other derivatives	7.9	10.2
Guarantees	14.7	15.2
Fixed assets	29.9	22.5
Letters of credit	0.3	4.4
Total	**1,649.8**	**1,650.2**

INTEREST RATE RISK IN THE NON-TRADING BOOK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

Details of the Group's Wealth Management activities relating to policies and limits, other activities relating to cash held by other operating companies and sensitivity of projected net interest income under varying scenarios may be found on page 118 of the Annual Report and Accounts.

Table 10: Analysis by currency if interest rates were to increase by 0.5 per cent.

Currency	31 December 2014 (unaudited) £m	31 December 2013 (unaudited) £m
GBP	1.6	2.9
EUR	0.5	0.4
USD	–	–
CHF	–	0.2
others	0.9	0.2
Total	**3.0**	**3.7**

NON-TRADING BOOK EXPOSURE IN EQUITIES

An overview of the accounting techniques and valuation methodologies used, as required by CRR article 447, is included in note 11 within the Annual Report and Accounts and is not repeated here. An overview of how capital is managed, and with what objectives, can be found within note 20(a) of the Annual Report and Accounts.

The balance sheet value and the fair value of non-trading book equities as at 31 December 2014 was £486.8m.

Table 11: Analysis of the balance sheet value and the fair value of non-trading book equities

	31 December 2014 (unaudited)			31 December 2013 (unaudited)		
	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
Seed capital and hedge funds	102.4	10.4	112.8	79.4	55.7	135.1
Private Equity Investments	33.0	19.7	52.7	27.3	14.0	41.3
Property funds	–	8.3	8.3	–	13.6	13.6
Others	248.2	64.8	313.0	82.0	18.1	100.1
Total	**383.6**	**103.2**	**486.8**	**188.7**	**101.4**	**290.1**

The cumulative realised gains from sales / liquidations during the year were £21.3m. Total unrealised gains were £3.4m which have been included in other reserves.

REMUNERATION

The following disclosures are required under the (CRR) Part 8 (Article 450).

These disclosures should be read in conjunction with the Remuneration Report, on pages 64 to 76 of the Annual Report and Accounts (available on the Group's website – www.schroders.com/ir), which provides more information on the activities of our Remuneration Committee and our remuneration principles and policies.

Details of the UK Remuneration Code can be found at www.fca.org.uk.

Remuneration

Decision-making process for determining the remuneration policy

The Group has an established Remuneration Committee consisting of independent non-executive Directors of Schroders plc. The Committee met four times during 2014. Their responsibilities include recommending to the Board the Group's policy on Directors' remuneration, overseeing the remuneration governance framework and ensuring that remuneration arrangements are consistent with effective risk management. The role and activities of the Committee and their use of advisors are further detailed in the Remuneration Report and the Committee's Terms of Reference (both available on the Group's website).

Code Staff criteria

The Group's Code Staff are individuals in roles which can materially affect the risk of the Group. Subject to proportionality considerations, the list of individuals reviewed in determining those who are Code Staff includes:

- Directors of Schroders plc and certain key operating subsidiaries;
- Non-executive directors of Schroders plc and certain key operating subsidiaries;
- Members of the Group Management Committee;
- Material Risk Takers;
- Employees in key control function roles; and
- Employees who are remunerated at the same levels as senior management and material risk takers identified above.

During 2014, regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile came into force. The Group's Code Staff population has been determined in accordance with these standards. In determining whether or not someone who meets the quantitative criteria in the technical standard should be included as Code Staff, the professional activities of the role were assessed for their impact on the ICAAP risks as identified by the Group. Control frameworks and relevant committee terms of reference were also taken into account.

Link between pay and performance

The Group's employee remuneration is made up of fixed pay and variable performance-related pay.

Fixed pay is principally comprised of salaries or fees. All Code Staff receive either a salary (for employees) or fees (for non-executive directors or contractors) that reflect their responsibilities and the level of experience and expertise needed to undertake their roles. Fixed pay also includes appropriate pensions and benefits in kind to enable employees to undertake their role by ensuring their wellbeing and security.

Variable performance-related pay is principally comprised of annual bonus awards. Non-executive directors do not receive variable performance-related pay. The overall size of the annual pool for variable performance-related pay is a material component of our total remuneration expense. It is set by the Board and the Remuneration Committee by reference to the ratio of bonus charge to pre-bonus profit before tax and exceptional items and a total compensation expense to net revenue ratio, both of which are reported to shareholders. This ensures that the aggregate spend on compensation is directly linked to the Group's financial performance.

Code Staff who are permanent employees are eligible to be considered for an annual bonus award each year. Bonuses for all employees take account of overall Group, team and individual performance against agreed objectives. In this context, performance typically includes financial and non-financial measures, risk performance and any other relevant factors.

REMUNERATION (continued)

For senior management and employees receiving larger bonus awards, a significant proportion of their annual bonus award is deferred under the Equity Compensation Plan (ECP). ECP awards vest after three years. ECP Share awards are conditional rights to acquire shares in Schroders plc at nil cost. ECP Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of the Group's investment products. The pay-outs from ECP Fund awards are directly determined by the Group's performance managing funds for our clients. During 2014 the Remuneration Committee approved an increase in the use of Fund awards, aligning compensation with client outcomes for more employees. The Equity Incentive Plan (EIP) is an additional deferred remuneration plan, used to recognise sustainable performance and potential, and to increase the alignment of employee interests with the interests of shareholders and clients. EIP awards operate in a similar way to ECP awards but vest after five years, and are normally in the form of Share awards.

In March 2014, executive Directors of Schroders plc were eligible to be considered for an award under the Long-term Incentive Plan (LTIP), which is comprised of deferred awards of Schroders shares that vest after four years to the extent that performance conditions are achieved. More information can be found in the Remuneration Report in the Annual Report and Accounts. In addition to providing retention incentives, a primary purpose of our deferred awards (ECP, EIP and LTIP) is to support our performance culture where employees recognise the importance of sustainable Group, business and individual performance and their responsibilities in delivering value for clients and shareholders over the longer-term.

Further details of our remuneration policy, our deferred remuneration arrangements and LTIP performance conditions are provided in the Remuneration Report.

REMUNERATION (continued)

Quantitative Remuneration Disclosures

Seventy-nine individuals have been identified as Code Staff, of whom twenty-three are classified as Senior Management. The increase in the number of Code Staff since 2013 reflects the application of the regulatory technical standards on the identification of material risk-takers, which came into effect during 2014.

Table 12: Total remuneration expenditure for Code Staff by business area was as follows:

	Senior management £000	Rest of Group £000
Fixed remuneration	6,215	10,991
Variable remuneration	38,674	18,302
Total remuneration	**44,889**	**29,293**

Table 13: Aggregate remuneration expenditure for Code Staff by business area:

Asset Management £000	Wealth Management £000	Rest of Group £000
38,423	10,453	25,306

Aggregate remuneration disclosed includes:

- Non-executive director fees and contractors for 2014;
- Annual base salaries as at 31 December 2014 (or date of leaving);
- Cash bonus awards for the 2014 performance year;
- Deferred awards (ECP, EIP and LTIP) for 2014 based on the value at award. LTIP awards are subject to performance conditions, which can result in the portion of the award that is ultimately released ranging from 100% to 0%. The figures above assume 50% vesting; and
- Any other awards for new hires and any severance payments made to leavers.

In addition, Code Staff other than non-executive Directors are normally eligible to receive various employee benefits, such as private health care and pension, on the same basis as other employees.

ANNEX 1 – RISK STATEMENT

Our goals are aligned with those of our clients and shareholders – to create value over the long term. To do this, we have built a diversified business across client types, asset classes and regions. This diversification provides a sustainable model that aims to minimise volatility of earnings and protect the long-term viability of the business. By mitigating the risks of volatile earnings, we are both able to meet the needs of our clients and be well-positioned to respond to opportunities that may arise in global asset management.

To protect our business, we have implemented a 'three lines of defence' operating model, with business heads being directly responsible for risks and controls (the first line) supplemented by a fully independent second line (Compliance, Finance, Legal and Risk) providing oversight and challenge to the business in executing its strategy. The third line, Group Internal Audit provides retrospective, independent assurance over the operation of controls.

Providing long-term value is determined by the following:

Delivering consistent and above-average performance through disciplined investment processes and active engagement with the companies in which we invest

We target at least 60 per cent of assets under management to outperform benchmark or peer group over rolling three year periods. There is a risk that performance may fall short of this target, which may arise, for example, from failure of the investment process, deviation from intended portfolios and inadvertent breaches. We mitigate investment performance risk through independent investment risk oversight, portfolio compliance checking, operational risk controls and management of credit risk exposure to brokers and other counterparties.

For the three years to 31 December 2014, 78% of assets under management outperformed, versus 68% in 2013.

Building close relationships with clients

In order to build close and long-lasting relationships with clients, we need to develop the investment products and solutions that meet their needs. As a measure of this, we monitor both gross sales and net new business. There is a risk that products do not meet their objectives and can put client relationships at risk. We mitigate this risk through oversight processes such as the Product Development Committee, which considers whether products are suitable for clients and are capable of being successfully established, managed and maintained. We also aim to ensure that complex and non-standard mandates can be supported during our client take-on process.

In 2014 we achieved gross sales of £92.0 billion, versus £75.6 billion in 2013, and net new business of £24.8 billion in 2014 versus £7.9 billion in 2013.

Ensuring operational efficiency

We aim to generate high levels of profit after tax, enabling increased dividends and continued organic investment in our business. We target a 45 per cent. compensation to net revenue ratio and a 65 per cent cost to net revenue ratio, both over a market cycle. There is a risk that these ratios may be higher than our long term target in weaker markets; however, we seek to mitigate this risk through strategic investment in our business, with the aim of improving both efficiency and effectiveness. We focus on the effectiveness of risk management to improve controls and reduce operational risk events; this includes a review of all key risk events to ensure that these are identified, reported and resolved with the aim of preventing such risk events from recurring.

In 2014 we achieved a cost: revenue ratio of 64% versus 65% in 2013, and compensation cost:net revenue ratio of 45% versus 46% in 2013.

ANNEX 1 – RISK STATEMENT (continued)

Retaining and developing a deep pool of talent

Retaining and developing talent and investing in new talent is key to organisational stability and long-term success. We aim to develop our employees and to retain those who perform ahead of expectations. There is a risk that talented people will be targeted by competitors seeking to build their business. We aim to mitigate this risk by providing competitive remuneration and retention packages and by developing staff through appropriate training.

In 2014 we retained 94% of our outperforming employees, versus 95% in 2013, and provided 7,109 employee training sessions versus 11,648 in 2013.

Investing in future growth opportunities

To create long-term shareholder value, we invest in both organic growth and take advantage of acquisition opportunities. In addition, we deploy seed capital to support the development of new investment strategies. There is a risk that we have insufficient capital to invest for future growth, particularly during periods of market weakness. We mitigate this risk by maintaining a strong capital position, with capital resources significantly higher than our capital requirements. This enables us both to withstand market downturns and to invest when opportunities arise, without weakening our prudent capital position.

At the end of 2014, we held £725 million of investment capital, versus £515 million in 2013, and held £163 million of seed capital investments versus £182 million in 2013.

Schroders