Schroders

Pillar 3 disclosures

31 December 2020

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Introduction

Regulatory Framework

Schroders plc (Schroders or the Group) is supervised in the UK on a consolidated basis by the Prudential Regulation Authority (PRA). The PRA sets capital requirements for the Group and monitors the Group's capital adequacy on an ongoing basis. Regulated subsidiaries within the Group are supervised by their local regulators who set and monitor the local capital adequacy requirements.

The Group's regulatory capital is assessed under the Basel framework, as implemented in the European Union (EU) in the Capital Requirements Directive (CRD)/Capital Requirements Regulation (CRR) package and the PRA's rulebook. The Basel framework comprises three pillars:

- Pillar 1 sets rule-based minimum capital standards;
- Pillar 2 establishes the approach to supervisory review and the setting of individual capital requirements, taking into consideration the firm's own assessment of how much capital is required to support the business; and
- Pillar 3 sets disclosure requirements; these aim to promote market discipline by enabling market participants to access information relating to regulatory capital and risk exposures.

This document sets out the consolidated Pillar 3 disclosures for the Group as at 31 December 2020. They are made in accordance with Part Eight of the CRR. They are produced annually and published alongside the Schroders plc Annual Report and Accounts (Annual Report and Accounts). They are not subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements. Additional relevant information can be found in the Annual Report and Accounts, which is available on the Schroders corporate website (www.schroders.com/ir).

Summary of the Group's capital position

As at 31 December 2020, the Group had total regulatory own funds of £2,351m (2019: £2,122m) and a capital ratio of 26.2% (2019: 25.0%). The Group is required to maintain adequate capital resources to meet our Total Capital Requirement (TCR) of £874m (2019: £858m). The TCR incorporates our Pillar 1 regulatory capital requirement of £717m (2019: £679m). In addition to the TCR of our banking group, the Group is required to hold capital of £256m (2019: £269m) in respect of our insurance companies and regulatory buffers. The Group's overall regulatory capital requirement was £1,130m at 31 December 2020 (2019: £1,127m). Note that the Group's regulatory capital consists entirely of Common Equity Tier 1 capital (CET1).

The Pillar 1 minimum own funds requirements comprise a CET1 capital ratio of 4.5%, a Tier 1 (T1) capital ratio of 6% and a Total capital ratio of 8%. The PRA sets the Group's Pillar 2A requirement. This is an individual capital requirement taking the Group's Pillar 2 assessment into account. Pillar 1 and Pillar 2A constitute the Group's TCR, which is the minimum amount of capital that the Group is required to maintain at all times.

The Group's combined buffer requirement comprises a capital conservation buffer of 2.5% (2019: 2.5%) of risk weighted assets and a countercyclical capital buffer of 0.09% (2019: 0.64%). The capital conservation buffer is designed to ensure that institutions build up capital buffers outside periods of stress which can be drawn upon if required. The countercyclical capital buffer is deployed in a jurisdiction when excess credit growth is associated with an increase in system-wide risk. These buffers represent the capital the Group is required to hold in excess of the minimum, and are available to absorb losses in times of stress. The Group is also required to hold a PRA buffer.

The Group is also required to calculate a non-risk based leverage ratio. The leverage ratio is calculated by dividing the Group's capital by its exposures, which are defined as the total of on- and off- balance sheet exposures less the deductions applied to Tier 1 capital.

The Group's key regulatory metrics are shown in table 1. A breakdown of the Group's Pillar 1 Risk Weighted Assets and Capital Requirement is shown in table 2. As at 31 December 2020, the Group complied with all externally imposed regulatory capital requirements.

Table 1: Key regulatory metrics

£m	2020	2019
Available capital		
CET1 Capital	2,351.3	2,122.3
Risk Weighted Assets		
Total Risk Weighted Assets	8,957.6	8,485.6
Capital Ratios (%)		
CET1 Capital Ratio	26.2	25.0
Additional CET1 buffer requirements as a % of RWA		
Capital Conservation Buffer (%)	2.50	2.50
Countercyclical Buffer (%)[1]	0.09	0.64
Total CET1 specific buffer requirements (%)	2.59	3.14
Leverage Ratio		
Total Leverage ratio exposure measure	8,078.8	7,291.6
Leverage ratio (%)	29.1	29.1

[1]The institution specific countercyclical buffer that applies to the Group is the weighted average of the countercyclical capital buffers that apply in the jurisdictions where the Group's relevant credit exposures are located.

Table 2: Risk Weighted Assets and Capital Requirement breakdown

£m	Risk weighted assets		Capital Requirement	
	2020	2019	2020	2019
Credit risk	4,212.2	4,123.2	337.0	329.9
Market risk	689.7	455.8	55.2	36.5
Operational risk	4,047.2	3,895.3	323.8	311.6
Credit valuation adjustment	8.5	11.3	0.7	0.9
Total	**8,957.6**	**8,485.6**	**716.7**	**678.9**

Approach to capital management

The Group's approach to capital management is to maintain a strong capital position to enable us to invest in the future of the Group, in line with our strategy, and to support the risks inherent in conducting our business. Capital management is an important part of our risk management framework and is underpinned by our Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP considers the relevant current and future risks to the business and the capital the Group considers necessary to support these risks. The Group actively monitors its capital base to ensure sufficient and appropriate capital resources are maintained to cover the relevant risks to the business and to meet consolidated and local regulatory and working capital requirements.

For further information on the components of the capital position namely the working capital, investment capital and other items please refer to note 20 of the Annual Report and Accounts.

Regulatory developments

The UK's withdrawal from the EU

The UK left the EU on 31 January 2020 and a transition period, during which the UK remained subject to EU law and UK firms were directly subject to EU regulations, ended on 31 December 2020. All EU regulations (such as the CRR) that were directly applicable to UK firms as at the end of 2020 have now been transposed into UK law. This provided continuity in terms of the rulebook applicable to UK banking groups.

Capital Requirements Regulation II

The first major set of revisions to the CRR were passed into law in June 2019 through the CRR II. Some of these changes came into force in 2020 as part of the CRR II 'Quick Fix' package, which was released to facilitate lending in response to the COVID-19 pandemic. One element of that package requires firms to exclude certain software assets from the requirement for CET1 deduction (and risk-weight them instead). This led to an increase in the Group's surplus capital as at end December 2020. The PRA has expressed concern regarding this change and has consulted on maintaining the earlier position whereby all software assets are fully deducted from CET1 capital. This future change is factored into the Group's capital planning process.

The majority of CRR II is not applicable in the EU until the middle of 2021 and therefore, given Brexit, will not be directly applicable to UK firms. HMT, the PRA and the FCA issued a joint statement in December stating that they consider it appropriate to delay the timeline for introducing these reforms, to target an implementation date of 1 January 2022. Subsequently, the PRA issued a consultation paper in February setting out their proposed rules. The package includes changes to the credit risk methodology for Collective Investment Undertakings (CIUs).

The first major set of revisions to CRD IV were also passed into law in June 2019, through CRD V. These became applicable in December 2020. There was no material change to the Group's capital position as a result of these changes.

New prudential regime for investment firms

Both the UK and the EU will introduce a new prudential framework for investment firms in the next 12 months. The EU legislative package – the Investment Firm Regulation (IFR) and Directive (IFD) – was passed into law in 2019 and will be effective from June 2021. The UK version of this framework – the Investment Firm Prudential Regime – is expected to be implemented on 1 January 2022. Whilst these reforms will have an impact on in-scope entities within the Group at solo level, they are not expected to impact the consolidated Group position.

Other developments

In December 2019 the Financial Policy Committee (FPC) announced that it would increase the UK countercyclical buffer (CCyB) rate from 1% to 2% on 16 December 2020. This was a structural change to the CCyB rate. The purpose of raising the buffer was to shift the balance of capital requirements from minimum requirements towards buffers that can be drawn down as needed. To this end, the PRA also announced that they would reduce Pillar 2A capital requirements, in order to keep overall capital requirements stable.

Subsequently, in March 2020, in response to the COVID-19 pandemic, the FPC reduced the CCyB rate to 0% to aid the supply of credit. In light of this reduction the PRA also announced that it would temporarily increase firms' PRA buffers (while the CCyB rate is low) to ensure that CET1 levels are maintained.

Regulatory basis of consolidation

The Pillar 3 disclosures relate to the Group on a consolidated basis. Information about the Group's subsidiaries, including regulated entities, is provided in note 38 of the Annual Report and Accounts.

The regulatory basis of consolidation differs from the accounting basis of consolidation due to the following adjustments:

- The Group's insurance entities (Schroder Pension Management Limited and Burnaby Insurance (Guernsey) Limited) are excluded from the regulatory basis of consolidation. Insurance entities are subject to a separate regulatory framework and are outside the scope of CRD/CRR. The Group's insurance entities are, however, included in the Group's risk management framework and have been adequately capitalised throughout the year.
- Certain joint ventures are proportionally consolidated for the purpose of calculating the Group's regulatory capital position.
- CIUs, which are consolidated in the financial accounts, are not included within the regulatory basis of consolidation as they do not meet the definition of financial institutions. The Group's interests in such vehicles are recognised as financial assets and are included in the determination of the relevant capital requirement.

Table 3: Reconciliation of financial position – financial accounting to regulatory scope of consolidation

	31 December 2020 (audited)	Deconsolidation of insurance subsidiaries	Proportional consolidation of certain joint ventures	Deconsolidation of CIUs	Regulatory balance sheet
	£m	£m	£m	£m	£m
Assets					
Cash and cash equivalents	3,469.6	(14.4)	102.4	(47.7)	3,509.9
Trade and other receivables	840.3	(15.1)	27.7	(11.9)	841.0
Financial assets	2,871.8	(29.0)	141.2	(228.1)	2,755.9
Share of net assets in associates and joint ventures	385.7	-	(350.8)	-	34.9
Goodwill and intangibles relating to associates and joint ventures	19.5	-	-	-	19.5
Capital invested in insurance entities	-	32.8	-	-	32.8
Property, plant and equipment	590.9	-	7.7	-	598.6
Goodwill and intangible assets	1,208.0	-	162.9	-	1,370.9
Deferred tax	32.9	-	-	-	32.9
Retirement benefit scheme surplus	168.2	-	-	-	168.2
Assets backing unit-linked liabilities	12,086.2	(9,744.2)	-	(2,342.0)	-
Total assets	**21,673.1**	**(9,769.9)**	**91.1**	**(2,629.7)**	**9,364.6**
Liabilities					
Trade and other payables	927.7	(16.2)	75.6	(0.2)	986.9
Financial liabilities	4,085.2	-	-	(287.4)	3,797.8
Lease liabilities	397.2	-	3.8		401.0
Current tax	21.5	1.0	1.2	(1.3)	22.4
Provisions	26.4	-	0.2	-	26.6
Deferred tax	31.5	-	10.3	-	41.8
Retirement benefit scheme deficits	11.5	-	-	-	11.5
Unit-linked liabilities	12,086.2	(9,745.4)	-	(2,340.8)	0.0
Total liabilities	**17,587.2**	**(9,760.6)**	**91.1**	**(2,629.7)**	**5,288.0**
Net assets	**4,085.9**	**(9.3)**	**-**	**-**	**4,076.6**
Called up share capital	282.5	-	-	-	282.5
Share premium	124.2	-	-	-	124.2
Own shares	(159.8)	-	-	-	(159.8)
Other reserves[1]	3,755.9	(9.3)	-	-	3,746.6
Total shareholders' equity	**4,002.8**	**(9.3)**	**-**	**-**	**3,993.5**
Non-controlling interests[2]	83.1	-	-	-	83.1
Equity	**4,085.9**	**(9.3)**	**-**	**-**	**4,076.6**

[1]Other reserves consist of the net exchange differences reserve, associates and joint ventures reserve and profit and loss reserve. Together these reserves make up retained earnings and accumulated comprehensive income.
[2]Non-controlling interests relate to equity capital of subsidiaries held by entities that are not within the scope of consolidation.

Risk management framework and governance

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 50.

Risk management framework

The Board is accountable for risk and oversight of the risk management process. It assesses the most significant risks facing the business and also uses quantitative exposure measures, such as stress tests, where appropriate, to understand the potential impact on the business. Non-executive oversight of the risk management framework process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee. The Group embeds risk management within all areas of the business at a Group and legal entity level.

The Group Chief Executive and Group Management Committee (GMC), as the principal advisory committee to the Group Chief Executive, have responsibility for regularly reviewing the key risks faced. This includes identifying, monitoring and reporting on relevant risks and controls in their respective business areas . They are also responsible for monitoring that individual behaviours reflect the culture and core values of the business. It is the responsibility of all employees to uphold the control culture of Schroders.

The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group. Independent monitoring and reporting of risks and controls across the Group and at a legal entity level is undertaken by the second line of defence. For further information on the Risk Management framework please refer to page 50 of the Annual Report and Accounts.

Management of key risks

The Group periodically assesses the risks faced by our business and updates the detail of the Group's Key risks. This provides a good understanding of the risk profile of the Group, enabling these risks to be managed effectively. The Group has identified 19 key risks across Strategic, Business and Operational risk categories. Further information on these risks can be found on pages 53 to 55 of the Annual Report and Accounts.

Pillar 2 and ICAAP

The ICAAP is the Group's own assessment of the level of capital (Pillar 2) required to support current and future risks in its business. The ICAAP determines the principal risks to the Group and its consolidated financial position and assesses the capital required to meet unexpected losses, calculated at a confidence level specified by the Board. It examines each key risk category to identify the exposures that could put the Group's capital at risk. Risks are then assessed using the most appropriate technique and outputs are measured as part of the risk management framework and oversight process.

Risk and control assessments (RCAs) are an important part of the risk management framework. These are completed by each business area to identify and assess their operational risks and controls. Outputs from this process, together with other information such as internal and external risk events, support the operational risk scenario analysis that is used to determine the level of capital required.

The ICAAP also uses a range of scenarios to assess the impact of severe but plausible stress events on capital resources and regulatory capital requirements. The stress testing analysis is used to determine the appropriate size of any capital planning buffer that should be held over and above the Group's combined buffer requirements. The next section provides further detail on the approach to stress testing.

The ICAAP is updated and formally reviewed by the Board on at least an annual basis, with more frequent reviews in the event of a fundamental or anticipated change to the business or the environment in which the Group operates.

Stress testing

Stress testing is an important element of the Group's planning and risk management processes, helping to identify, analyse and manage risks within the business. Capital planning forms part of the ICAAP and a range of stress tests and scenario analyses are used to estimate the impact of stress events on capital resources and regulatory capital requirements.

Stress testing is performed on the Group's business plan and considers the impact of a number of the Group's key risks crystallising over the assessment period. The severe but plausible stress scenarios include the following factors which, where relevant, use assumptions more severe than the regulatory stress scenario required by the PRA:

– Outflows of AUM and deterioration in the value of AUM, as a result of, for example, a market downturn, foreign exchange movements, climate change risks or poor investment performance;

– a significant decline in net operating revenue margins reducing projected revenues, together with an increase in the ratio of total costs to net income; and

– the impact of a material operational risk event which could lead to reputational damage and outflows of AUM.

In addition, stress testing is conducted for the Group's Internal Liquidity Adequacy Assessment Process (ILAAP), Recovery Plan and Reverse Stress Testing. Together with the Group's business plan, capital and liquidity stress tests support the Directors' assessment of the Group's viability as detailed in the Viability Statement (page 56 of the Annual Report and Accounts).

Board succession and diversity policy

The Board succession process is detailed on page 67 of the Annual Report and Accounts. The Board policy on diversity is detailed on page 67 of the Annual Report and Accounts.

Regulatory own funds

Regulatory capital is categorised as either CET1, Additional Tier 1 or Tier 2 depending on the characteristics of the capital items. The Group's regulatory capital meets all of the conditions of CRR article 28 and consists entirely of CET1 capital.

The Group's CET1 capital consists of two classes of shares, ordinary shares and non-voting ordinary shares, as detailed in note 21 of the Annual Report and Accounts. Non-voting ordinary shares 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 on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares. Ordinary share capital accounts for 80% of the Group's total share capital with the remaining 20% represented by non-voting ordinary share capital. CET1 capital includes share premium, retained profits and certain other reserves.

A number of deductions and adjustments are made before arriving at the Group's regulatory own funds. In calculating CET1 capital as at 31 December 2020, deductions have been made for the Group's intangible assets net of deferred tax of £1,286.7 million (including £941.8 million of goodwill), the Group defined benefit pension surplus net of deferred tax of £137.1 million and its own shares held to hedge employee share schemes of £159.8 million. Regulatory adjustments for deferred tax assets and significant investments in financial sector entities are required when certain thresholds are exceeded. As at 31 December 2020, no adjustments were required for these items.

The composition of the Group's regulatory capital is shown in table 4 and the own funds disclosure template as required in Commission Implementing Regulation (EU) No 1423/2013 is presented in Appendix 1.

Table 4: Composition of regulatory capital

	2020 £m	2019 £m
Equity per the regulatory balance sheet[1]	4,076.6	3,836.5
Direct and indirect holdings by an institution of own CET1 instruments[2]	159.8	169.1
Non-qualifying minority interests	(83.1)	(66.6)
Adjustment for foreseeable dividends	(216.3)	(216.7)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**3,937.0**	**3,722.3**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(1,286.7)	(1,315.4)
Direct and indirect holdings by an institution of own CET1 instruments	(159.8)	(169.1)
Defined-benefit pension fund assets (net of related tax liability)	(137.1)	(113.1)
Additional value adjustments[3]	(2.1)	(2.4)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(1,585.7)**	**(1,600.0)**
Total Common Equity Tier 1 Capital after regulatory adjustments	**2,351.3**	**2,122.3**
Total Capital after regulatory adjustments	**2,351.3**	**2,122.3**

[1]Shareholder equity per the regulatory balance sheet includes the deduction for direct holdings of own CET1 instruments.
[2]Direct holdings of own CET1 instruments are added back to equity because these are presented as a regulatory adjustment in the composition of regulatory capital requirements published by the EBA.
[3]A value adjustment is a deduction from CET1 capital where the prudent value of financial assets measured at fair value is materially lower than the fair value recognised in the financial statements.

Credit risk

Overview

Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge their obligations. The Group has exposure to credit risk from its normal activities where it is exposed to the risk that a counterparty will be unable to pay, in full, amounts when due.

Credit risk management

The Group carefully manages its exposure to credit risk (on both a principal and agency basis) by: approving Wealth Management lending policies that specify the type of acceptable collateral and minimum lending margins; setting limits for Wealth Management exposures to individual counterparties; taking security; and by reviewing and monitoring counterparties with which Schroders has entered into transactions as agent.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. The Group has a credit risk management framework in place to assess and monitor the creditworthiness of the Group's counterparties using, where appropriate, External Credit Assessment Institutions (ECAI) ratings supplemented by internal assessments. Exposures are monitored against relevant thresholds including regulatory large exposure requirements. The Group seeks to diversify its exposure across different counterparties.

The Group does not usually provide loans, overdrafts or advances to clients on an unsecured basis.

Please note more detail on our approach to credit risk management is included in note 20 of the Annual Report and Accounts.

Credit risk measurement

Schroders has elected to adopt the standardised approach to credit risk. Under the standardised approach, the Group's credit risk capital requirement is calculated as 8% of total risk weighted exposures. Risk weighted exposures are calculated by applying a prescribed regulatory risk-weight to individual credit risk exposures.

As the Group's trading book is small, the Group applies the derogation allowed under Article 94 of the CRR to include exposures arising from the Group's limited trading activities in the Group's credit risk exposure.

Calculating the credit risk exposure

The Group's regulatory credit risk exposure is calculated using the accounting value of the relevant instruments. Adjustments are made for the effect of funded credit protection on reverse repurchase agreements and provisions against expected credit losses made in accordance with IFRS. An add-on to reflect the potential future exposure of the Group's derivative portfolio is incorporated and off-balance sheet exposures are included after applying the relevant credit conversion factor (CCF). Items deducted from regulatory capital are excluded from the credit risk exposure.

The recognition of funded credit protection is subject to a number of considerations, including ensuring the legal enforceability of the collateral arrangements, monitoring the market value of the collateral and ensuring that the value of the collateral is not materially correlated with the credit quality of the counterparty.

Table 5 presents the Group's regulatory balance sheet by asset class, with the adjustments that are made to arrive at exposure value.

Table 5: Fully adjusted credit risk exposure value

	Regulatory balance sheet £m	Regulatory adjustments £m	Effect of funded credit protection on reverse repurchase agreements £m	Credit risk mitigation £m	Off-balance sheet items post CCFs £m	Derivative add-on £m	2020 Exposure value £m
Assets							
Cash and cash equivalents	3,509.9	-	(754.6)	-	-	-	2,755.3
Trade and other receivables	841.0	-	-	-	-	-	841.0
Financial assets	2,755.9	-	(27.8)	-	112.8	7.3	2,848.2
Share of net assets in associates and joint ventures	34.9	-	-	-	-	-	34.9
Goodwill and intangibles relating to associates and joint ventures	19.5	(19.5)	-	-	-	-	-
Insurance entity capital	32.8	-	-	-	-	-	32.8
Property, plant and equipment	598.6	-	-	-	-	-	598.6
Goodwill and intangible assets	1,370.9	(1,293.6)	-	-	-	-	77.3
Deferred tax	32.9	43.7	-	-	-	-	76.6
Retirements benefit scheme surplus	168.2	(168.2)	-	-	-	-	-
Financial liabilities	-	-	-	-	-	18.0	18.0
Total	**9,364.6**	**(1,437.6)**	**(782.4)**	**-**	**112.8**	**25.3**	**7,282.7**

Each exposure is assigned to a credit risk exposure class as defined in article 112 of the CRR. This is set out in table 6.

Table 6: Exposure value per table 5 analysed by exposure class

	2020 Exposure value £m	2019 Exposure value £m
Central governments or central banks	1,944.4	1,756.3
Regional governments or local authorities	24.8	-
Multilateral development banks	70.9	35.8
Institutions	1,358.4	1,291.6
Corporates	930.5	884.6
Retail	95.8	48.0
Secured by mortgages on immovable property	168.7	152.8
Exposures in default	1.7	1.8
Items associated with particular high risk[1]	111.3	128.2
Covered bonds	82.2	68.6
CIUs	1,181.8	955.3
Equity	41.5	41.0
Other items[2]	1,270.7	1,345.5
Total exposure value	**7,282.7**	**6,709.5**

[1]High risk exposures include private equity investments.
[2]Other items as per CRR article 134 include accrued income, fee debtors, tax, prepayments and other debtors.

Appendix 3 provides further information on the Group's on- and off-balance sheet exposures subject to the credit risk framework broken down by significant country. Countries contributing to approximately 90% of the Group's total exposure have been disclosed separately and all other countries have been categorised as 'Other'.

Calculating the risk weighted exposure

The Group's risk-weighted exposure is calculated by applying the risk weights prescribed in Part 3, Title II, Chapter 2 of the CRR to the credit exposures in table 6. The allocation of risk weights by exposure class is shown in table 7.

The risk weight is based on the exposure class to which the exposure is assigned, the maturity of the exposure and the credit quality of the counterparty.

The Group assesses the credit quality of its counterparties with reference to credit assessments conducted by ECAIs. The primary ECAI used by the Group is Fitch and its ratings are used to assess the credit quality of exposures wherever possible. If a Fitch rating is unavailable, a rating from an alternative ECAI is used, including Moody's or Standard & Poor's. All three ratings agencies are recognised as eligible ECAIs by the PRA. Where no credit rating can be obtained, the exposure is categorised as unrated. Unrated exposures are risk weighted based on exposure class and include loans to individuals, equity investments, trade and other receivables, tax assets and fixed assets.

Table 7: Risk weighted assets by exposure class

	Exposure after adjustments – Risk weights									2020
£m	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Other**	**Total risk weighted assets (RWA)**
Central governments or central banks	1,944.4	-	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	24.8	-	-	-	-	-	-	-	5.0
Multilateral development banks	70.9	-	-	-	-	-	-	-	-	-
Institutions	-	970.0	-	384.4	-	-	4.0	-	-	392.2
Corporates	-	39.6	-	80.7	-	810.2	-	-	-	858.5
Retail	-	-	-	-	95.8	-	-	-	-	71.9
Secured by mortgages on immovable property	-	-	159.2	-	-	9.5	-	-	-	65.2
Exposures in default	-	-	-	-	-	1.7	-	-	-	1.7
Items associated with particular high risk	-	-	-	-	-	-	111.3	-	-	167.0
Covered bonds	-	-	-	-	-	-	-	-	82.2	8.2
CIUs	-	92.0	-	-	-	1,089.8	-	-	-	1,108.2
Equity	-	-	-	-	-	8.7	-	32.8	-	90.7
Other items	0.8	-	-	-	-	1,154.1	-	115.8	-	1,443.6
Total	2,016.1	1,126.4	159.2	465.1	95.8	3,074.0	115.3	148.6	82.2	4,212.2
Total Credit Risk Capital Requirement										**337.0**

Table 8 summarises the Group's credit risk capital requirement by exposure class.

Table 8: Total consolidated credit risk capital requirement of the Group under Pillar 1

£m	2020 RWA	2020 Capital Req't	2019 RWA	2019 Capital Req't
Credit risk				
Central governments or central banks	-	-	-	-
Regional governments or local authorities	5.0	0.4	-	-
Multilateral development banks	-	-	-	-
Institutions	392.2	31.4	351.0	28.2
Corporates	858.5	68.7	719.2	57.5
Retail	71.9	5.8	35.3	2.8
Secured by mortgages on immovable property	65.2	5.2	58.8	4.7
Exposures in default	1.7	0.1	1.8	0.1
Items associated with particular high risk	167.0	13.4	192.3	15.4
Covered bonds	8.2	0.7	6.9	0.5
CIUs	1,108.2	88.7	955.3	76.4
Equity	90.7	7.2	102.4	8.2
Other items	1,443.6	115.4	1,700.2	136.1
Total	**4,212.2**	**337.0**	**4,123.2**	**329.9**

Market risk

Overview

Market risk is the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates. The Group's primary exposures to market risk arise from holdings of principal investments and foreign currency positions as a result of overseas operations. The Group has a second order exposure to market risk through its investment management activities as the income earned from this agency business will vary dependent on the value of AUM. This second order exposure does not give rise to a capital requirement, but is considered as part of the Group's market risk management activities and stress testing.

Market risk management

Our geographically diversified, broad product range helps to mitigate market risk in a variety of market conditions and serves to diversify individual market dependencies.

For its principal investments, the Group has an investment framework in place that includes a risk appetite and prescribed limits which are approved by the Board. The currency risk associated with non-sterling investments within the investment capital, seed capital and co-investment portfolios is hedged, where appropriate, using short-dated forward foreign exchange contracts. The Group also aims to hedge the market risk exposure in its seed capital investments where practical. Where this is not possible the Group Capital Committee is required to approve the risk exposure.

The Group is exposed to foreign exchange risk as a result of transactional foreign exchange exposures in its operating entities. Transactional foreign exchange exposures arise as a result of a position held in a currency other than the functional currency of the transacting entity. The Group seeks to minimise its exposure to this risk by converting foreign currency positions to the functional currency of the transacting entity as soon as practical.

The Group is exposed to structural foreign exchange risk as a result of its net investment in overseas subsidiaries and branches. These investments are accounted for in the functional currencies of the individual entities and subsequently translated to the Group's presentational currency (sterling). Foreign exchange differences arising on the translation of the foreign operations are recorded in the net exchange differences reserve through other comprehensive income and give rise to movements in the Group's CET1 capital. The Group manages its exposure to this risk by returning surplus capital to the UK as soon as practical.

The Wealth Management Executive Committee monitors and manages market risk, primarily interest rate risk in the banking book, in the Group's banking businesses. This process includes monitoring the sensitivity of the balance sheet to movements in yield curves and assessing any mismatch between interest rate sensitive assets and liabilities.

Market risk measurement

The Group calculates its own funds requirement for market risk in accordance with Part 3, Title IV of the CRR. In determining its Pillar 1 capital requirement, the Group is required to consider whether its exposure to market risk arises from trading or non-trading activities. The Group does not generally hold positions with trading intent. Financial instruments that make up the Group's investment capital and seed capital portfolios are considered to be non-trading as they are not managed on a short-term basis and the positions are not bought in order to benefit from actual or expected short term price differences.

Consequently, the Group's trading book is small and therefore, as noted in the credit risk section above, the Group applies the derogation allowed under Article 94 of the CRR to include exposures arising from the Group's limited trading activities in the Group's credit risk exposure.

Therefore, the Group's capital requirement for market risk is calculated based on the Group's exposure to foreign exchange risk. The Group applies the standardised rules to determine this capital requirement.

Foreign exchange position risk measurement

In accordance with Part 3, Title IV, Chapter 3 of the CRR, all assets and all liabilities, plus all forward positions, are considered in the calculation of the net short or long position in each currency for each entity within the Group. Those positions are then summed separately to form the total of the net short positions and the total of the net long positions. The higher of those two totals is then multiplied by 8% to calculate the capital requirement. The Group's capital requirement is the sum of the entities' capital requirements.

Table 9: Total consolidated market risk capital requirement of the Group under Pillar 1

£m	2020 RWA	2020 Capital Req't	2019 RWA	2019 Capital Req't
Market risk				
In respect of foreign exchange	689.7	55.2	455.8	36.5
Total market risk capital requirement	**689.7**	**55.2**	**455.8**	**36.5**

Operational risk

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal, regulatory, tax, technology, information security, and fraud risks, and is inherent in all activities and processes.

Operational risk management

Line management is responsible for operational risk controls throughout the Group's business, including communicating controls through documented policies, procedures and standards, and for promoting and overseeing high standards of conduct in accordance with the Group's Guiding Principles (and Values) and Conduct framework.

RCAs are required to be completed by each business area at least annually and when significant changes occur. The RCAs set out relevant risks and the controls and supervision practices that have been implemented by management. Group Risk oversees the completion of RCAs and report to the Group Risk Committee (GRC) on key findings including high risk areas for which risk mitigation plans are required. Other elements of the framework include risk event management and escalation, internal control reports and third party risk assessments.

Further information on the key operational risks and how those risks are managed can be found in the Annual Report and Accounts on page 55.

Operational risk measurement

Schroders has adopted the standardised approach to calculating the Pillar 1 capital requirement for operational risk in accordance with Part 3, Title III, Chapter 3 of the CRR. Under the standardised approach, institutions calculate an average relevant indicator over the past three years. The Group's relevant indicator is revenue categorised by business line, each with a relevant beta factor ranging from 12% to 15%. The operational risk capital requirement is calculated by multiplying average revenues by the relevant beta factor and summing across the business lines.

Table 10: Total consolidated operational risk capital requirement of the Group under Pillar 1

£m	2020 RWA	2020 Capital Req't	2019 RWA	2019 Capital Req't
Operational risk				
Calculated in accordance with the standardised approach	4,047.2	323.8	3,895.3	311.6
Total operational risk capital requirement	**4,047.2**	**323.8**	**3,895.3**	**311.6**

Table 11: Calculation of the relevant indicator and own funds requirement

	2020		2019	
Relevant indicator elements	Risk weighted assets £m	Capital required £m	Risk weighted assets £m	Capital required £m
Commercial banking	22.1	1.8	19.2	1.5
Retail banking	19.5	1.6	19.5	1.6
Agency services	5.5	0.4	3.5	0.3
Asset management	4,000.1	320.0	3,853.1	308.2
At 31 December	**4,047.2**	**323.8**	**3,895.3**	**311.6**

Other risks and sensitivity analysis

Non trading book exposures in equities

An overview of the accounting techniques and valuation methodologies used, as required by article 447 of the CRR, is included in note 9, Financial Assets, within the Annual Report and Accounts.

Pension obligation risk

Pension obligation risk (POR) is the risk to a firm caused by its contractual or other liabilities to or with respect to a pension scheme. The risk of deficit in the defined benefit section of the of the Schroders Retirement Benefit Scheme (the Scheme), which was closed to future benefits accrual on 30 April 2011, is assessed through the use of stress tests which consider the impact of possible alternative assumptions on the valuation of the Scheme liabilities as well as stresses on asset values. Stress tests are performed in line with the PRA's guidelines. The Group was not required to hold capital for pension obligation risk as at 31 December 2020.

Further information about the Group's pension plan can be found under note 25 of the Annual Report and Accounts.

Credit Valuation Adjustment

CRD IV introduced a regulatory capital charge to cover credit valuation adjustment (CVA) risk, the risk of adverse movements in the credit valuation adjustments taken for expected credit losses on derivative transactions. The standardised approach has been applied to calculate the CVA.

Table 12: Total consolidated CVA capital requirement of the Group under Pillar 1

£m	2020 RWA	2020 Capital Req't	2019 RWA	2019 Capital Req't
Credit valuation adjustment				
Calculated in accordance with the standardised approach	8.5	0.7	11.3	0.9
Total credit valuation capital requirement	**8.5**	**0.7**	**11.3**	**0.9**

Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost. The Group has a clearly defined liquidity risk management framework in place in the form of a Consolidated Group ILAAP. The Group policy is that its subsidiaries should trade solvently, comply with regulatory liquidity requirements and have access to adequate liquidity for all activities undertaken in the normal course of business. As part of its ILAAP, the Group performs stress testing to confirm that sufficient liquidity is available to cover severe but plausible stress events.

Interest rate risk

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. Further information on how interest rate risk is managed can be found in note 20 of the Annual Report and Accounts

Remuneration disclosures

The following disclosures explain how Schroders has complied with the regulatory requirements under the UK implementation of the CRD, in particular Articles 92 to 95.

These disclosures should be read in conjunction with the Remuneration report on pages 75 to 102 of the Annual Report and Accounts, which provides further information on the activities of our Remuneration Committee and our remuneration principles and policies.

Details of the UK Remuneration Codes can be found at www.fca.org.uk and information on the Remuneration Part of the PRA Rulebook can be found at www.prarulebook.co.uk.

Decision-making process for determining the remuneration policy

Schroders has an established Remuneration Committee consisting of independent non-executive Directors of Schroders plc. The Committee met nine times during 2020. 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 Committee determines the remuneration for the executive Directors, other members of the GMC and the Group Company Secretary, monitors and reviews remuneration for the control function heads and other Material Risk Takers (MRTs), and also provides oversight of the compensation review outcomes for employees more broadly. The Committee determines Directors' remuneration in the context of remuneration across the Group, including financial performance, the total compensation ratio and the remuneration outcomes for the wider workforce. To avoid conflicts of interest, no Director or employee participates in decisions determining their own remuneration.

The Chairman of the Audit and Risk Committee serves on the Remuneration Committee, to ensure the Remuneration Committee is adequately informed of risks facing the Group and the management of those risks. The Committee's Terms of Reference was updated in July 2019 to bring it into greater alignment with the principles and provisions of the UK Corporate Governance Code. The Committee received advice from PricewaterhouseCoopers LLP and McLagan (AON) Limited during the year. The Committee assesses the performance of its external advisers annually, to ensure that the advice provided is independent of any services provided to management. The role and activities of the Committee and their use of advisers are further detailed in the Remuneration report and the Committee's Terms of Reference (both of which are available on the Group's website).

The Remuneration Committee developed the Group's remuneration policy with a number of principles in mind. The overall policy is designed to promote the long-term success of the Group. It is:

- Aligned with clients: A significant proportion of variable remuneration is granted as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. This includes the executive Directors, other members of the GMC and other key employees such as senior fund managers.
- Aligned with shareholders: A significant proportion of variable remuneration is granted in the form of deferred awards over Schroders' shares, thereby aligning the interests of employees and shareholders. In addition, the executive Directors of Schroders plc and other members of the GMC are required, over time, to acquire and retain a holding of Schroders' shares or rights to shares equivalent in value to 300% of annual base salary, or 500% of salary for the Group Chief Executive. On stepping down, the executive Directors are required to maintain the level of shareholding required while they were an executive Director for a period of two years.
- Aligned with financial performance: Total variable compensation is managed as a percentage of pre-bonus profit before tax and exceptional items. The Group targets a 65% ratio of total costs to net income through the market cycle, Within that, the total spend on remuneration is managed as a percentage of net income, the total compensation ratio. These ratios are determined by the Committee and recommended to the Board. This approach aligns remuneration with financial performance.
- Competitive: Employees receive a competitive remuneration package, which is reviewed annually and benchmarked by reference to the external market. This allows the Group to attract and retain the best talent, who know that good performance will be rewarded.

- Designed to encourage retention: Deferred variable remuneration does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of the grant date in order to vest in full.

The Remuneration Committee is satisfied that the Group's remuneration approach is in line with regulatory requirements. Schroders is a Level 3 firm under the PRA Rulebook and FCA Remuneration Code proportionality regimes for CRD.

Material risk taker criteria

The Group's MRTs under CRD are individuals in roles that can materially affect the risk of the Group. Subject to proportionality considerations, the list of individuals reviewed in determining those who are CRD MRTs 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;
- Employees in key control function roles;
- Other employees who the Group deems may have a material impact on the firm's risk profile through their professional activities; and
- Employees who are remunerated at the same levels as senior management and material risk takers identified above, if their role has a material risk impact.

The Schroders CRD MRT population is determined in accordance with technical standards issued by the European Banking Authority 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. In determining whether or not someone who meets the quantitative criteria in the technical standard should be included as a CRD MRT, 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. The identification framework was reviewed by the Heads of Control Functions in 2020 and their input reflected as appropriate.

Link between pay and performance

Employee remuneration, including for CRD MRTs, is comprised of fixed pay and variable performance-related pay. The Remuneration Committee reviews individual fixed pay and variable performance-related pay decisions for all employees deemed to be CRD MRTs.

Fixed pay is principally comprised of salaries or fees. All MRTs receive either a salary (for employees) or fees (for non-executive Directors) that reflects a market competitive rate of pay, taking account of the employee's role and responsibilities, skills and experience and ongoing contribution. Fixed pay also includes appropriate benefits in kind to help recruit and retain talent, reflect local market practice and support employee health and wellbeing. Cash allowances are sometimes paid, typically after a benefit was phased out so cash in lieu was offered to existing employees in exchange. Retirement benefits are also provided to help recruit and retain talent, reflect local market practice and enable and encourage provision for retirement.

Variable performance-related pay is principally comprised of annual bonus awards, which aim to motivate employees to achieve financial, non-financial and personal objectives for the financial year, which are consistent with the Group's strategy and help to reward talent for their individual contribution. 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 the Group's total remuneration expense. It is set by the Board and the Remuneration Committee by reference to two ratios: 1) bonus charge to pre-bonus profit before tax and exceptional items; and 2) total compensation ratio, both of which are reported to shareholders. This ensures that the aggregate spend on variable performance-related pay is directly linked to the Group's performance.

MRTs who are permanent employees are eligible to be considered for an annual bonus award each year. At Schroders, our remuneration policies require that we assess performance when determining remuneration recommendations for individuals. 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. Financial metrics include trends in profit and cost-control, client investment performance, and net new business. Non-financial performance metrics, including adherence to effective risk management and behaviours aligned to Schroders' values form a significant part of the performance assessment that is considered in determining the individual's bonus award. During the annual performance appraisal, line managers assess each employee's behaviours to identify those whose behaviour exemplifies Schroders values – Excellence, Integrity, Innovation, Passion and Teamwork – as well as any employees whose behaviour falls short of the standards that the firm expects.

For our investment teams, a key factor in the assessment of performance is the investment performance of the relevant investment desk, which is assessed over 1, 3 and 5-year periods. Schroders has integrated the assessment of sustainability factors and risk across our managed assets. This means that when we assess the performance of our investment desks we do so having regard to investment performance that is in part derived from ESG-integrated investment processes. ESG integration, coupled with investment performance measured over at least a 5-year period, means that the consideration and management of sustainability factors and risks are a component of our remuneration decisions for our investment teams

The Chief Risk Officer, Global Head of Compliance, Group Head of Internal Audit and the General Counsel provide input to Senior Management and the Remuneration Committee on issues that should be taken into consideration in setting the bonus pool or reviewing individual remuneration outcomes. This provides a further opportunity to reflect attitudes to risk and compliance and behaviours in line with our values in the determination and allocation of the bonus pool and in individual employee performance appraisals and remuneration outcomes. The Group believes that a discretionary incentive approach is preferable to the use of formulaic arrangements, to ensure that good conduct and behaviours in line with our values are rewarded, to avoid reinforcing or creating conflicts of interest and to encourage a one-team attitude. MRTs are subject to enhanced control function oversight of their activities and direct oversight of their remuneration by the Remuneration Committee.

Deferral of incentive awards is a key mechanism to retain talent, primarily through the use of bonus deferrals.

- CRD MRTs who have also been identified as MRTs under the Undertaking for Collective Investment in Transferable Securities (UCITS) or Alternative Investment Fund Managers (AIFM) Directives are subject to the UCITS/AIF MRT remuneration policy. This sees 40%-60% of variable remuneration for each UCITS/AIF MRT being deferred. At least 50% of variable remuneration is delivered as fund awards, applying equally to both the deferred element and the upfront element (i.e. that element that is not deferred). Upfront fund awards are subject to a six month retention period and deferred fund awards to an additional six months deferral period, so they vest over a period of 3.5 years.
- Deferred annual bonus awards for UCITS/AIF MRTs are granted under the Deferred Bonus (Regulatory) structure under the Deferred Award Plan (DAP). This structure aligns the interests of UCITS/AIF MRTs with those of clients and shareholders, provides an incentive for the employee to stay at Schroders and makes it more expensive for competitors to recruit talent from Schroders. Share awards are conditional rights to acquire shares in the Group at nil cost and vest over three years. Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders investment products and vest over 3.5 years. The pay-outs from fund awards are directly determined by the Group's performance in managing funds for our clients. In 2020, deferrals were generally delivered equally between share awards and fund awards, subject to a minimum fund award of £10,000.
- For employees who are not UCITS/AIF MRTs, deferred annual bonus awards are granted under the Deferred Bonus (Standard) Award structure. This structure works in a similar way to the Deferred Bonus (Regulatory) structure but is slightly simplified, as these roles are not subject to the remuneration requirements of the UCITS or AIFM Directives.
- 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 the Deferred Bonus (Standard) awards but vest after five years.
- In March 2020, 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.

In addition to providing retention incentives, a primary purpose of our deferred awards is to support our performance culture where employees recognise the importance of sustainable performance, at the Group, business and individual levels and their responsibilities in delivering value for clients and shareholders over the longer-term.

Under malus terms, deferred remuneration awards may be reduced or lapsed, at the Committee's discretion. Under clawback terms, amounts paid or released from such awards may be recovered for a period of 12 months from the date of payment or release, at the Committee's discretion. These terms can be used to risk-adjust deferred remuneration awards in a range of circumstances, set out in the Group's malus and clawback policy. The potential malus and clawback triggers were designed around the requirements of the UCITS and AIFM Directives and the ESMA Guidelines on remuneration under those directives. The circumstances in which malus and clawback might be triggered include:

- Fraud, misbehaviour or misconduct by the Participant;
- Serious error by the Participant as a result of the Participant's negligent conduct or omission;
- A significant failure of risk management for which the Participant has significant responsibility;
- The Participant failed to meet appropriate standards of fitness or propriety;
- Corporate failure or a significant downturn in financial performance to which the participant's negligent conduct has significantly contributed;

– A material financial misstatement for which the Participant has significant responsibility or which has led to a greater portion of an award being released to the Participant than would otherwise have been the case;

– Receipt of a reduction notice for a buyout award;

– Vesting or settlement based on erroneous or misleading data; and

– A regulatory sanction or serious reputational damage where the conduct or omission of the Participant significantly contributed to the sanction.

Employees including CRD MRTs are not allowed to enter into hedging arrangements that undermine the intended performance alignment of deferred awards.

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

Quantitative remuneration disclosures

363 individuals have been identified as MRTs under the Capital Requirements Directive (2019: 422), of which 69 are classified as Senior Management. The decrease in the number of MRTs compared to last year reflects changes in committee memberships, management structure and reporting lines. There has also been a higher number of leavers than new hires within this population.

Table 13: Total remuneration expenditure for Material Risk Takers split by Senior Management and other Material Risk Takers

2020	Senior Management £'000	Other Material Risk Takers £'000
Fixed remuneration	14,961	60,493
Variable remuneration	46,842	113,955
Total remuneration	**61,803**	**174,448**

2019	Senior Management £'000	Other Material Risk Takers £'000
Fixed remuneration	12,560	74,196
Variable remuneration	46,400	128,360
Total remuneration	**58,960**	**202,556**

Table 14: Aggregate remuneration expenditure for Material Risk Takers by business area

	2020 £'000	2019 £'000
Asset Management	162,613	186,116
Wealth Management	23,311	22,115
Rest of Group	50,327	53,285
Total remuneration	**236,251**	**261,516**

The remuneration disclosed above for each of 2020 and 2019 includes:

– Non-executive Director fees for the year;

– Annual base salaries as at 31 December for the year (or at termination date for leavers);

– Cash bonus awards in respect of the relevant performance year;

– Deferred bonus awards in respect of the relevant performance year, based on the face value at the date of grant;

– Other deferred remuneration awards in the year in which they were granted, based on the face value at grant except for LTIP awards, which are subject to performance conditions that can result in the portion of the award that is ultimately released ranging from 0% to 100% and so the figures above assume 50% vesting;

- The grant date value of any allocations of an entitlement to receive a share in any carried interest earned on certain investment vehicles; and
- Any other awards for new hires and any bonus payments made to leavers.

In addition, MRTs other than non-executive Directors are normally eligible to receive employee benefits, such as private health care and pension, on the same basis as other employees. One of the non-executive Directors of Schroders plc also receives private health care and medical benefits, the value of which is included in the disclosures above.

Appendix 1 Own funds disclosures

Table 15: Own funds

	Common Equity Tier 1 (CET1) capital: Instruments and reserves	2020 £m	2019 £m	Regulation (EU) No 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	406.7	406.7	26(1), 27, 28, 29
2	Retained earnings	3,332.6	3,181.7	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	197.7	133.9	26(1)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	3,937.0	3,722.3	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments	(2.1)	(2.4)	34,105
8	Intangible assets (net of related tax liability)	(1,286.7)	(1,315.4)	36(1)(b), 37
15	Defined-benefit pension fund assets	(137.1)	(113.1)	36(1)(e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments	(159.8)	(169.1)	36(1)(f), 42
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1,585.7)**	**(1,600.0)**	
29	**Common Equity Tier 1 Capital after regulatory adjustments**	**2,351.3**	**2,122.3**	
45	**Tier 1 Capital (T1 = CET1 + AT1) after regulatory adjustments**	**2,351.3**	**2,122.3**	
59	**Total Capital after regulatory adjustments**	**2,351.3**	**2,122.3**	
60	**Total risk weighted assets**	**8,957.6**	**8,485.6**	
	Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure)**	**26.2%**	**25.0%**	**92(2)(a)**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**26.2%**	**25.0%**	**92(2)(b)**
63	**Total capital (as a percentage of total risk exposure amount)**	**26.2%**	**25.0%**	**92(2)(c)**
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)**	**7.09%**	**7.6%**	**CRD 128, 129, 130, 131, 133**
65	**Of which: capital conservation buffer requirement**	**2.50%**	**2.50%**	
66	**Of which: countercyclical buffer requirement**	**0.09%**	**0.64%**	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**18.2%**	**17.0%**	**CRD 128**
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	55.7	55.7	36(1)(h), 46, 45, 56(c), 59, 60, 66(c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	68.4	202.8	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38(3) are met)	76.6	74.7	36(1)(c), 38, 48

Appendix 2 Leverage disclosures

Table 16: Summary reconciliation of accounting assets and leverage ratio exposures

		2020 £m	2019 £m
1	Total assets as per published financial statements	21,673.1	21,266.2
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(12,308.5)	(12,618.4)
4	Adjustments for derivative financial instruments	25.3	31.0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	112.8	41.3
7	Other adjustments	(1,423.9)	(1,428.5)
8	**Leverage ratio total exposure measure**	**8,078.8**	**7,291.6**

Table 17: Leverage ratio common disclosure

		2020 £m	2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	8,504.6	7,968.8
2	Asset amounts deducted in determining Tier 1 capital	(1,423.9)	(1,428.5)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**7,080.7**	**6,540.3**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	31.3	46.7
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	25.3	31.0
11	**Total derivatives exposures (sum of lines 4 to 10)**	**56.6**	**77.7**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	828.7	632.3
16	**Total securities financing transaction exposures (sum lines 12 to 15a)**	**828.7**	**632.3**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	112.8	41.3
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**112.8**	**41.3**
	Capital and total exposure measure		
20	**Tier 1 capital**	**2,351.3**	**2,122.3**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**8,078.8**	**7,291.6**
	Leverage ratio		
22	**Leverage ratio**	**29.1%**	**29.1%**

Table 18: Breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		2020 £m	2019 £m
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**7,080.7**	**6,540.3**
EU-3	Banking book exposures, of which:	7,080.7	6,540.3
EU-5	Exposures treated as sovereigns	1,959.9	1,792.1
EU-7	Institutions	1,302.7	1,262.6
EU-8	Secured by mortgages of immovable properties	160.5	149.1
EU-9	Retail exposures	83.9	41.8
EU-10	Corporate	903.3	812.6
EU-12	Other exposures (e.g. equity)	2,670.4	2,482.1

Appendix 3 Credit risk exposure segmentation

Table 19: Exposure value by geographical areas and exposure classes (£m)

	Net value (£m)										
	United Kingdom	Switzerland	United States	Luxembourg	Germany	Singapore	Japan	Hong Kong	Australia	Other	Total
Central governments or central banks	1,695.1	113.5	66.6	-	-	69.2	-	-	-	-	1,944.4
Regional governments or local authorities	-	24.8	-	-	-	-	-	-	-	-	24.8
Multilateral development banks	-	-	-	-	-	-	-	-	-	70.9	70.9
Institutions	366.7	294.3	76.1	43.2	92.7	53.3	120.7	60.6	25.0	225.8	1,358.4
Corporates	263.0	31.1	170.5	96.5	8.8	12.2	0.3	41.7	13.2	293.2	930.5
Retail	71.5	4.6	0.1	0.1	1.2	0.4	-	0.4	0.4	17.1	95.8
Secured by mortgages on immovable property	114.9	-	-	-	-	-	-	2.9	-	50.9	168.7
Exposures in default	1.7	-	-	-	-	-	-	-	-	-	1.7
Items associated with particular high risk	27.6	28.1	0.4	18.5	-	-	-	-	-	36.7	111.3
Covered bonds	72.1	-	-	-	-	-	-	-	-	10.1	82.2
CIUs	200.2	0.1	52.3	774.5	0.9	-	15.3	0.9	49.6	88.0	1,181.8
Equity	41.5	-	-	-	-	-	-	-	-	-	41.5
Other items	824.7	62.3	97.8	52.9	22.9	62.5	27.9	22.5	13.2	84.0	1,270.7
Total	**3,679.0**	**558.8**	**463.8**	**985.7**	**126.5**	**197.6**	**164.2**	**129.0**	**101.4**	**876.7**	**7,282.7**

Table 20: Net exposures by residual maturity and exposure classes (£m)

	Net value (£m)					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	1,888.8	55.6	-	-	-	1,944.4
Regional governments or local authorities	-	24.8	-	-	-	24.8
Multilateral development banks	-	50.8	20.1	-	-	70.9
Institutions	1,130.4	159.6	19.7	-	48.7	1,358.4
Corporates	-	620.0	169.6	0.2	140.7	930.5
Retail	-	65.5	30.3	-	-	95.8
Secured by mortgages on immovable property	-	48.3	120.4	-	-	168.7
Exposures in default					1.7	1.7
Items associated with particular high risk	-	92.8	-	18.5	-	111.3
Covered bonds	-	20.0	62.2	-	-	82.2
CIUs	-	1,181.8	-	-	-	1,181.8
Equity	-	-	-	-	41.5	41.5
Other items	-	25.6	81.3	65.1	1,098.7	1,270.7
Total	**3,019.2**	**2,344.8**	**503.6**	**83.8**	**1,331.3**	**7,282.7**

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