

Schroders plc

Pillar 3 Disclosures as at 30 June 2009

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Schroders plc

Pillar 3 disclosures

Contents

1. Overview	1
1.1 Introduction	
1.2 Basis of disclosures	
1.3 Frequency of disclosures	
1.4 Verification, media and location	
2. Risk management framework	2
2.1 Approach to risk management	2
2.2 Risk management systems and techniques used	5
2.3 Key risks faced	6
3. Scope of application	9
3.1 Accounting consolidation	9
3.2 Regulatory consolidation	9
4. Capital resources	10
5. Capital adequacy	12
6. Credit risk & dilution risk	14
6.1 Provision against lending arrangements	14
6.2 Analysis of credit risk exposures	15
7. The Standardised approach to credit risk	17
8. Interest rate risk in the non-trading book	18
9. Non-trading book exposure in equities	20

1 Overview

1.1 Introduction

The Capital Requirements Directive (CRD) is the framework for implementing Basel II in the European Union. Basel II implements a risk sensitive framework for the calculation of regulatory capital.

The CRD consists of three 'pillars':- Pillar 1 sets out the minimum capital requirements that entities are required to meet for credit, market and operational risk. For Pillar 2, firms and supervisors take a view on whether a firm should hold additional capital against risks not covered in Pillar 1 and to take action accordingly within the Internal Capital Adequacy Assessment Process (ICAAP). Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) with the aim of improving market discipline by requiring firms to publish certain details of their risks, capital and risk management.

In the United Kingdom, the Financial Services Authority (FSA) has introduced Pillar 3 by duplicating the CRD articles and annexes to create Chapter 11 – Disclosure (Pillar 3) of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

1.2 Basis of disclosures

In accordance with the requirements of Chapter 11 of BIPRU, the disclosures included in this document relate to the Schroders Group (for further details of Schroders Group subsidiaries covered by these disclosures see page 9). References to Schroders shall mean either Schroders plc or the Group. The disclosures cover both the qualitative and quantitative requirements.

1.3 Frequency of disclosures

The disclosures are required to be made on an annual basis at a minimum and if appropriate some disclosures will be made more frequently. Schroders plc has an Accounting Reference Date of 31 December. These disclosures are made as at 30 June 2009.

1.4 Verification, media and location

These disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. These disclosures are not subject to audit, they do not constitute any form of audited financial statement and have been produced solely for the purposes of satisfying Pillar 3 requirements.

The Schroders plc Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to mitigate, not eliminate, risk.

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

2 Risk management framework

Schroders believes that active and effective risk management is a business imperative and it is regarded as a core competence by clients, consultants, regulators, counterparties and other interested parties.

2.1 Approach to risk management

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

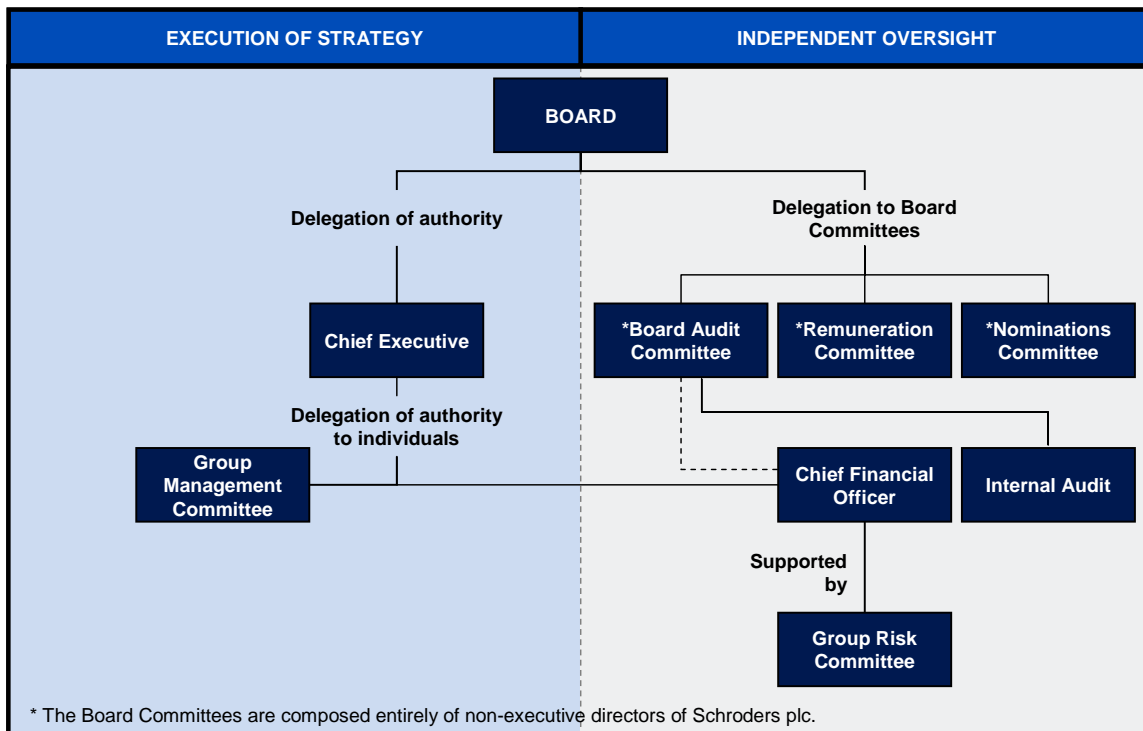
Key Principles of the Governance Risk Framework

- Authority to manage the business, including internal controls and risk, is delegated from the Schroders plc Board to the Chief Executive;
- The Chief Executive delegates primary responsibility for the risk and controls framework within the Group and the independent monitoring and reporting of risk and controls to the Chief Financial Officer (CFO);
- The Group Risk Committee (GRC) supports the CFO and is the principal committee for the monitoring and reporting of risks and controls;
- The key issues covered by the GRC are included in the suite of reports provided regularly to the Board Audit Committee; and
- Significant risk and control issues are reported to the Chief Executive and Group Management Committee either by the relevant business head or by the CFO.

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

The Group's corporate governance structure supports this framework, as outlined in the following diagram. This includes line management responsibility for the management of risk in the execution of strategy supported via the Group Management Committee and independent oversight of risk management supported by the Group Risk Committee and Board Audit Committee.

Schroders' Governance Structure



Core Governance Committees

Schroders plc Board

The Board delegates the executive management of the Schroders Group's business to the Chief Executive with the exception of specific matters reserved for the Board which include:

- Maintenance of a framework of prudent and effective financial, operational and compliance controls and risk management systems;
- Approval of the Group's Internal Capital Adequacy Assessment Process;
- Determination of the Company's corporate governance arrangements, including the review of risk management and control structures (subject to the recommendations of the Board Audit Committee).

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to mitigate, not eliminate, risk.

Group Management Committee (GMC)

The Group Management Committee, chaired by the Chief Executive of Schroders plc comprises all members of senior management and reviews the work undertaken by the Group Risk Committee using the draft reports to be submitted formally to the Board Audit Committee.

Board Audit Committee (BAC)

The main role of the Board Audit Committee, a committee of the Board of Schroders plc composed entirely of independent Non-executive Directors, is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control. In doing this the principal responsibilities of this Committee include:

- Reviewing the form and content and monitoring the integrity of the financial statements of the Group;
- Monitoring and reviewing the arrangements for ensuring the objectivity and effectiveness of the external and internal audit functions;
- Recommending to the Board of Schroders plc the appointment, re-appointment or removal of the external auditors;
- Reviewing the adequacy and effectiveness of the Group's internal controls and risk management systems; and
- Reviewing and monitoring the Group's ethical standards, procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities.

Group Risk Committee (GRC)

The Committee assists the CFO in discharging his responsibility for the risk and controls framework within the Group and the independent monitoring and reporting of risk and controls. The CFO chairs the Committee. Committee members comprise the Chief Investment Officer, the Group Head of Private Banking, the Global Head of Product, the Chief Operating Officer, Group General Counsel and the Group Heads of Risk and Compliance. The Head of Internal Audit is also invited to attend.

The GRC reviews and monitors the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of key identified risks faced by the Schroders Group.

The GMC, BAC and GRC are also supported by the independent monitoring and advice provided by the Internal Audit, Compliance and Risk departments as well as the External Auditors.

2.2 Risk management systems and techniques used

Risk Assessment and Identification

Change in every aspect of our business and the external environment is a key driver of risk. Change may impact the potential occurrence or potential magnitude of events relating to existing risks or may result in new or emerging risks. Different approaches may be used for the assessment of risk depending on the type of risk faced and the evidence available to assess the risk. These approaches may be used in combination or isolation and include qualitative and quantitative assessments.

Risk Mitigation

Like any Asset Management business we are exposed to a range of risks. These risks if not managed properly, increase the possibility of the Group not being able to meet its objectives. There are a variety of techniques that are used to mitigate risks, which may be used in isolation or in combination depending on the nature of the risk. These techniques include use of controls, outsourcing, contingency planning, insurance and capital allocation.

Risk Monitoring and Reporting

Risks are managed in a variety of different ways, depending on the nature of the risk and the areas potentially affected to ensure that wherever appropriate the consequences are mitigated.

Monitoring and communication is key to an effective risk management framework. Significant risk matters are reported through the management chain and ultimately to the Group Management Committee and Board where significant. The group risk function undertakes independent review and oversight work, reporting to the Group Risk Committee and Board Audit Committee in accordance with the governance structure outlined above.

2.3 Key risks faced

The key risk types faced which are relevant to this Pillar 3 disclosure are as follows:

Operational risk	<p>Operational risk is the risk resulting from inadequate or failed internal processes, people and systems or from external events, including legal, regulatory and compliance risk.</p> <p>Schroders seeks to manage this risk to a level acceptable to the Board through the governance structure described, with frameworks, policies and procedures to support it.</p> <ul style="list-style-type: none">• Core responsibility for the management of this risk lies with local management.• Risk oversight and challenge is provided via the Group Risk team reporting to the Group Risk Committee.• Independent review and testing is provided by our Group Internal Audit function, reporting to the Board Audit Committee.
Credit risk	<p>The risk of loss if a counterparty fails to perform its financial obligations.</p> <p>Credit risk exposures are supported by prudent policies on all aspects of credit risk including treasury activities, limit setting and monitoring, collateral types and cover (loan to value) and ability of borrowers to service the loans.</p> <p>The Group sets consolidated principal counterparty risk limits, covering investment capital, Private Banking and asset management exposures. These limits include cash and derivative exposures. Limits are set by reference to credit assessment (including ratings and market data) of the counterparties. The group also sets guidelines for the management of agency credit risk.</p> <p>Oversight for credit risk is provided via the Group Risk Committee.</p>
Market risk	<p>Risks that arise from fluctuations in values of, or income from, assets or from changes in the value of interest or exchange rates.</p> <p>Market movements affect funds under management, revenues and the value of investment capital. Market risk is actively managed.</p> <p>There is exposure to principal market risk in the investment capital portfolio: these are managed according to limits set by the Board.</p>

Liquidity risk	<p>Liquidity risk is the risk that the Group, 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.</p> <p>The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain the solvency of the Private Banks as well as the rest of the Group. Private Banking principally comprises investment management and banking services provided to high net worth individuals and certain smaller institutions.</p>
Business risk	<p>Any risk arising from changes in the business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.</p> <p>This includes exposure to a wide range of macro-economic, geopolitical, industrial, regulatory and other external risks that might deflect the company from its strategy and business plan.</p>
Pension obligation risk	<p>Pension obligation risk represents the risk of a deficit in defined benefit pension scheme funding.</p> <p>Schroders provides a number of pension schemes for its employees; the principal scheme is the Schroders Retirement Benefits Scheme (the 'Scheme') which is non-contributory and administered by a Trustee in the UK. The Scheme comprises a defined benefits section and a defined contribution section.</p>
Reputational risk	<p>The loss of reputation is a fundamental threat to an asset management firm. However Schroders considers that this risk would only crystallise as a consequence of the failure to manage other key risks to the Group. We carefully consider the association of our name with products and services.</p>

Internal Capital Adequacy Assessment Process (ICAAP)

On an annual basis, or more frequently if there is a fundamental change to our business or the environment in which we operate, the ICAAP is reviewed. This assessment draws on the results of existing risk management techniques and reporting. Scenario analysis and stress testing is performed to assess Schroders' exposure to extreme events and ensure that appropriate mitigating factors are in place. Any residual risk is then mitigated by setting aside capital to meet the worst case potential impact calculated at a confidence level agreed by the Schroders plc Board. Each of the core risk types are assessed and further holistic analysis is performed to challenge the output.

In the light of the market dislocation experienced in 2008-9, a fundamental review of ICAAP was undertaken resulting in a significant increase in the modelled capital requirement to take account of the impact on the Group of these external events.

Operational risk

The operational risk analysis focuses on statistical modelling of key risk scenarios for the Group, with additional stress testing of the output. This includes consideration of the potentially increased likelihood of further related risk events on occurrence of a single event. Further analysis is performed to assess the potential revenue impact of additional key risk scenarios.

Credit risk

Scenarios based on key risks currently faced are assessed against the capital requirement under Pillar 1. In addition further stress testing is performed both on the scenarios and the Pillar 1 output considering both principal book and Private Bank lending exposures.

Market risk

Schroders exposure to market risk under Pillar 2 is assessed via scenario analysis and stress testing of those scenarios in relation to interest rate and foreign exchange risk.

Pension obligation risk

The risk of deficit in the defined benefit section of the Scheme is assessed via stress tests of the key liability factors inherent in the valuation of the Scheme as well as consideration of stresses on asset value. Scenarios based on a combination of factors are also considered in establishing the capital requirement for this risk.

Liquidity risk

Schroders uses a range of liquidity risk assessments and stress tests to assess our ability to always meet our obligations as they fall due.

Business risk

Business risk is assessed through consideration of the threat to Schroders capital base and strategic plans of a severe, sustained recession.

In addition to the individual assessments of capital required for specific risk types, further holistic scenarios are considered to challenge the overall level of capital required. This includes consideration of emerging risks currently being monitored by the Group Risk Committee. In accordance with current best practice, there is also an assessment of the capital required to ensure an orderly wind-up of the Group if it is no longer viable.

3 Scope of application

Basis of consolidation

3.1 Accounting consolidation

The consolidation of the financial statements is based upon the inclusion of all entities controlled by Schroders plc prepared to 31 December each year. Control is achieved where Schroders plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The consolidated statutory financial statements include all subsidiary undertakings which, in the opinion of the Directors, principally affect the consolidated profits or assets of the Group. A list of these principal Group subsidiaries can be found in **Note 60 of the 2008 Annual Report and Accounts**.

3.2 Regulatory consolidation

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

Entities excluded from the regulatory consolidation:

Insurance related subsidiaries

Insurance and the broking of insurance are not financial activities for the purpose of regulatory consolidation, and are subject to the FSA's Prudential Sourcebook for Insurers (INSPRU) and not BIPRU. As a result the following two companies are excluded. Although our insurance wrapped asset management business is excluded from these disclosures, the business is subject to the same risk management framework as the rest of the Group.

Schroder Pension Management Limited
Burnaby Insurance (Guernsey) Limited

Immaterial entities

Those subsidiaries which otherwise would be consolidated, but have a combined balance sheet total lower than the lesser of Euro 10 million and 1% of the balance sheet total of total Group net assets. The entities excluded from the regulatory consolidation on this basis are:

Asian Venture Managers Inc.	Blitz 06_956 GmbH
Columbus Capital Management LLP	SIM Nominees Limited
Schroders Corporate Secretary	Schroder Investment Management (Guernsey) Limited
Internet Finance Partners LP	Schroder Investment Management (Ireland) Limited
J Henry Schroder and Co AG	Schroder Investment Management (Mexico) S.A de C.V
JHSC Management Limited	Schroder Middle East Limited
JHSW Leasing Limited	Schroder Nominees Limited
New Finance Capital Inc	Schroder Pension Trustee Limited
NFCP Consulting SL	Schroder Property Investment Management (France) Sarl
Newsphere Trading Company Limited	Schroder Ventures Holdings Limited
Opus (Cayman) Limited	Schroder Ventures Investment Advisers Limited
Schroder Administrative Services (C.I.) Ltd	SITCO Nominees Limited
Schroder Eurologistik Fonds Verwa's GmbH	The New Bracknell Company Limited
Schroder Investment Consulting Co. Ltd	Thornbury Company Limited

The investment in those entities not included in the consolidation for regulatory purposes, is deducted from the sum of Tier 1 and Tier 2 capital (see section 4, capital resources). There is no current or foreseen material, practical or legal impediment to the prompt transfer of capital resources from parent undertakings to their subsidiary undertakings.

4 Capital resources

Tier 1 capital

Tier 1 capital is the highest ranking form of capital. Eligible Tier 1 capital consists of two classes of ordinary share capital: voting which accounts for over 75% of the total ordinary share capital. The premium on ordinary shares also qualifies for inclusion as Tier 1 capital. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not confer the right to attend and vote at any general meeting of Schroders plc, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares. Also included in Tier 1 capital are retained profits and other reserves.

Deductions in arriving at total Tier 1 capital as at 30 June 2009 include intangible assets of £141.3m, which consist mainly of goodwill of £112.2m. Goodwill includes £48.9m recorded following the acquisition of NewFinance Capital Holdings Limited in 2006; £19.7m on the acquisition of Swiss Re AM; £13.8m on the acquisition of Aareal Asset Management GmbH during 2007 and £3.4m on the acquisition of a Singapore private client advisory business during 2008.

Tier 2 capital

Tier 2 capital is a firm's supplementary capital and consists of revaluation reserves, general provisions and some classes of subordinated debt. As at 30 June 2009, the Group held revaluation reserves consisting of unrealised gains of £38.1m in respect of the fair valuation of securities held in the available-for-sale financial assets category, which is classified as Tier 2 capital.

The investment in associates and joint ventures has been deducted 50% from Tier 1 and 50% from Tier 2 capital.

Tier 3 capital

Tier 3 brings together shorter term debt capital and less permanent reserves and may only be used to meet regulatory capital requirements arising from market risk in the trading book.

The Group did not hold any Tier 3 capital as at 30 June 2009.

As at 30 June 2009 the capital resources of the Schroders Group were as follows:

Tier 1	£m
Permanent share capital	286.9
Share premium account	61.8
Other reserves	167.5
Retained profits	923.6
Minority interests	-0.1
Total	1,439.7
Deductions from Tier 1	
Goodwill	112.2
Intangible assets	29.1
Material holdings	18.4
Other supervisory deductions *	13.8
Tier 1 after deductions	1,266.2
Tier 2	
Revaluation reserves	38.1
Deductions from Tier 2	
Material holdings	18.3
Total capital resources	1,286.0

* Investment in entities excluded from the regulatory consolidation.

During the period to 30 June 2009 the Group, and all regulated entities within the Group (including those excluded from the regulatory consolidation), complied at all times with all of the externally imposed regulatory capital requirements.

5 Capital adequacy

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

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

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

Calculation of the Group's capital resources requirement

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

Credit risk

Schroders has elected to adopt the standardised approach for credit risk to calculate the minimum credit risk capital requirement under Pillar 1 of the Capital Requirements Directive. Under the standardised approach firms must calculate the minimum credit risk capital requirement as 8% of the total of their risk weighted exposures.

Market risk

Schroders has adopted the commodity simplified approach for calculating the commodity position risk requirement. The simplified approach is to sum the following:

- (a) 15% of any net position multiplied by the spot price for the commodity; and
- (b) 3% of the gross position (long plus short, ignoring the sign) multiplied by the spot price for each commodity.

As at 30 June 2009, the market risk capital requirement in respect of commodity options was £2.2m. The foreign currency position risk requirement has been calculated as per BIPRU 7.5.19, and as at the above date the capital requirement was £5.0m.

Operational risk

Schroders has adopted the standardised approach for calculating the Pillar 1 capital requirements for operational risk therefore the operational risk capital requirement is calculated as the three year average of gross revenues per the consolidated income statement, multiplied by a beta factor of 12%.

As at 30 June 2009, the total consolidated capital resources requirement of the Group under Pillar 1 was £258.2m

Credit risk exposure class	£m
Corporate/Private clients	29.2
Institutions	37.2
Regulatory high-risk categories (i)	26.6
Claims secured on real estate property	7.4
Central government and central banks	0.0
Other items (ii)	20.9
Total credit risk capital requirement	121.3
Market risk	
In respect of commodity option contracts	2.2
In respect of foreign exchange	5.0
Total market risk capital requirement	7.2
Operational risk	
Calculated in accordance with the Standardised Approach	129.7
Total capital requirement Pillar 1	258.2

(i) As defined by the FSA high risk exposures include those arising out of venture capital business (whether or not the firm itself carries on the venture capital business) and those in a Collective Investment Undertaking which is considered as high-risk.

(ii) Other items include accrued income, fee debtors, settlement accounts, tax, pre-payments and other debtors.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. An exposure is classified as impaired (the carrying value exceeds the amount to be recovered through use or sale) or non-performing (principal, interest or fees remain unpaid more than 90 days after the due date) when, following review, there are indications that the likelihood of full repayment is in doubt. These indications may include, but not be restricted to: non-payment of interest, a fall in credit worthiness, a reduction of cover/collateral below the covenanted minimum.

6.1 Provisions against lending arrangements

The Group makes bad debt provisions which fall into two categories:

(i) Lending arrangements

Lending arrangements principally arise in the Private Banks*. The relevant Private Bank Credit Committee will determine whether it is necessary to make a provision against a credit exposure. Non-performing exposures (where there has been non-payment of principal, interest or fees for a period exceeding 90 days) will not automatically merit the creation of a provision. Impaired exposures will always require the creation of an appropriate provision.

The decision to create or write back a provision is undertaken on a case-by-case basis, reviewed by the relevant credit committee and approved by the board of the appropriate subsidiary. Any such provisions created are advised to Group Finance and Tax.

Where interest has not been received for 90 days or more (though this period may be reduced if required), its accrual for income purposes is suspended, and cash accounting adopted. For the period to 30 June 2009, an impairment of £4.3m had been charged to the income statement in respect of loans and advances to customers of Private Banking subsidiaries.

(ii) Other debtors

Other debtors consist mainly of fee debtors which arise principally within the Group's institutional business and amounts are monitored regularly by local offices. Although the Group is usually managing client cash representing a large multiple of the amount owed to the Group by the client, the Group does not 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 30 June 2009 are presented below. Factors considered in determining whether impairment has taken place 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.

	Exposure in £m
Up to and including 3 months	6.5
Over 3 months up to 1 year	5.1
	11.6

* Schroder & Co Ltd, London, Schroder (C.I) Ltd, Guernsey and Schroder & Co AG, Zurich

6.2 Analysis of credit risk exposures

The following table is an analysis by exposure class of the Group's credit risk exposure as at 30 June 2009.

Exposure class	£m
Corporate/Private clients	1,048.9
Institutions	2,184.5
Regulatory high-risk categories	221.6
Claims secured on real estate property	189.2
Central government and central banks	225.9
Other items	402.6
Total	4,272.7

The following tables provide further breakdown by geographic region, counterparty type and residual maturity. All amounts are in £m.

Exposure by geographic distribution

Exposure class £m	UK	Continental Europe	Asia Pacific	Americas	Total
Corporate/Private clients	463.6	560.4	13.9	11.0	1,048.9
Institutions	1,567.4	473.6	122.2	21.3	2,184.5
Regulatory high-risk categories	111.1	12.5	1.4	96.6	221.6
Claims secured on real estate property	144.9	44.3	0.0	0.0	189.2
Central government and central banks	102.2	123.7	0.0	0.0	225.9
Other items	226.5	88.9	68.9	18.3	402.6
Total	2,615.7	1,303.4	206.4	147.2	4,272.7

Exposure by counterparty type

Exposure class £m	Banks	Non- banks	Investments	Other	Total
Corporate/Private clients	0.0	992.6	56.3	0.0	1,048.9
Institutions	2,166.7	0.0	17.8	0.0	2,184.5
Regulatory high-risk categories	0.0	0.0	221.6	0.0	221.6
Claims secured on real estate property	0.0	189.2	0.0	0.0	189.2
Central government and central banks	123.7	0.0	102.2	0.0	225.9
Other items	0.0	0.0	0.0	402.6	402.6
Total	2,290.4	1,181.8	397.9	402.6	4,272.7

Exposure by residual maturity

Exposure class £m	<3 months	3m – 1 year	1 year – 5 years	> 5 years	Total
Corporate/Private clients	232.8	230.7	272.1	313.3	1,048.9
Institutions	1,734.4	280.2	159.2	10.7	2,184.5
Regulatory high-risk categories	5.7	2.6	10.0	203.3	221.6
Claims secured on real estate property	26.3	93.8	36.7	32.4	189.2
Central government and central banks	77.4	105.8	42.7	0.0	225.9
Other items	255.4	112.7	9.0	25.5	402.6
Total	2,332.0	825.8	529.7	585.2	4,272.7

7 The Standardised approach to credit risk

The External Credit Assessment Institution (ECAI) used by the Group is Fitch. Fitch Ratings are recognised by the Financial Services Authority (FSA) as an eligible ECAI and are used to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale that is set out by the FSA in BIPRU3 – the standardised approach to credit risk.

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

The following table gives details of the exposure value before and after credit risk mitigation (in the form of cash held on deposit only) associated with each credit quality assessment step.

The main types of collateral taken by Schroders are:-

- Financial collateral including cash and client portfolios to support client lending. Financial collateral is marked to market daily and compared to loans outstanding.
- Other assets such as property and guarantees. Other assets are valued less often depending on the type of assets held and property is valued according to the requirements of BIPRU 3.4.66.

Credit quality step	Credit Rating	Exposure before mitigation (£m)	Exposure after mitigation (£m)
1	AAA to AA-	1,622.6	1,622.6
2	A+ to A-	765.4	765.4
3	BBB+ to BBB-	9.1	9.1
4	BB+ to BB-	0.1	0.1
5	B+ to B-	0.0	0.0
6	CCC+ and below	0.6	0.6
unrated *		1,874.9	1,220.8
Total		4,272.7	3,618.6

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

The unrated exposures can be analysed as follows:

	£m
Loans and advances to customers	985.1
Trade and other receivables	303.4
Financial assets	192.8
Guarantees	85.6
Tax balances	74.3
Undrawn commitments	72.0
Seed capital	71.9
Other Derivatives	47.7
Fixed assets	24.4
Letter of Credit	11.4
Cash and Cash Equivalents	6.3
Total	1,874.9

8 Interest rate risk in the non-trading book

Interest rate risk exists where the Group's financial assets and liabilities have interest rates set under different bases or which reset at different times.

In the Private Banks, interest rates are monitored against policies and limits set by the relevant risk committee.

Schroders policy is to hedge fixed-rated assets and liabilities back to the floating rate as much as possible and therefore outright interest rate risk arises mainly from the decision to allow a limited amount of mismatch between the cash flows.

Within the Private Banks, three methods are used for monitoring interest rate risk:

Sensitivity analysis (PV01) - this assesses the impact on Schroders current net worth against a one basis point parallel rise in interest rates and is calculated daily for each currency regularly and then in aggregate.

Sensitivity analysis (PV100) - this assesses the impact on Schroder current net worth against a 100 basis point parallel rise in interest rates and is calculated regularly for each currency and then in aggregate.

Stress testing (PV200) - this is calculated in the same way as the PV01, but against the much more severe change of a 200 basis point movement both up and down in interest rates.

Interest rate risk in the Private Bank's is limited due to the short-term nature of the Private Bank's financial assets. In the case of changes in market interest rates, the Private Bank's average period exposure will usually be within an average of between two and three months. Cash held by the operating companies is not normally expected to be placed on deposit for longer than three months. The Group's capital includes investments in fixed income and money market portfolios, and funds managed by the Group's fixed income fund managers. These investments are managed to a maximum average duration of two years. The fund managers may reduce the average duration with the use of futures contracts at their discretion.

At 31 December 2008, if interest rates had been 100 basis points higher/200 basis points lower with all other variables held constant, post-tax profit for the year would have increased/decreased by £4.1 million/£8.2 million respectively, mainly as a result of higher/lower interest income on the Group's floating rate debt securities and cash; other components of equity would have been unaffected.

The analysis by currency is reflected in the table below:

Currency	Increase in rates by 1% Gain or (Loss) £m	Decrease in rates by 2% Gain or (Loss) £m
GBP	0.7	(1.6)
EUR	0.4	(0.7)
USD	1.0	(2.0)
CHF	0.4	(0.9)
Others	1.6	(3.0)
Total Gain / (Loss)	4.1	(8.2)

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits in the Private Banks:

- the fair values of assets and liabilities will not be affected by a change in interest rates
- within the Private Banks, the fixed rate financial assets will be repriced to the higher/lower market interest rates
- the average term for repricing is two months

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits in the rest of the Group:

- the fair values of assets and liabilities will not be affected by a change in interest rates
- funds would be reinvested in similar variable interest bearing debt securities on maturity

9 Non-trading book exposure in equities

An overview of the accounting techniques and valuation methodologies used, as required by BIPRU 11.5.15(1), is included in the summary of accounting policies within the 2008 Annual Report and Accounts and is not repeated here.

The balance sheet value and the fair value of non-trading book equities as at 30th June 2009 was £259.8m, analysed as follows:

Type	Listed	Unlisted	Total
Seed capital and hedge funds	65.9	41.3	107.2
Third party hedge funds	1.3	44.8	46.1
Private Equity Investments	29.1	22.0	51.1
Property funds		28.2	28.2
Others	10.8	16.4	27.2
Total	107.1	152.7	259.8

The cumulative realised loss from sales / liquidations during the year were £4.0m. Total unrealised gains were £21.5 which have been included in Tier 2 capital resources.