Schroders

Pillar 3 disclosures as at 31 December 2013

Schroders

CONTENTS

Overview	01
Risk management framework	03
Scope of application	05
Capital resources	07
Capital adequacy	08
Credit risk and dilution risk	09
The standardised approach to credit risk	12
Interest rate risk in the non-trading book	13
Non-trading book exposure in equities	14
Remuneration	15

OVERVIEW

Key regulatory metrics

	Total regulatory capital* (£m)	Solvency ratio (%)	Pillar 1 capital requirement (£m)
2013	1,672.7	488.5	342.4
2012	1,828.1	565.5	323.3

*after supervisory deductions

Table 1: Pillar 1 overview

Risk weighted assets	2013 £m	2012 £m	Capital required	2013 £m	2012 £m
Credit risk	1,645.1	1,719.2	Credit risk	131.7	137.5
Market risk	232.7	95.0	Market risk	18.6	7.6
Operational risk	2,401.3	2,227.5	Operational risk	192.1	178.2
Total risk weighted assets	**4,279.1**	**4,041 .7**	**Total capital requirement Pillar 1**	**342.4**	**323.3**

Introduction

The main purpose of this document is to meet the UK regulatory disclosure requirements as set out in BIPRU, the Prudential Sourcebook for Banks, Building Societies and Investment Firms, Chapter 11. Additional relevant information can be found in the Schroders plc Annual Report and Accounts 2013.

The UK Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) supervise Schroders plc on a consolidated basis. Individual subsidiaries are in some cases directly regulated by their local supervisors who set and monitor the local capital adequacy requirements.

The new Basel III regulations which were written into EU Law in the form of regulations commonly known as CRD IV, came into force on 1 January 2014. These rules make changes to the definition of capital resources and include additional capital requirements.

The new regulations will have no material impact on the Group's capital position.

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 details of Schroders Group subsidiaries that are covered by these disclosures see Note 34 of the Annual Report and Accounts for the year ended 31 December 2013. References in this document to Schroders shall mean either Schroders plc or the Group. The UK regulators allow certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this approach has been adopted references are provided to the relevent pages of the Annual Report and Accounts 2013.

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 31 December 2013.

Verification, media and location

These disclosures have been compiled to explain the basis of preparation and provide disclosure of certain capital requirements and 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 regulatory requirements. They should not be relied upon in making any judgement about the financial position of the Group or for any purpose other than that for which they are intended.

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.

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.

Approach to risk management

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

- 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 Management Comittee (GMC) is the principal committee for the monitoring and reporting of risks and controls;
- The Group Risk Committee (GRC) supports the CFO and the GMC in discharging their risk responsibilities; and
- The key issues covered by the GRC are included in the reports provided regularly to the Audit and Risk Committee.

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

The Group's corporate governance structure supports this framework, as outlined in the Annual Report and Accounts 2013 on pages 34 and 35. This includes line management responsibility for the management of risk in the execution of strategy supported through GMC and independent oversight of risk management supported by the GRC and Audit and Risk Committee.

Schroders' credit rating of A+ from Fitch and Standard and Poor's reflects its strong and conservative risk culture. It has a diversified investment management business, sound capitalisation and cash generation, and no leverage.

Risk management systems and techniques used

Risk assessment and identification

Change in the business and the external environment is a key driver of risk. Change may impact either the potential likelihood or potential magnitude of events relating to existing risks and may also 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 include both qualitative and quantitative assessments.

Risk mitigation

The Group is exposed to a range of risks, mainly arising from its Asset Management business. These risks, if not managed properly, increase the possibility of the Group not being able to meet its objectives.

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

Risk monitoring and reporting

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

Key risks faced

The key business risks relevant to this Pillar 3 disclosure are disclosed in the Annual Report and Accounts 2013 on pages 36 to 41.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP is updated, and formally reviewed by the Board, on at least an annual basis, with more frequent reviews if appropriate, as a result of a fundamental change to our business or the environment in which we operate. Scenario analysis and stress testing are performed to assess Schroders' exposure to extreme events and to ensure that appropriate mitigating plans are in place. Residual risk is then mitigated by setting aside capital to meet the potential impact, calculated at a confidence level agreed by the Board. Each of the most significant risk types detailed below are assessed and further holistic analysis is performed to challenge the output.

The following provides supplementary information to that contained in pages 36 to 41 of the Annual Report and Accounts.

RISK MANAGEMENT FRAMEWORK (continued)

Operational risk

The operational risk analysis makes use of scenario analysis workshops and statistical modelling of key risk categories for the Group, with additional stress testing of the output. This includes consideration of the impact of multiple risk events. Further analysis is performed to assess the potential revenue impact of additional key risk scenarios.

Credit risk

Pillar 2 credit risk capital requirements are assessed using a combined internal ratings and risk-weighted approach. In addition further stress testing is performed considering both principal book and Wealth Management lending exposures.

Market risk

Schroders' exposure to market risk under the ICAAP is assessed via scenario analysis and stress testing of the exposure in the Group's capital portfolios as well as the asset and liability management exposures in the Wealth Management business.

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 via stress tests of the key liability factors inherent in the valuation of the Scheme as well as consideration of stresses on asset value. This is performed in line with the PRA's Supervisory Statement LSS6/13, dated April 2013.

Liquidity risk

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

Business risk

Business risk is assessed through consideration of the impact on the Group's capital resources of severe, but plausible economic scenarios.

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. There is also an assessment of the capital required to ensure an orderly wind-up of the Group were it to be no longer viable.as consideration of stresses on asset value. This is performed in line with the Prudential Regulation Authority's Supervisory Statement LSS6/13, dated April 2013.

SCOPE OF APPLICATION

Accounting consolidation

The basis of consolidation for the purpose of financial accounting under International Financial Reporting Standards is described on page 146 of the Annual Report and Accounts 2013.

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:

(a) Insurance related subsidiaries

Insurance and the broking of insurance are not financial activities for the purpose of regulatory consolidation, and are subject to the Prudential Sourcebook for Insurers (INSPRU) and not BIPRU. As a result the following two companies are excluded:

Schroder Pension Management Limited

Burnaby Insurance (Guernsey) Limited

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.

(b) Immaterial entities

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

Schroder Capital Investments Fund

Opus (Cayman) Limited

STW International Limited

Thornbury Company Limited

Schroder Asian Property Managers Ltd

SITCO Nominees Ltd

Schroder Finance (Bermuda) Ltd

Asian Venture Managers Inc.

Schroders, S.A. de C.V., Distribuidora de Sociedades de Inversion (SIM Mexico)

Schroder Services (Mexico) S.A. de C.V.

Schroders India Private Ltd

CM Komplementar 06-379 GmbH & Co KG

Blitz 06_956 GmbH

NFCP Consulting S.L.

J.H.S.C. Management Limited

Schroder Investment Company (Netherlands) B.V.

Schroder Investment Company (Switzerland) AG

J. Henry Schroder & Co AG

Schroder Property Investment Management (France) SARL

Schroder Property Services B.V.

Schroder Italien Fonds Verwaltungs GmbH

Schroder Property Investment Management (Italy) SRL

Schroder Pension Trustee Ltd

Schroder Nominees Limited

SIM Nominees Limited

Newsphere Trading Company Limited

The New Bracknell Company Limited

Schroders Corporate Secretary Limited

Columbus Capital Management LLP

Gresham Founder (CIP) Limited

Schroder Investment Management (Guernsey) Limited

Schroder Investment Management (Ireland) Limited

Thornhill Holdings Limited

Thornhill Investment Management Limited

Thornhill Unit Trust Managers Limited

Columbus UK GP Limited

Columbus UK Founder GP Ltd

Columbus UK GP II Limited

The investment in those entities which are not included in the consolidation for regulatory purposes is deducted from the sum of Tier 1 and Tier 2 capital (see capital resources on page 7).

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.

SCOPE OF APPLICATION (continued)

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

	31 December 2013 (audited) £m	Deconsolidation of insurance entities	Immaterial entities	Other*	Regulatory balance sheet £m
SSETS					
Cash and cash equivalents	2,522.5	(16.1)	(3.7)	–	2,502.7
Trade and other receivables	594.2	(18.1)	4.0	(5.5)	574.6
Financial assets	1,665.8	(21.5)	–	–	1,644.3
Associates and joint ventures	83.1	–	–	–	83.1
Property, plant and equipment	22.5	–	–	–	22.5
Goodwill and intangible assets	489.0	–	–	–	489.0
Deferred tax	48.5	–	–	–	48.5
Retirement benefit scheme surplus	63.7	–	–	–	63.7
Assets backing unit-linked liabilities	**11,131.7**	**(11,131.7)**	**–**	**–**	**–**
Total assets	**16,621.0**	**(11,187.4)**	**0.3**	**(5.5)**	**5,428.4**
LIABILITIES					
Trade and other payables	764.1	(26.6)	5.1	(39.3)	703.3
Financial liabilities	2,351.2	(0.1)	0.2	–	2,351.3
Current tax	46.6	(0.4)	0.1	–	46.3
Provisions	51.2	–	0.1	–	51.3
Deferred tax	1.7	–	–	–	1.7
Retirement benefit scheme deficits	5.9	–	–	–	5.9
Unit-linked liabilities	**11,131.7**	**(11,131.7)**	**–**	**–**	**–**
Total liabilities	**14,352.4**	**(11,158.8)**	**5.5**	**(39.3)**	**3,159.8**
Net assets	**2,268.6**	**(28.6)**	**(5.2)**	**33.8**	**2,268.6**
Equity	**2,268.6**	**(28.6)**	**(5.2)**	**33.8**	**2,268.6**

* Other mainly consists of adjustments to reconcile shareholder equity, goodwill and intangible assets to the group accounts

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, ordinary shares and non-voting ordinary shares. The premium on ordinary shares and non-voting 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 excluding fair value reserves.

Deductions in arriving at total Tier 1 capital as at 31 December 2013 include intangible assets of £489.0m, which consist mainly of goodwill of £357.0m. Goodwill includes £222.3m in relation to the acquisition of Cazenove and £19.8m relating to the acquisition of STW in 2013; £48.6m on the acquisition of NewFinance Capital Holdings Limited in 2006; £23.9m on the acquisition of Swiss Re AM in 2008; £22.1m on the acquisition of Beaumont Capital Management in 2001; £13.5m on the acquisition of Aareal Asset Management GmbH in 2007; and £3.9m on the acquisition of a Singapore private client advisory business in 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 31 December 2013, the Group held revaluation reserves consisting of unrealised gains of £24.3m in respect of the fair valuation of securities held in the available-for-sale financial assets category, which is classified as Tier 2 capital.

Any investment in associates and joint ventures should be deducted 50 Per cent. from Tier 1 and 50 Per cent. from Tier 2 capital. As a 50 Per cent. deduction from Tier 2 Capital for December 2013 is greater than the total Tier 2 capital, the residual balance has been deducted from Tier 1.

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 31 December 2013.

Table 3: Composition of regulatory capital

Tier 1 Capital	2013 £m	2012 £m
Permanent share capital	282.7	282.5
Share premium account	119.4	90.1
Profit and loss and other reserves	2,072.1	1,836.8
Total	**2,474.2**	**2,209.4**
Deductions from Tier 1		
Own shares	(229.9)	(165.1)
Goodwill	(357.0)	(117.2)
Intangible assets	(132.0)	(24.9)
Tier 1 after deductions	**1,755.3**	**1,902.2**
Tier 2 revaluation reserves	**24.3**	**25.6**
Deductions from total of tiers one and two capital		
Material and qualifying holdings*	(100.4)	(96.7)
Other supervisory deductions **	(6.5)	(3.0)
Total capital resources	**1,672.7**	**1,828.1**

*Investments in JVs and Associates and Insurance businesses
**Investments in entities that are not material or qualifying holdings

During the year to 31 December 2013 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.

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 ICAAP which is reviewed by the Board of Schroders plc. 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 Per cent. of the total risk weighted exposures.

Market risk

Schroders calculates its market risk capital requirement for Pillar 1 in accordance with BIPRU chapter 7 and, as at 31 December 2013, had a foreign currency position calculated in accordance with BIPRU 7.5.19R.
The market risk is mainly due to foreign exchange position risk which arises as a result of movements in relative currencies.

Operational risk

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

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

	31 December 2013 (unaudited) £m	31 December 2012 (unaudited) £m
Institutions	34.0	35.9
Central government and central banks	–	–
Corporate/Private clients	54.2	59.6
Regulatory high-risk categories (i)	18.3	23.1
Claims secured by mortgages on residential property	3.9	3.4
Claims secured by mortgages on commercial real estate	4.2	3.6
Other items (ii)	17.1	11.9
Total credit risk capital requirement	**131.7**	**137.5**
Market risk		
In respect of foreign exchange (iii)	**18.6**	**7.6**
Operational risk		
Calculated in accordance with the Standardised Approach	**192.1**	**178.2**
Total capital requirement Pillar 1	**342.4**	**323.3**

(i) As defined by the PRA/FCA 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, prepayments and other debtors.

(iii) Calculated as per BIPRU 7.5.19

CREDIT RISK AND DILUTION RISK

Past due and impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. An exposure is classified as impaired (the carrying value exceeds the amount to be recovered through use or sale) or non-performing when the 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 of impairment may include, but are not restricted to: non-payment of interest; a fall in credit worthiness; a reduction of cover/collateral below the covenanted minimum.

Provisions against lending arrangements

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

– Lending arrangements; and

– Other debtors

Lending arrangements principally arise in the Group's Wealth Management business*. The relevant Wealth Management 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 Wealth Managment 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 31 December 2013, doubtful debt provisions are held against gross loan and receivables that are recorded at amortised cost.

*Schroder & Co Ltd, Schroders (C.I.) Ltd, Schroder & Co Bank AG, and Schroder & Co. (Asia) Limited.

Table 5: Movement in provisions during the year

	31 December 2013 (unaudited) £m	31 December 2012 (unaudited) £m
At 1 January	16.2	18.8
Bad and doubtful debts charged	(3.9)	2.6
Reclassifications	–	(4.9)
Foreign exchange	0.7	(0.3)
	13.0	**16.2**

Other debtors consist mainly of fee debtors which arise principally within the Group's Asset Management business and amounts are monitored regularly by local offices. Although the Group is usually managing client cash representing 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 2013 are presented over the page. Factors considered in determining whether impairment should be recorded include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty and knowledge of specific events that could influence a debtor's ability to repay an amount due.

CREDIT RISK AND DILUTION RISK (continued)

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

	31 December 2013 (unaudited) £m	31 December 2012 (unaudited) £m
Up to and including 3 months	8.9	11.2
Over 3 months up to 1 year	1.1	1.4
	10.0	**12.6**

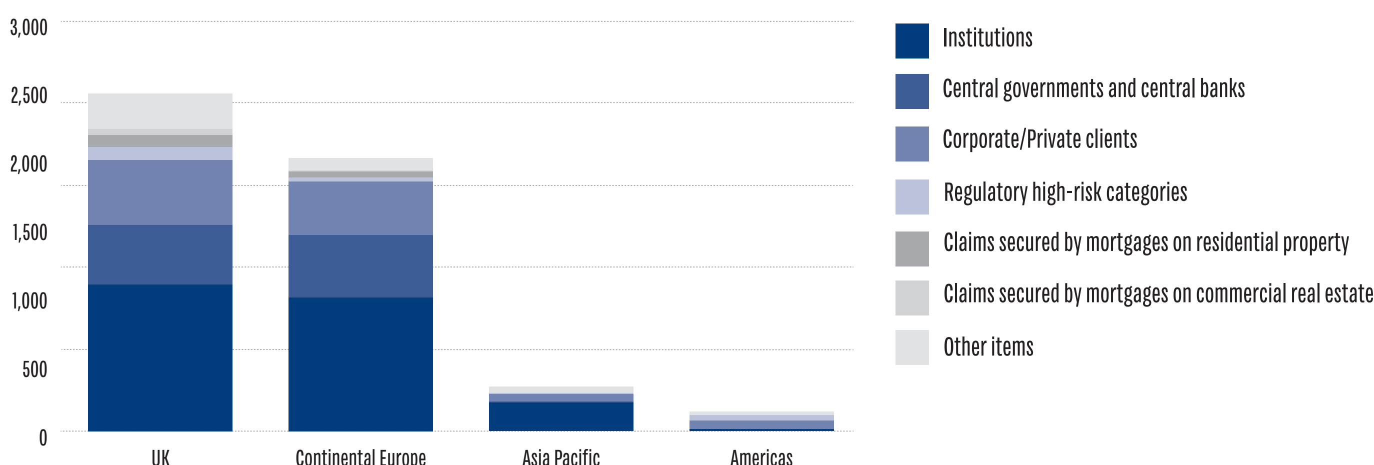
Analysis of credit risk exposures

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

	31 December 2013 (unaudited)		31 December 2012 (unaudited)	
	Credit risk exposure £m	Risk weighted assets £m	Credit risk exposure £m	Risk weighted assets £m
Institutions	2,271.2	424.4	2,316.4	449.3
Central government and central banks	900.3	–	943.4	–
Corporate/Private clients	983.3	677.2	1,151.5	744.5
Regulatory high-risk categories	164.1	228.4	203.7	288.8
Claims secured by mortgages on residential property	132.2	48.2	123.0	43.1
Claims secured by mortgages on commercial real estate	52.9	52.9	48.4	44.9
Other items	433.8	214.0	335.0	148.6
Total	**4,937.8**	**1,645.1**	**5,121.4**	**1,719.2**

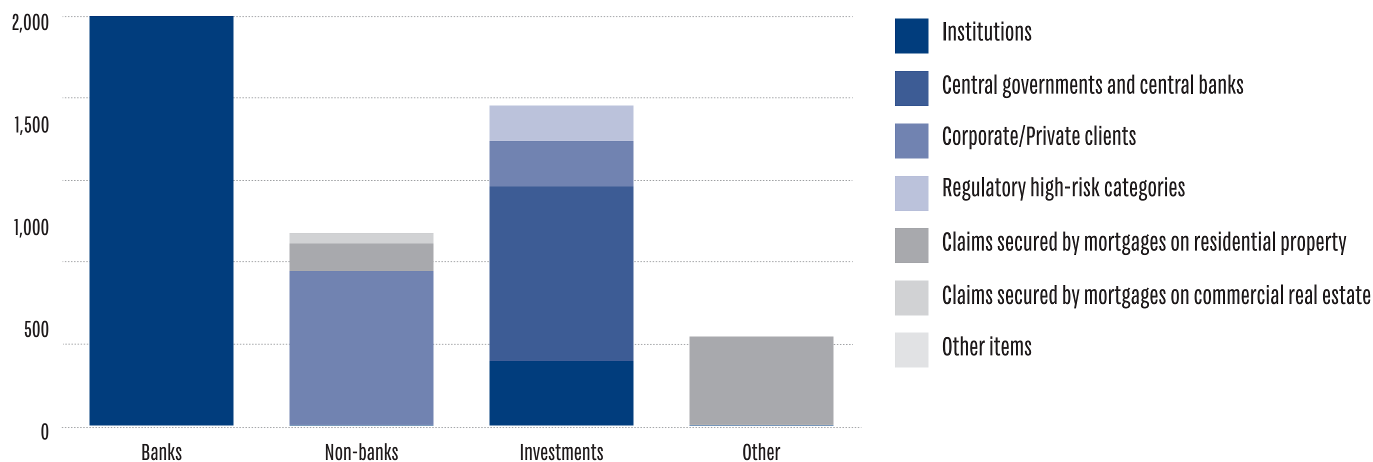
The following graphs provide further breakdown by geographic region, counterparty type and residual maturity.

Graph 1: Exposure by geographic distribution

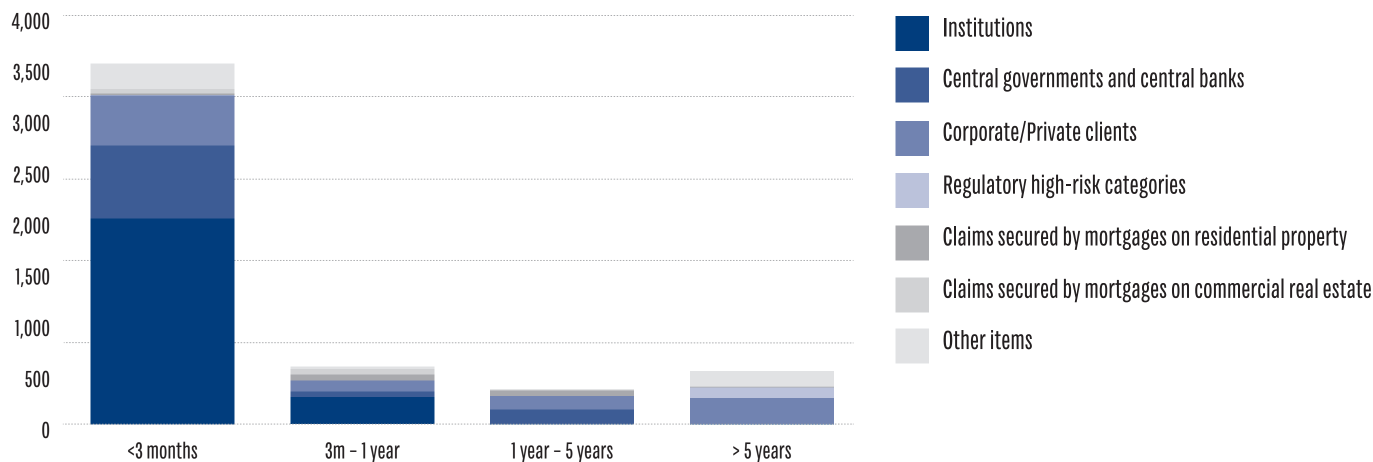


CREDIT RISK AND DILUTION RISK (continued)

Graph 2: Exposure by counterparty type



Graph 3: Exposure by residual maturity



THE STANDARDISED APPROACH TO CREDIT RISK

The External Credit Assessment Institution (ECAI) used by the Group is Fitch. Fitch Ratings are recognised as an eligible ECAI and are used to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale that is set out by the PRA/FCA in BIPRU 3 – the standardised approach to credit risk.

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

The following table gives details of the exposure value before and after credit risk mitigation (after application of BIPRU 5.4) 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. Property is valued according to the requirements of BIPRU 3.4.66.

Table 8: Details of the exposure value before and after credit risk mitigation at 31 December 2013

Credit quality step	Credit rating	Exposure before eligible financial collateral £m	Exposure after eligible financial collateral £m
1	AAA to AA-	1,730.0	766.5
2	A+ to A-	1,490.7	1,119.9
3	BBB+ to BBB-	3.1	3.1
4	BB+ to BB-	–	–
5	B+ to B-	0.1	0.1
6	CCC+ and below	–	–
unrated*		1,713.9	1,430.7
Total		**4,937.8**	**3,320.3**

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

Table 9: Analysis of unrated exposures

	31 December 2013 (unaudited) £m	31 December 2012 (unaudited) £m
Loans and advances to customers	619.2	707.2
Financial assets	220.6	262.6
Trade and other receivables	538.7	378.1
Cash and cash equivalents	7.9	9.2
Seed capital	96.3	113.0
Tax balances	65.2	59.1
Retirement benefit scheme surplus	63.7	67.2
Undrawn commitments	50.0	39.1
Other derivatives	10.2	14.4
Guarantees	15.2	19.3
Fixed assets	22.5	15.0
Letters of credit	4.4	2.7
Total	**1,713.9**	**1,686.9**

INTEREST RATE RISK IN THE NON-TRADING BOOK

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

Details of the Group's Wealth Management activities relating to policies and limits, other activities relating to cash held by other operating companies and sensitivity of projected net interest income under varying scenarios may be found on page 126 of the Annual Report and accounts 2013.

Table 9: Analysis by currency if interest rates were to increase by 0.5 Per cent.

Currency	31 December 2013 (unaudited) £m	31 December 2012 (unaudited) £m
GBP	2.9	2.8
EUR	0.4	0.2
USD	–	0.3
CHF	0.2	0.1
others	0.2	0.3
Total	**3.7**	**3.7**

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 Note 11 within the Annual Report and Accounts 2013 and is not repeated here. An overview of how capital is managed, and with what objectives, can be found within Note 20(a) of the Annual Report and Accounts 2013.

The balance sheet value and the fair value of non-trading book equities as at 31 December 2013 was £290.1m.

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

	31 December 2013 (unaudited)			31 December 2012 (unaudited)		
	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
Seed capital and hedge funds	79.4	55.7	135.1	53.7	60.8	114.5
Third party hedge funds	–	–	–	7.1	2.0	9.1
Private Equity Investments	27.3	14.0	41.3	27.7	6.6	34.3
Property funds	–	13.6	13.6	–	25.0	25.0
Others	82.0	18.1	100.1	9.5	164.8	174.3
Total	**188.7**	**101.4**	**290.1**	**98.0**	**259.2**	**357.2**

The cumulative realised gains from sales / liquidations during the year were £20.4m. Total unrealised gains were £1.6m which have been included in Tier 2 capital resources.

REMUNERATION

The following disclosures are required by BIPRU 11.5.18.

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

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

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's responsibilities include recommending to the Board the Group's policy on Directors' remuneration, overseeing the remuneration governance framework and ensuring that remuneration arrangements are consistent with effective risk management. The role and activities of the Committee and their use of advisors are further detailed in the Remuneration Report and the Committee's Terms of Reference (both available on the Group's website).

Code Staff criteria

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

– Directors of Schroders plc and certain key operating subsidiaries;

– Non-executive Directors of Schroders plc and certain key operating subsidiaries;

– Members of the GMC;

– Staff performing a Significant Influence Function within the Group;

– Material Risk Takers;

– Employees in key control function roles; and

– Employees who are remunerated at the same levels as the average GMC member.

In determining whether or not someone is Code Staff they are assessed on their impact on the ICAAP risks as identified by the Group. Control frameworks and relevant committee terms of reference are also taken into account.

Link between pay and performance

Remuneration at Schroders is made up of fixed pay and variable performance-related pay.

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

Variable performance-related pay is principally comprised of annual bonus awards. Non-executive Directors do not receive variable performance-related pay. The overall size of the annual pool for variable performance-related pay is a material component of our total remuneration expense and is set by the Board and the Remuneration Committee by reference to and (a total compensation to operating revenue ratio) a bonus to pre-bonus profit before tax and exceptionals ratio and both of which are reported to shareholders. This ensures that the aggregate spend on variable performance-related pay directly reflects the Company's performance.

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

For senior management and employees receiving larger bonus awards, a significant proportion of their annual bonus award is deferred under the Equity Compensation Plan (ECP). ECP awards vest after three years. ECP Share awards are conditional rights to acquire shares in the Company 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 payouts from ECP awards are directly determined by the Group's share price performance and the Group's performance managing funds for our clients.

During 2013, certain senior employees were eligible to be considered for an award under the Long-term Incentive Plan (LTIP), which are conditional rights to acquire shares in the Group at nil cost, that vest after four years to the extent that performance conditions based on Earnings Per Share and Net New Business are achieved. LTIP awards incentivise long-term performance and focus on long-term retention and strategic priorities, while maximising alignment with shareholder interests.

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

REMUNERATION (continued)

Quantitative Remuneration Disclosures

47 employees have been identified as Code Staff, 26 of whom are classified as Senior Management.

Table 11: Aggregate remuneration for Code Staff was as follows:

	Senior management £000	Rest of Group £000
Fixed remuneration	5,096	3,870
Variable remuneration	38,534	7,443
Aggregate remuneration	**43,630**	**11,313**

Table 12: Aggregate remuneration expenditure for Code Staff by business area:

Investment £000	Distribution £000	Rest of Group £000
19,488	9,255	26,200

Aggregate remuneration disclosed includes:

- Non-executive Director fees for 2013;
- Annual base salaries as at 31 December 2013 (or date of leaving);
- Cash bonus awards for the 2013 performance year;
- Deferred awards for 2013 based on the value of award (LTIP awards at 100 Per cent. of award value); and
- Any other awards for new hires and any bonus or payments for leavers.

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

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