Schroders

Pillar 3 disclosures as at 31 December 2016

Contents

Overview

Purpose

This document sets out the Pillar 3 disclosures on capital and risk management for the Schroders plc Group (Schroders or the Group) as at 31 December 2016.

This document fulfils the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to collectively as CRD IV. CRD IV has the effect of implementing the international Basel III framework in the European Union (EU). This regulatory framework is supplemented by a number of technical standards issued by the European Banking Authority (EBA) that have been adopted by the Group where relevant. CRD IV applies to all EU financial institutions, except for insurance companies, which are covered under a separate directive.

The capital and risk disclosures required under Pillar 3 are produced annually and published at the same date as the Schroders plc Annual Report and Accounts 2016 (Annual Report and Accounts). Schroders plc has an accounting reference date of 31 December and these disclosures are made for the Group as at 31 December 2016. These disclosures 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 capital position and requirements

The capital ratios are calculated as the relevant regulatory capital divided by the total risk exposure.

Under CRD IV, institutions are required to meet the following own funds requirements: a common equity Tier 1 (CET 1) capital ratio of 4.5%, a Tier 1 (T1) capital ratio of 6% and a total capital ratio of 8%. The Group's total regulatory capital consists entirely of common equity tier 1 capital which is used to meet all of these requirements. The Group's key regulatory metrics are shown below.

	Total regulatory capital £m	Total risk exposure £m	Capital ratios[1] %
2016	2,265.1	6,574.6	34.5
2015	2,067.0	5,349.1	38.6

[1] The Group's Capital is made up entirely of CET1 capital and the CET1, Tier 1 and Total capital ratios are all the same.

The tables below show the Group's capital requirement by risk exposure.

Risk weighted exposures	2016 £m	2015 £m
Credit risk	3,358.8	2,328.6
Market risk	97.4	85.0
Operational risk	3,111.2	2,932.6
Credit valuation adjustment	7.2	2.9
Total	**6,574.6**	**5,349.1**

Capital required	2016 £m	2015 £m
Credit risk	268.7	186.3
Market risk	7.8	6.8
Operational risk	248.9	234.6
Credit valuation adjustment	0.6	0.2
Total	**526.0**	**427.9**

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

Regulatory framework

Regulatory supervision

The Group is supervised on a consolidated basis in the United Kingdom. The Group includes a subsidiary with a UK banking licence so the lead regulator is the Prudential Regulation Authority (PRA). The PRA receives information on the capital adequacy of the Group as a whole and sets capital requirements. Certain subsidiaries are directly regulated by their local supervisors including the Financial Conduct Authority for specific UK subsidiaries, who set and monitor the local capital adequacy requirements.

Regulatory framework

The Group's regulatory capital is assessed under the Basel Committee's framework which comprises three pillars:

– Pillar 1 sets rule-based minimum capital standards;

– Pillar 2 sets requirements for supervisory review and the setting of individual capital requirements for firms, taking into consideration the firm's own assessment of capital requirements; and

– Pillar 3 sets disclosure requirements.

The aim of Pillar 3 is to produce disclosures which allow market participants to assess the capital position, risk exposures, risk management processes, and hence capital adequacy of financial institutions under Pillar 1. Pillar 3 disclosures are required to include all material risks, enabling a comprehensive view of the Group's risk profile.

Basis of consolidation

The Pillar 3 disclosures presented in this document relate to the Group consolidated on a regulatory basis. Information about the Group's subsidiaries, including the regulated entities, is provided in note 39 of the Annual Report and Accounts.

The regulatory basis of consolidation differs from the accounting basis of consolidation because it excludes the Group's insurance entities; Schroder Pension Management Limited and Burnaby Insurance (Guernsey) Limited. Insurance entities are subject to a separate regulatory framework and are therefore outside the scope of CRD IV. The Group's insurance entities are, however, included in the Group's overall risk management framework.

Table 1: Reconciliation of accounting balance sheet to regulatory balance sheet

	31 December 2016 (audited) £m	Deconsolidation of the insurance related subsidiaries £m	Regulatory balance sheet £m
Assets			
Cash and cash equivalents	3,318.9	(6.2)	3,312.7
Trade and other receivables	648.2	(31.9)	616.3
Financial assets	3,105.0	(35.8)	3,069.2
Associates and joint ventures	125.0	-	125.0
Capital invested in insurance entities	-	38.8	38.8
Property, plant and equipment	66.4	-	66.4
Goodwill and intangible assets	607.1	-	607.1
Deferred tax	66.0	-	66.0
Retirements benefit scheme surplus	118.2	-	118.2
Assets backing unit-linked liabilities	**12,927.6**	**(12,927.6)**	**-**
Total assets	**20,982.4**	**(12,962.7)**	**8,019.7**
Liabilities			
Trade and other payables	883.3	(13.9)	869.4
Financial liabilities	3,902.0	-	3,902.0
Current tax	71.8	(0.6)	71.2
Provisions	33.1	-	33.1
Deferred tax	0.2	-	0.2
Retirement benefit scheme deficits	11.6	-	11.6
Unit-linked liabilities	**12,927.6**	**(12,927.6)**	**-**
Total liabilities	**17,829.6**	**(12,942.1)**	**4,887.5**
Net assets	**3,152.8**	**(20.6)**	**3,132.2**
Equity	**3,152.8**	**(20.6)**	**3,132.2**

Risk management framework

Risk management

The Group is exposed to a variety of risks as a result of its business activities. As such, active and effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. The Group places significant focus on the integrity and good conduct of staff and the risk management framework is underpinned by a strong ethical culture. Schroder plc's credit rating of A+ from Fitch reflects this strong and conservative risk culture.

The Group has a diversified business, a strong capital position and is cash generative. The key risks to which the Group is exposed are summarised below together with an overview of the relevant capital considerations. Further detailed information about the Group's key risks and mitigations is provided on pages 36 to 43 of the Annual Report and Accounts.

Strategic risks

The Group's key strategic risks are captured in the following categories:

– Changing investor requirements;

– Low investment return environment;

– Fee attrition;

– Regulatory landscape;

– Business model disruption.

Strategic risks are taken into consideration when assessing capital requirements in respect of business risk, credit risk, market risk, liquidity risk and operational risk.

Further detail on how the Group manages this risk can be found in the Annual Report and Accounts on page 39.

Business risks

The Group's key business risks are identified as:

– Reputational risk;

– Investment performance risk;

– Product risk;

– Business concentration risk.

We are not required to hold regulatory capital against these risks. The Group's approach to managing these risks is detailed on page 40 of the Annual Report and Accounts.

Credit risk

The Group's approach to credit risk management is set out on page 10 of this report.

Market risk

The Group's approach to market risk management is set out on page 15 of this report.

Liquidity risk

The Group's approach to liquidity risk management is set out on page 18 of this report.

Risk of insufficient capital

Maintaining a strong capital base is important to our business and is a core part of our strategy. The risk of insufficient capital would arise if the Group was unable to support its strategic business objectives beyond its minimum regulatory capital requirements. The Group sets and maintains a prudent level of capital, which includes a buffer over the minimum regulatory capital requirement that allows us to effectively conduct our business in the markets in which we operate and to invest in new business opportunities that may arise. This Pillar 3 document outlines the Group's capital position with reference to the minimum requirements with which we are required to comply.

Operational risk

The Group is exposed to a number of key operational risks:

- Conduct and regulatory risk;
- Legal risk;
- Tax risk;
- Process and change risk;
- Fraud risk;
- Technology and information security risk;
- People and employment practices risk; and
- Third-party service provider risk.

The Group's approach to operational risk management is set out on page 17 of this report.

Overall approach to risk management

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

- The Board is accountable for risk and the oversight of the risk management process. Authority to manage the business is delegated to the Group Chief Executive;
- The Group Chief Executive delegates the executive oversight of risk to the Chief Financial Officer (CFO);
- The Chief Financial Officer is responsible for the risk and control framework of the Group and independent monitoring and reporting of risk and controls is supported by the Group Head of Risk;
- 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) reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits and supports the CFO and the GMC in discharging their risk management responsibilities; and
- The key issues covered by the GRC are included in the reports provided regularly to the Audit and Risk Committee, a committee of the Board.

It is the responsibility of all employees to uphold the control culture of Schroders and we therefore embed risk management within all areas of the business as part of our three lines of defence framework. The first line of defence is the business functions themselves and respective line managers across Investment, Product, Distribution, Wealth Management and Infrastructure. Line management is supplemented by control and oversight functions; Group Risk, Compliance, Legal and Governance, Finance and Human Resources, who form the second line of defence. Group Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence.

The Annual Report and Accounts include further information in respect of the Group's risk management framework and governance structure on page 52.

Pillar 2 and ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is the means by which the Group assesses the level of capital (Pillar 2) that adequately supports all of the relevant current and future risks in its business. The ICAAP focuses on the principal risks to the consolidated financial position and examines each risk category to identify exposures that could put the Group's 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 is informed by scenario analysis which is used to determine the level of capital required for severe but plausible events. Risk and control assessments (RCAs) are completed by each business area to identify and assess their operational risks and controls and the outputs support the scenario analysis along with other information such as internal and external risk events.

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 our business or the environment in which we operate. The ICAAP assesses the capital required to meet unexpected losses calculated at a confidence level specified by the Board.

The Group operates on-going processes to identify and assess risks that are less easy to quantify such as reputational, conduct, regulatory and legal risks. In addition, internal and external environments are monitored to identify new and emerging risks, including geopolitical events, cyber risk and terrorism. These processes are overseen by the GRC and GMC.

Risk mitigation

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

Stress testing

Stress testing is an important element of the Group's planning and risk management processes, helping us to identify, analyse and manage risks within our business. Capital planning forms part of the ICAAP and a range of stress tests and scenario analysis are used to estimate the impact of stress events on capital resources and regulatory capital requirements. In addition, stress testing is conducted for the Individual Liquidity Adequacy Assessment Process (ILAAP), and supports the Recovery Plan and reverse stress test scenarios. Together with the Group's five year profits forecast, capital and liquidity stress tests support the Group's Viability Statement (see page 37 of the Annual Report and Accounts).

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 36.

Further information on risk management and governance

The Annual Report and Accounts include further detailed information in respect of the Group's risk management framework.

Capital management and regulatory own funds

Capital management

The Group aims to maintain a strong financial position to support the long-term future of the business and takes a long-term view in its strategic and operational planning.

The Group's capital comprises Operating capital, Investment capital, Seed capital and other items.

	2016 £m	2015 £m
Operating capital	**879**	**906**
Investment capital	1,059	942
Seed capital	325	229
Other items	890	719
Total capital	**3,153**	**2,796**

Operating capital is the capital required to meet regulatory and working capital requirements. Each subsidiary manages its own operating capital with consideration of local regulatory capital requirements, the economic and commercial environment and other relevant considerations. Capital generated by subsidiaries in excess of their individual operating capital requirement is returned to the Group by way of dividends and managed as part of the Group's investment capital. The ability of companies to pay dividends is dependent on their local regulatory capital requirements, statutory reserves, financial and operating performance and strategic plans. In addition, where appropriate, the liquid resources of individual subsidiaries are also managed centrally by Group Treasury.

Investment capital represents shareholders' investible equity and is used to support strategic investments. Investment capital is managed by the Group Capital Committee and Group Treasury with the objective of achieving an appropriate return with low volatility. It is mainly held in government and government-guaranteed bonds, investment grade corporate bonds and Schroders' funds.

Seed capital represents capital invested to support new investment strategies, co-invest selectively alongside our clients and finance growth opportunities. Seed capital is deployed principally to support the growth of Asset Management and, where practical, the market risk on seed capital investments is hedged. Surplus capital is deployed in accordance with limits approved by the Board.

Other items comprise assets that are not investible or generally available to support the Group's operating activities. Other items include assets that are actually or potentially inadmissible for regulatory capital purposes, such as goodwill, intangible assets, pension surplus, associates and joint ventures and deferred tax.

Regulatory own funds

Regulatory capital is categorised as either tier 1 or tier 2 depending on the characteristics of the capital items. Certain capital deductions and regulatory adjustments are made against these capital items reflecting the different regulatory treatment for capital adequacy purposes. Capital deductions include deductions for goodwill, intangible assets and the defined benefit pension surplus. Regulatory adjustments are required where certain thresholds are exceeded including adjustments for deferred tax assets and holdings of tier 1 instruments of financial sector entities. The Group capital after capital deductions and regulatory adjustments represents the Group's regulatory own funds for capital adequacy purposes.

The composition of Schroders' regulatory capital is shown in Table 2 and the own funds disclosure template as required in Commission Implementing Regulation (EU) No 1423/2013 is presented in Appendix I.

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 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.

Schroders regulatory capital consists entirely of CET1 capital. The Group's CET1 capital consists of two classes of shares: ordinary shares; and non-voting ordinary shares. 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.

Regulatory adjustments

Certain deductions are required to be made to capital in determining the Group's total regulatory capital. In calculating CET1 capital as at 31 December 2016, deductions have been made for the Group's intangible assets of £592.2 million (including £454.9 million of goodwill), primarily relating to the acquisition of Cazenove Capital in 2013, the Group defined benefit pension surplus of £98.1 million and its' own shares held to hedge employee share schemes of £163.6 million.

Table 2: Composition of regulatory capital

	2016 £m	2015 £m
Equity per the regulatory balance sheet[1]	3,132.2	2,777.6
Direct and indirect holdings by an institution of own CET1 instruments[2]	163.6	175.5
Adjustment for foreseeable dividends	(174.7)	(158.0)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**3,121.1**	**2,795.1**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(592.2)	(456.6)
Direct and indirect holdings by an institution of own CET1 instruments	(163.6)	(175.5)
Defined-benefit pension fund assets (net of related tax liability)	(98.1)	(94.6)
Additional value adjustments	(2.1)	(1.4)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(856.0)**	**(728.1)**
Total Common Equity Tier 1 Capital	**2,265.1**	**2,067.0**
Total Capital	**2,265.1**	**2,067.0**

[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.

Capital resource requirements

Throughout 2016 the Group, and all regulated entities within the Group, including those excluded from the regulatory consolidation, complied at all times with all externally imposed regulatory capital requirements.

The Group's Pillar 1 capital requirement is calculated as the total of the credit risk, market risk, operational risk and the credit valuation adjustment requirements as set out in CRD IV. The table below summarises the Group's Pillar 1 capital resource requirement by risk area.

Table 3: Total consolidated capital resources requirement of the Group under Pillar 1

	2016 £m	2015 £m
Credit risk		
Central governments or central banks	-	-
Institutions	45.1	40.6
Corporates	144.3	102.9
Retail	1.1	0.5
Secured by mortgages on immovable property	4.8	5.2
Items associated with particular high risk[1]	4.3	3.9
Other items[2]	69.1	33.2
Total credit risk capital requirement	**268.7**	**186.3**
Market risk		
In respect of foreign exchange	7.8	6.8
Total market risk capital requirement	**7.8**	**6.8**
Operational risk		
Calculated in accordance with the Standardised approach	248.9	234.6
Total operational risk capital requirement	**248.9**	**234.6**
Credit valuation adjustment		
Calculated in accordance with the Standardised approach	0.6	0.2
Total credit valuation capital requirement	**0.6**	**0.2**
Total Pillar 1 capital requirement	**526.0**	**427.9**

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

The Group meets each of the total Pillar 1 capital requirements out of CET1. Alongside the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be drawn down in times of economic stress to absorb losses.

Regulatory buffers

As at 31 December 2016 the Group was required to hold a capital conservation buffer of 0.625% of risk weighted assets. 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 capital conservation buffer is subject to phased implementation and will increase each year in steps of 0.625% until it reaches 2.5% of risk weighted assets.

The Group is not required to hold capital in relation to the institution specific systemic risk buffer or globally systemically important institutions buffer.

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 capital resources and 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 capital divided by exposures which 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 2016 Schroders leverage ratio was 31% (2015: 33%). The leverage disclosure templates required by Commission Implementing Regulation (EU) No 2016/200 are presented in Appendix II.

Credit risk

Overview

Credit risk is the exposure to loss arising from a counterparty's failure to meet its contractual obligations, either as a result of business failure or intentional withholding of amounts due. The Group is exposed to credit risk in relation to its 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 including balances subject to settlement risk, derivatives arising from interest rate and market risk management.

Credit risk management

The Group employs a range of techniques to assess credit risk both in terms of counterparties and the lending activities within the Wealth Management business.

The Group has policies in place and sets appropriate limits for both our principal and agency counterparties taking into consideration both the large exposure requirements and where appropriate the use of External Credit Assessment Institutions (ECAI) supplemented by internal assessments. The creditworthiness of the counterparties is monitored regularly, as is usage against the relevant credit limits. We seek to diversify our exposure across different counterparties.

In Wealth Management, we seek to mitigate credit risk within lending activities through collateralisation, where appropriate collateral takes the form of cash, portfolio investments or real estate. Client portfolios held as collateral are marked to market daily and compared to the outstanding loan balance. Other assets, such as Real Estate are valued less frequently but in accordance with the requirements of CRR article 208.

Wealth Management credit risk is monitored and managed against internally set limits, including consideration of capital.

Credit risk measurement

Schroders has elected to adopt the standardised approach to credit risk. Under the standardised approach, a credit risk capital requirement is calculated as 8% of the Group's total risk weighted exposures. The calculation requires the Group to first determine the total credit risk exposures and then apply a risk weighting to calculate the total risk weighted exposure.

Calculating the credit risk exposure

The Group's fully adjusted credit risk exposure is calculated based on the accounting value of the relevant instruments adjusted for regulatory adjustments, the effect of funded credit protection on reverse repurchase agreements and value adjustments for credit losses made in accordance with IFRS together with an add-on for the potential future exposure of derivatives. Off-balance sheet exposures are also considered and where relevant these exposures are included within the overall credit risk exposure through the use of credit conversion factors (CCFs).

The table below shows the Group's total credit risk exposure by asset class.

Table 4: Fully adjusted credit risk exposure value

	Regulatory balance sheet[1]	Regulatory Adjustments	Effect of funded credit protection on reverse repurchase agreements	Off balance sheet items post CCFs	Derivative add-on	2016 Exposure value
	£m	£m	£m	£m	£m	£m
Assets						
Cash and cash equivalents	3,312.7	-	(376.5)	-	-	2,936.2
Trade and other receivables	616.3	-	-	-	-	616.3
Financial assets	3,069.2	-	(97.5)	17.8	12.7	3,002.2
Associates and joint ventures	125.0	-	-	-	-	125.0
Insurance entity capital	38.8	-	-	-	-	38.8
Property, plant and equipment	66.4	-	-	-	-	66.4
Goodwill and intangible assets	607.1	(607.1)	-	-	-	-
Deferred tax	66.0	35.0	-	-	-	101.0
Retirements benefit scheme surplus	118.2	(118.2)	-	-	-	-
Total assets	**8,019.7**	**(690.3)**	**(474.0)**	**17.8**	**12.7**	**6,885.9**

[1]Approaches to assessing potential credit risk adjustments past due and impaired financial assets are detailed in appendix III to this document.

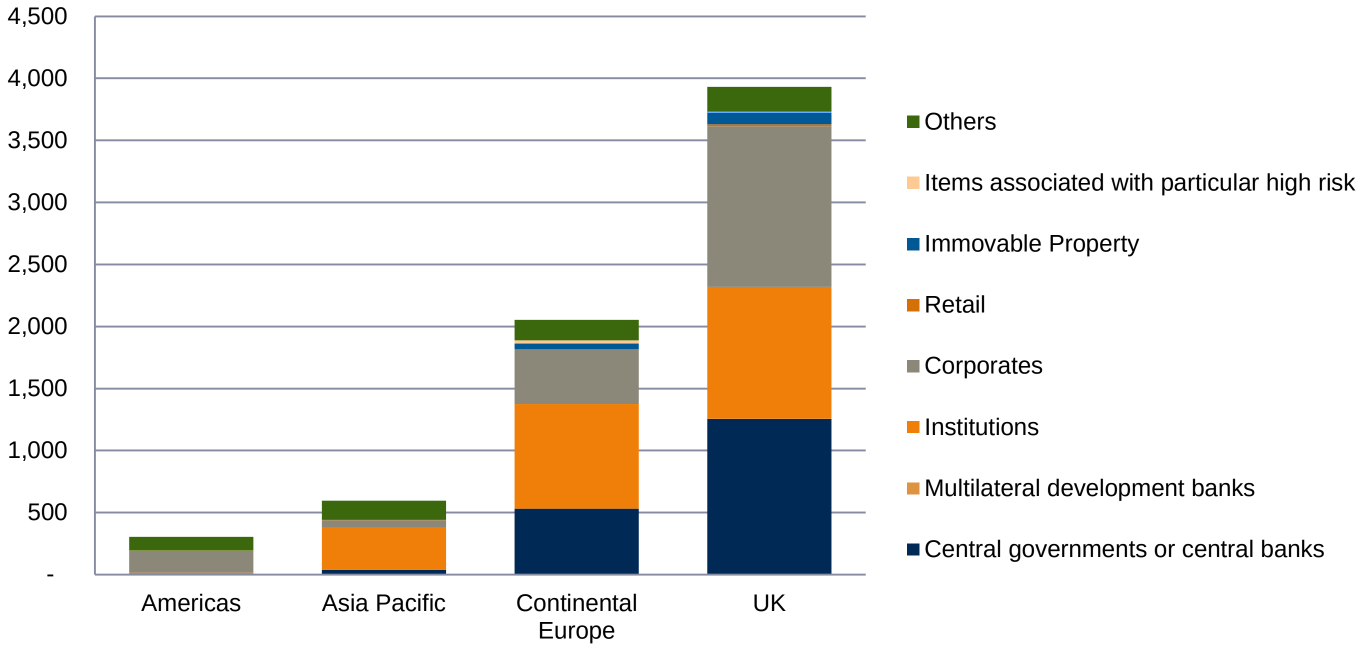
Each exposure is assigned to an exposure class as defined in article 112 of the CRR and set out in the table below.

Table 5: Exposure value per table 4 analysed by exposure class

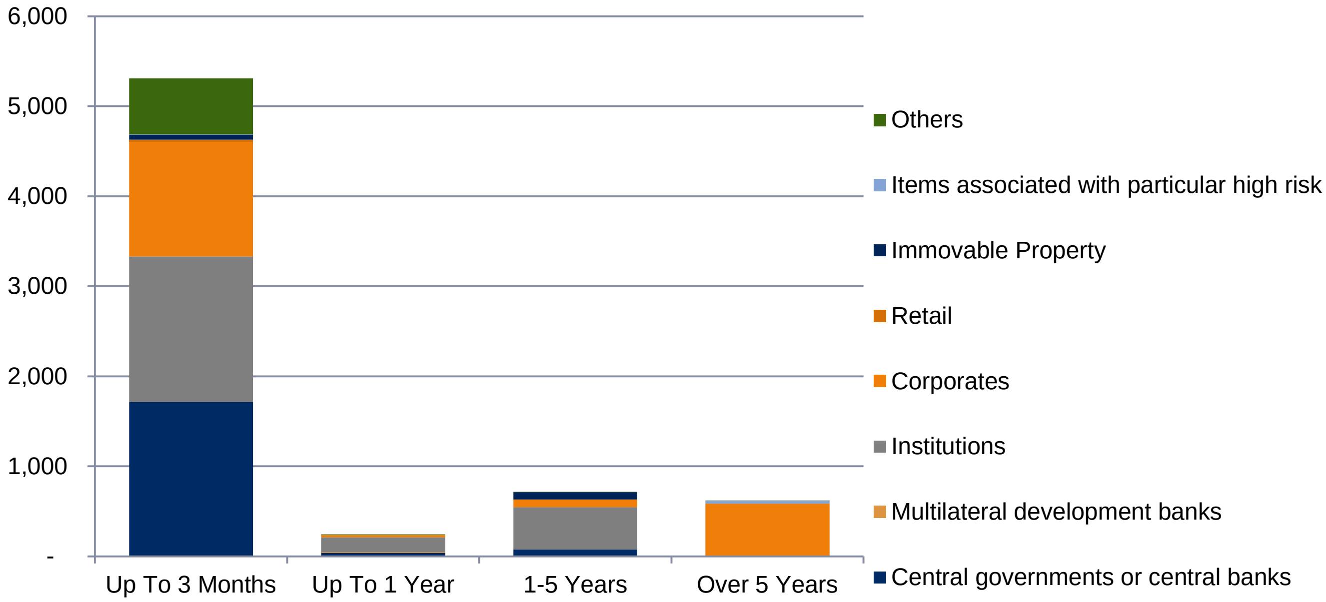
	2016 Exposure value £m	2015 Exposure value £m
Central governments or central banks	1,828.6	1,648.8
Multilateral development banks	4.4	18.0
Institutions	2,252.0	2,349.7
Corporates	1,975.6	1,534.3
Retail	19.4	8.6
Secured by mortgages on immovable property	138.7	147.0
Items associated with particular high risk	35.6	32.3
Other items	631.6	450.6
Total exposure value	**6,885.9**	**6,189.3**

Further detail in relation to the Group's credit risk exposure by geographic region, counterparty type and residual maturity is provided below.

Graph 1: Exposure by counterparty and geographic distribution (£m)



Graph 2: Exposure by counterparty and residual maturity (£m)



Calculating the risk weighted exposure

The Group's risk-weighted exposure is calculated by applying risk weightings to the credit exposures per table 5 after applying credit risk mitigation on the exposure.

The Group applies credit risk mitigation techniques mainly consisting of financial and non-financial collateral to mitigate credit risks to which it is exposed.

The Group has detailed policies in place to ensure that credit risk mitigation is appropriately recognised and recorded. The recognition of credit risk mitigation is subject to a number of considerations, including ensuring the legal certainty of enforceability and effectiveness, ensuring the valuation and liquidity of the collateral is adequately monitored and ensuring the value of the collateral is not materially correlated with the credit quality of the counterparty, using the credit quality assessment scale that is set out in Title 2 Chapter 2 Section 3 of the CRR ("Use of ECAIs").

The main types of collateral taken by the Group are:

- Financial collateral including cash and client portfolios to support client lending. Bonds are held to collateralise reverse re-purchase agreements (Reverse Repos). Financial collateral is marked to market at least daily and compared to loans and Reverse Repos 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).

The risk weight is based on the exposure class to which the exposure is assigned and the credit quality of the relevant counterparty. The Group assesses the credit quality of its counterparties with reference to credit assessments conducted by ECAI's. The ECAI used by the Group is Fitch. Fitch ratings are recognised as an eligible ECAI by the PRA and are used to assess the credit quality of all exposures, where available. If a Fitch rating is unavailable, a rating from an alternative ECAI is used, which may include Moody's or Standard & Poor's.

Each exposure is mapped to one of six credit quality steps based on its credit rating. A risk weighted percentage is then applied to the exposure based on the credit quality step, exposure class and maturity. The risk weighted percentage applied is specified in Title 2 Chapter 2 of the CRR. Where no credit rating can be obtained from an endorsed ECAI the exposure is categorised as unrated. Unrated exposures are risk weighted based on exposure class and include loans to individuals, seed capital, equity investments, trade and other receivables, tax balances and fixed assets.

Table 6: Risk-weighted assets by exposure class

£m	Exposure after credit risk mitigation									2016
	Risk weights									
	0%	20%	35%	50%	75%	100%	150%	250%	other	Total risk weighted assets
Central governments or central banks	1,828.6	-	-	-	-	-	-	-	-	-
Multilateral development banks	4.4	-	-	-	-	-	-	-	-	-
Institutions		1,901.9	-	334.4	-	15.7	-	-	-	563.3
Corporates	75.0	46.2	-	118.9	-	1,735.5	-	-	-	1,804.2
Retail	-	-	-	-	19.4	-	-	-	-	14.6
Secured by mortgages on immovable property	-	-	114.2	-	-	17.9	-		6.6	60.4
Items associated with particular high risk	-	-	-	-	-	-	35.6	-	-	53.4
Other items	163.4	-	-	-	-	204.6	-	263.6	-	863.6
Total	**2,071.4**	**1,948.1**	**114.2**	**453.3**	**19.4**	**1,973.7**	**35.6**	**263.6**	**6.6**	**3,359.5**

Calculating the risk weighted exposure with small medium enterprise supporting factor

A small medium enterprise (SME) supporting factor as defined in article 501 of the CRR is applied to certain exposures with the aim to provide adequate flow of credit to SMEs. This has the effect of reducing risk weighted assets in the retail category.

Table 7: Risk-weighted assets by exposure class

	2016 Risk weighted assets (with SME factor) £m	2015 Risk weighted assets (with SME factor) £m
Central governments or central banks	-	0.7
Multilateral development banks	-	-
Institutions	563.3	508.0
Corporates	1,804.2	1,285.7
Retail	13.9	6.2
Secured by mortgages on immovable property	60.4	64.5
Items associated with particular high risk	53.4	48.4
Other items	863.6	415.1
Total risk weighted exposure amount (with SME supporting factor)	**3,358.8**	**2,328.6**
Total credit risk capital requirement	**268.7**	**186.3**

Market risk

Overview

Market risk is the risk that market movements, including foreign exchange rates, interest rates, equity prices, credit spreads and commodity prices, cause a reduction in the Group's equity or otherwise reduce the Group's profits. The Group's primary exposures to market risk arise from holdings of principal investments; foreign currency positions as a result of overseas operations; and certain off balance sheet items. 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 assets under management and administration. This second order exposure does not give rise to a capital requirement.

Market risk management

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

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

Foreign exchange position risk

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 transactional foreign exchange by converting foreign currency position to the functional currency of the transacting entity as soon as practical. Certain investments within the investment capital and seed capital portfolios are held in currencies other than sterling and these are hedged where appropriate.

The Group is exposed to structural foreign exchange risk as a result of its net investment in overseas subsidiaries and branches which contribute to its capital resources. These investments are recorded 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 exposures to translational foreign exchange by returning surplus capital to the ultimate parent of the Group as soon as practical.

Market risk measurement

The Group calculates its own funds requirement for market risk in accordance with 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 or to hedge positions held with trading intent, except for certain positions within the Wealth Management business held to facilitate client participation. Financial instruments that make up the Group's investment capital and seed capital are considered to be non-trading as they are not managed on a short term basis and do not form a trading book. We apply a range of value at risk methodologies to assess the profile of the non-trading book. Consequently, the Group's trading book is small.

Non-trading positions, in addition to the Group's investment capital and seed capital, consist of financial assets within the Group's operating capital that are held to meet the operational, regulatory and liquidity needs of our operating entities around the world. Operating capital in the Wealth Management business includes the financial assets that support the Group's banking book.

As the Group's trading book is small, the Group applies the derogation allowed under article 94 of the CRR. The Group is therefore not required to calculate an own funds requirement based on the equity position risk of its trading book. The exposures arising as a result of the Group's limited trading activities are considered as part of the Group's credit risk exposure along with other non-trading exposures. The Group's own fund requirement for market risk required under article 92 of the CRR is therefore calculated based on the Group's exposure to foreign exchange risk, settlement risk and commodities risk. The Group applies the standard rules to determine its own funds requirement for these exposures.

Foreign exchange position risk measurement

The Group considers article 352 of the CRR when calculating its overall net foreign exchange position. The net open positions in each currency are assessed to determine an overall net foreign exchange position, which is then multiplied by 8% to calculate the Group's own funds requirement.

Table 8: Foreign exchange positions subject to capital charge

	2016 £m	2015 £m
Long position subject to capital charge	97.4	85.0
Market risk capital requirement	**7.8**	**6.8**

Operational risk

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk arises in our investment and banking activities, distribution activities, product development and in our IT and operational infrastructure.

Operational risks include:

– Conduct and regulatory risk;

– Legal risk;

– Tax risk;

– Process risk;

– Fraud risk;

– Technology and information security risk; and

– People and employment practices risk.

Operational risk is a significant risk for the Group, and makes up 47% (2015: 55%) of the total capital requirement.

Operational risk management

Line management is responsible for operational risk controls throughout the Group's business and for promoting and overseeing high standards of conduct in accordance with our values and conduct framework.

The operational risk framework requires risk and control assessments (RCAs) 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 to mitigate and monitor risks and controls. Group Risk oversee the completion of RCAs and report to the 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 pages 42 to 43.

Operational risk measurement

Schroders has adopted the standardised approach to calculating the Pillar 1 capital requirements for operational risk. Under the standardised approach institutions calculate an average relevant indicator over the past three years. The Group's relevant indicator is based on revenues, including the sum of interest receivable and similar income, interest payable and similar charges, income from shares and other variable/fixed-yield securities, commissions/fees receivable, commissions/fees payable and other operating income. The relevant indicator is divided into certain business lines, each with a relevant beta factor ranging from 12% to 15%. The average of the relevant indicators over the past three years, for each business line is then multiplied by the relevant beta factor to give an operational risk capital requirement.

Table 9: Calculation of the relevant indicator and own fund requirement

Relevant indicator elements	2016 £m	2015 £m	2014 £m	Average £m
Fee income	2,113.3	2,015.9	1,898.7	2,009.3
Net banking interest income	20.6	15.5	14.6	16.9
Net gains on financial instruments and other income	38.6	23.9	36.0	32.8
Net finance income	18.8	12.7	10.5	14.0
Total relevant indicator	**2,191.3**	**2,068.0**	**1,959.8**	**2,073.0**
Operational risk capital requirement	**248.9**	**234.6**		

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 10, Financial Assets, within the Annual Report and Accounts. An overview of how capital is managed, and with what objectives, can be found within note 19 of the Annual Report and Accounts.

The balance sheet value of non-trading book equities held as at 31 December 2016 was £655.3m based on the regulatory consolidation. This reflects investments held for the purposes shown below.

Table 10: Analysis of the balance sheet value and fair value of non-trading book equities

	2016			2015		
	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
Seed capital and hedge funds	221.4	14.2	235.6	76.2	9.8	86.0
Private equity investments	16.3	16.5	32.8	18.7	12.6	31.3
Property funds	-	3.4	3.4	-	3.3	3.3
Others	383.5	-	383.5	453.3	0.8	454.1
Total	**621.2**	**34.1**	**655.3**	**548.2**	**26.5**	**574.7**

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 the use of stress tests which consider the impact of possible alternative assumptions on the valuation of the Scheme liabilities as well as consideration of stresses on asset values. Stress tests are performed in line with the PRA's Supervisory Statement PS17/15, dated July 2015, and the PRA Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital'. The pension obligation risk capital requirement is an add-on to the Group's minimum capital requirement.

Liquidity risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Group carries out an Internal Liquidity Adequacy Assessment Process on a consolidated basis including its subsidiaries. The Group holds liquidity resources to meet expected obligations as they fall due, both under normal conditions and severe yet plausible potential stresses. The Group uses a range of liquidity risk assessments and stress tests to assess its ability to meet its obligations as they fall due. The Group's liquidity stress tests are in addition to the stress tests that are applied by each of the Wealth Management entities in assessing their own individual liquidity. Procedures and controls are also in place, which seek to ensure that funds managed by the Group and other client investments are suitably liquid.

Interest rate risk

Interest rate risk is the exposure of the Group's balance sheet to adverse movements in interest rates, i.e. the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market interest rates. The largest exposure to interest rate risk that the Group faces is to duration risk that arises from timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities and off-balance sheet positions. The sensitivities to interest rate risk analysed by currency for a 0.5% increase in interest rates as at 31 December 2016 and 0.75% increase in interest rates as at 31 December 2015 is shown in table 11.

Table 11: Interest rate sensitivity: analysis by currency of increase in interest rates

	2016 £m	2015 £m
GBP	2.1	3.0
EUR	0.5	0.7
USD	0.2	0.1
Others	1.5	1.3
Total	**4.3**	**5.1**

Asset encumbrance

Certain of the Group's assets are encumbered by way of commitments, guarantees or other charges. Further details of the Group's encumbered assets are provided in appendix IV to this document.

Remuneration disclosures

The following disclosures are required under the Capital Requirements Regulation (CRR) Part 8 (article 450).

These disclosures should be read in conjunction with the Remuneration report on pages 68 to 96 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 six times during 2016. 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 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 proportion of key employees' variable remuneration is deferred and delivered as Fund Awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients.

– Aligned with shareholders: A significant proportion of variable remuneration is deferred and delivered 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. If shareholders approve the proposed new Directors' remuneration policy then this will increase to 500% of salary for the Group Chief Executive and after stepping down all executive Directors will be required for a period of two years to maintain half the level of shareholding required while they were an executive Director.

– Aligned with financial performance: Total variable compensation is managed as a percentage of pre-bonus profit before tax and exceptional items, determined by the Remuneration Committee and recommended to the Board. The total spend on compensation is managed as a percentage of net income. This approach aligns compensation with financial performance.

– Designed to encourage retention: Deferred variable compensation 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 grant in order for the award to vest in full.

– Competitive: Employees receive a competitive compensation and benefits package, which is reviewed annually and benchmarked by reference to the external market. It allows us to attract and retain the best talent, who know that good performance will be rewarded.

The Remuneration Committee reviewed the Remuneration Part of the PRA Rulebook and the FCA's Remuneration Codes, along with regulatory guidance on remuneration deferrals, clawbacks, recruitment and retention awards and restrictions to prevent employees hedging deferred remuneration outcomes, and is satisfied that the Group's approach is in line with regulatory requirements. Schroders is a Level 3 firm under the PRA Rulebook and FCA Remuneration Code proportionality regimes. Individual pay and bonus decisions were reviewed for all employees deemed to be CRD Material Risk Takers.

Material risk taker criteria

The Group's Material Risk Takers under the Capital Requirements Directive (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 Material Risk Takers 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 Material Risk Taker population has been 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 Material Risk Taker, 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 approach taken was submitted jointly to the PRA and FCA and regulatory approval is still pending.

Link between pay and performance

Employee remuneration is comprised of fixed pay and variable performance-related pay.

Fixed pay is principally comprised of salaries or fees. All Material Risk Takers 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 to 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 helps 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.

Material Risk Takers 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. We believe 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.

Deferral of incentive awards is a key mechanism to retain talent, primarily through the use of the Equity Compensation Plan (ECP) for bonus deferrals. For senior management and employees receiving larger bonus awards, a significant proportion of their annual bonus award is deferred under the ECP. The ECP aligns the interests of employees with those of shareholders and clients, provides an incentive for the employee to stay at Schroders and makes it more expensive for competitors to recruit talent from Schroders. ECP awards vest over three years. ECP Share awards are conditional rights to acquire shares in the Group 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 Schroders investment products. The pay-outs from ECP Fund Awards are directly determined by the Group's performance in managing funds for our clients. In 2016, deferrals were generally delivered equally between ECP Share awards and ECP Fund awards, subject to a minimum Fund Award of £10,000. 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 2016, 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 (ECP 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.

Deferred remuneration awards made under the ECP since May 2011, EIP awards made since October 2013 and LTIP awards made at any time may be reduced or lapsed in the event of a material misstatement of the Group's financial results or individual misconduct, under 'malus' terms. Amounts that have been paid or released from ECP, EIP or LTIP awards made since October 2013 may be recovered for a period of 12 months from the date of payment or release in the event of individual misconduct, under 'clawback' terms. For the executive Directors, similar clawback terms also apply to any cash bonus award, for 12 months from the date of payment. Employees including CRD Material Risk Takers 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

290 individuals have been identified as Material Risk Takers, of which 25 are classified as Senior Management. The significant increase in the number of Material Risk Takers compared to last year reflects changes in the approach to identifying Material Risk Takers, following regulatory engagement during 2016.

Table 12: Total remuneration expenditure for Material Risk Takers split by Senior Management and other Material Risk Takers

	Senior Management (£'000)	Other Material Risk Takers (£'000)
Fixed Remuneration	6,291	53,702
Variable Remuneration	30,707	138,885
Total Remuneration	**36,998**	**192,587**

Table 13: Aggregate remuneration expenditure for Material Risk Takers by business area

Asset Management (£'000)	Wealth Management (£'000)	Rest of Group (£'000)
167,175	**14,769**	**47,641**

The remuneration disclosed above includes:

- Non-executive Director fees for 2016;
- Annual base salaries as at 31 December 2016 (or at termination date for leavers);
- Cash bonus awards for the 2016 performance year;
- Deferred awards (ECP, EIP and LTIP) for 2016 based on the value at award date. LTIP awards are subject to performance conditions, which can result in the portion of the award that is ultimately released ranging from 0% to 100%. The figures above assume 50% vesting; and
- Any other awards for new hires and any bonus payments made to leavers.

In addition, Material Risk Takers 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. Two of the non-executive Directors of Schroders plc also receives private health care and medical benefits, which is included in the disclosures above.

Appendix I – Own funds template

		2016 £m	2015 £m	Regulation (EU) No 575/2013 Article
	Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	406.9	401.9	26(1),27,28,29
2	Retained earnings	2,495.4	2,289.9	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	204.3	103.3	26(1)
5	Minority interests (amount allowed in consolidated CET1)	14.5	-	84
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3,121.1**	**2,795.1**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments	(2.1)	(1.4)	34,105
8	Intangible assets (net of related tax liability)	(592.2)	(456.6)	36(1)(b),37
15	Defined-benefit pension fund assets	(98.1)	(94.6)	36(1)(e),41
16	Direct and indirect holdings by an institution of own CET1 instruments	(163.6)	(175.5)	36(1)(f),42
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(856.0)**	**(728.1)**	
29	**Common Equity Tier 1 Capital**	**2,265.1**	**2,067.0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,265.1**	**2,067.0**	
59	**Total Capital**	**2,265.1**	**2,067.0**	
60	**Total risk weighted assets**	**6,574.6**	**5,349.1**	
	Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure)**	**34.5%**	**38.6%**	92(2)(a)
62	**Tier 1 (as a percentage of total risk exposure amount)**	**34.5%**	**38.6%**	92(2)(b)
63	**Total capital (as a percentage of total risk exposure amount)**	**34.5%**	**38.6%**	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)**	**5.2%**	**4.5%**	CRD 128, 129, 130, 131, 133
65	**of which: capital conservation buffer requirement**	**0.625%**	**0%**	
66	**of which: countercyclical buffer requirement**	**0.078%**	**0%**	
68	**Common equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**26.5%**	**30.6%**	CRD 128

Own funds template continued.

	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 enitites (amount below 10% threshold and net of eligible short positions)	50.1	44.1	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 enitites (amount below 10% threshold and net of eligible short positions)	172.8	167.7	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)	101.0	85.0	36(1)(c), 38, 48

Appendix II – Leverage disclosures

Summary reconciliation of accounting assets and leverage ratio exposures

		2016 £m	2015 £m
1	Total assets as per published financial statements	20,982.4	18,099.9
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(12,962.7)	(11,366.0)
4	Adjustments for derivative financial instruments	12.7	10.8
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	17.8	28.8
7	Other adjustments	(690.3)	(551.2)
8	**Leverage ratio total exposure measure**	**7,359.9**	**6,222.3**

Leverage ratio common disclosure

		2016 £m	2015 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	7,484.1	6,578.3
2	(Asset amounts deducted in determining Tier 1 capital)	(690.3)	(551.2)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**6,793.8**	**6,027.1**
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	40.4	43.3
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark- to-market method)	12.7	10.8
11	**Total derivatives exposures (sum of lines 4 to 10)**	**53.1**	**54.1**

Leverage ratio common disclosure continued

		2016 £m	2015 £m
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	495.2	112.3
16	**Total securities financing transaction exposures (sum lines 12 to 15a)**	**495.2**	**112.3**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	17.8	28.8
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**17.8**	**28.8**
	Capital and total exposure measure		
20	**Tier 1 capital**	**2,265.1**	**2,067.0**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**7,359.9**	**6,222.3**
	Leverage ratio		
22	**Leverage ratio**	**30.8%**	**33.2%**

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		2016 £m	2015 £m
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**6,793.8**	**6,027.1**
EU-3	Banking book exposures, of which:	6,793.8	6,027.1
EU-5	Exposures treated as sovereigns	1,833.0	1,666.8
EU-7	Institutions	2,159.9	2,187.5
EU-8	Secured by mortgages of immovable properties	138.7	147.0
EU-9	Retail exposures	19.4	8.6
EU-10	Corporate	1,975.6	1,534.3
EU-12	Other exposures (eg equity)	667.2	482.9

Appendix III–Credit risk adjustments

Credit risk adjustments are all amounts by which capital has been reduced in order to reflect losses exclusively related to credit risk under IFRSs, resulting from impairments, value adjustments or provisions for off-balance sheet items that are recognised in the profit or loss account.

Value adjustments

A value adjustment is a deduction from common equity tier 1 capital where the prudent value of financial assets measured at fair value is materially lower than the fair value recognised in the financial statements. The valuation adjustment is calculated based on the fair value of items having an impact on own funds. As at 31 December 2016 the value adjustment was £2.1m (2015: £2.9m).

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 14: Movement in provisions during the year

	2016 £m	2015 £m
At 1 January	0.1	0.1
Bad and doubtful debts credited	-	-
Reclassifications	-	-
Foreign exchange	-	-
Total	**0.1**	**0.1**

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 for more than 90 days after the due date. The Group assesses its financial assets for indication of impairment at each reporting date. 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.

Other debtors consist mainly of fee debtors that 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 2016 are presented in table 15. 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.

Table 15: Fee debtors that are past due but not impaired

	31 December 2016 £m	31 December 2015 £m
Up to and including 3 months	27.5	14.3
Over 3 months up to 1 year	2.3	3.0
Total	**29.8**	**17.3**

Appendix IV – Asset encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. The following tables disclose the balance sheet value of encumbered and unencumbered assets as at 31 December 2016 based on the requirement in Part Eight of the Capital Requirements Regulation and in the related Guideline issued by the European Banking Authority.

Table 16: Assets

2016	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	**65.5**		**7,954.2**	
Equity instruments	-	-	640.0	640.0
Debt securities	32.4	32.4	1,241.6	1,241.6
Other assets	33.1		6,072.6	

2015	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	**46.3**		**6,733.9**	
Equity instruments	-	-	578.0	578.0
Debt securities	27.1	27.1	954.4	954.4
Other assets	19.2		5,201.5	

Table 17: Collateral received

	2016		2015	
	Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m	Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m
Assets of the reporting institution	**-**	**495.5**	**-**	**517.8**
Equity instruments	-	-	-	-
Debt securities	-	495.5	-	517.8
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-	-	-

Table 18: Encumbered assets/collateral received and associated liabilities

This is a nil return.