Schroders plc
Annual Report and Accounts 2012

Creating long-term value

Schroders

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Annual Report and Accounts 2012

At Schroders, asset management is our business and our goals are completely aligned with those of our clients – the creation of long-term value.

We manage £212.0 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset, alternatives and property.

We employ more than 3,000 talented people worldwide operating from 34 offices in 27 different countries across Europe, the Americas, Asia and the Middle East, close to the markets in which we invest and close to our clients.

Schroders has developed under stable ownership for over 200 years and long-term thinking governs our approach to investing, building client relationships and growing our business.

Cover image
This has been taken from a recent marketing campaign that denotes our trusted heritage and advanced thinking.

Highlights

Assets under management

£212.0 billion

(2011: £187.3 billion)

Net new business

£9.4 billion

(2011: £3.2 billion)

Profit before tax

£360.0 million

(2011: £407.3 million)

Shareholders' equity

£2.1 billion

(2011: £1.9 billion)

Earnings per share

104.7 pence

(2011: 115.9 pence)

Total dividend per share

43.0 pence

(2011: 39.0 pence)

Annual General Meeting
Our Annual General Meeting will be held at 11.30 a.m. on 2 May 2013 at 31 Gresham Street, London EC2V 7QA.

Dividend
The Board is recommending a final dividend of 30.0 pence, payable on 9 May 2013. This brings the total dividend payable for the year to 43.0 pence.

You can find more information about Schroders on our website www.schroders.com/ir or download our investor relations app.

Available on the App Store

Contents

Schroders at a glance

We have built a diversified business model across client types, asset classes and regions which we believe offers defensive characteristics at a time of challenging markets and above-average growth potential in the long term.

We are diverse by…

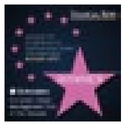
Clients

We manage assets on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world. No client accounts for more than 2 per cent. of revenues.

Assets under management

Institutional	58%
Intermediary	34%
Private Banking	8%

Awards



European Asset Management Firm of the Decade (2000 – 2010)
Financial News Awards for Excellence in Institutional Asset Management

Most Innovative Asset Manager
Engaged Investor Trustee Awards

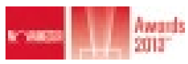
Image and Reputation – Ultra High Net Worth
Private Asset Managers (PAM) Awards

Assets

We invest in a broad range of asset classes across equities, fixed income, multi-asset, alternatives and property. In addition to institutional segregated mandates, we offer over 580 funds in 21 countries.

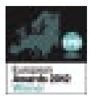
Equities	45%
Fixed Income	18%
Multi-asset	20%
Emerging Market Debt and Commodities	4%
Property	5%
Private Banking	8%

Multi-Asset Manager of the Year
Professional Pensions UK Pensions Awards



Emerging Market Equities, foreign asset manager
Morningstar Portugal

Financial Adviser of the Year – ISF Multi-Asset Income fund
Cash Financial Adviser Awards



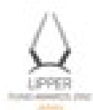
Specialist Fund UK
IPD European Property Investment Awards

Geography

We operate from 34 offices in 27 different countries providing local and international investment products to local and international clients.

UK	36%
Europe and Middle East	23%
Asia	27%
Americas	14%

Fund Manager of the Year – Australia
Money Management/Lonsec Awards



Best Fund Group – Equity
Lipper Awards Japan

Best Fund Group – Mixed Assets Large
Lipper Awards Europe

We have a long-term focus…

Creating enduring client relationships

We seek to build long-term relationships with our clients and a deep understanding of their investment objectives.

Investing in innovation

We develop investment products and solutions to meet the changing needs of our clients. We also invest our own capital in building a track record in new products before bringing them to the market.

Growing our business

We focus on the long term as we invest behind the future growth opportunities for our business.

Supported by a strong financial position…

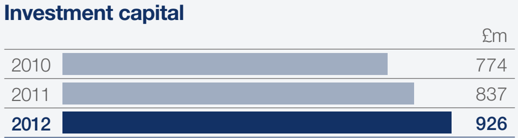
At 31 December 2012, shareholders' equity was £2.1 billion. Maintaining a strong financial position enables us to take a long-term view of growth opportunities.

£2.1 billion

Shareholders' equity (2011: £1.9 billion)

Investment capital is the capital held in excess of operational and regulatory requirements. It allows us to invest in both organic and inorganic growth opportunities.

Investment capital



Schroders is rated M1 by the independent ratings agency Fitch. This is the highest possible rating for an asset manager and recognises our long history, diversified business model and financial stability.

In 2012, Schroders was named one of 'Britain's most admired companies' for its financial strength.

Schroders around the world

Our worldwide investment and distribution capabilities give us good insights into local market opportunities in terms of investing for existing clients and building new client relationships.

We have…

192 fund managers

176 analysts

47 dealers based in...

21 investment centres

Americas

Assets under management

	£bn
2010	27.3
2011	25.0
2012	**30.6**

Offices

Bermuda
Buenos Aires
Cayman Islands†
Mexico City
New York*
Philadelphia*
Santiago
São Paulo*

Regional overview

In 2012, we generated net inflows of £3.5 billion (2011: £0.3 billion) in the United States, Canada and Latin America.

Key developments

In December 2012, we announced the acquisition of STW Fixed Income Management LLC (STW), a value-orientated, US investment-grade fixed income manager. This acquisition will increase our assets under management in US fixed income by approximately 50 per cent. to US$35 billion, broaden our product range and service platform and extend our US Institutional client base. The transaction is expected to complete in the first half of 2013.

STW

At 31 December 2012, STW managed US$11.6 billion on behalf of more than 100 institutional clients.

Key

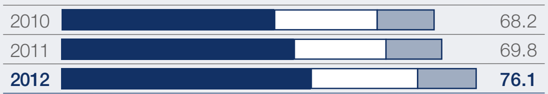
* Investment centres
† Private Banking centres

■ Institutional assets under management
□ Intermediary assets under management
■ Private Banking

Assets under management by client domicile.

UK

Assets under management



Offices

London*† Guernsey*† Jersey†

Regional overview

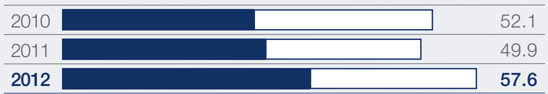
In 2012, we had net outflows in the UK of £0.2 billion (2011: inflows of £4.4 billion). Net inflows in UK Intermediary were offset by outflows in Institutional and outflows in Private Banking.

Key developments

We added property to our investment trust capabilities with the appointment to manage two property investment portfolios with a combined gross asset value of c.£600 million.

Asia

Assets under management



Offices

Beijing
Hong Kong*
Jakarta*
Mumbai*
Seoul*
Shanghai
Singapore*†
Sydney*
Taipei*
Tokyo*

Regional overview

In 2012, we generated net inflows of £3.5 billion (2011: £1.4 billion), with a strong performance in Institutional. In Australia, we won the Money Management/Lonsec Fund Manager of the Year award for the fourth consecutive year.

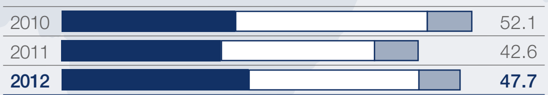
Key developments

In September 2012, we acquired a 25 per cent. shareholding in Axis Asset Management Company, the Indian asset management business of Axis Bank Limited. This will enable us to participate in the Indian mutual fund market through a strategic relationship with Axis, a leading Indian private sector bank.

Axis Asset Management: The business was founded in 2009 and at 31 December 2012 had assets under management of £1.3 billion.

Europe and Middle East

Assets under management



Offices

Amsterdam*
Copenhagen
Dubai*
Frankfurt*
Geneva*†
Gibraltar
Luxembourg*
Madrid
Milan*†
Paris
Rome
Stockholm*
Zurich*†

Regional overview

We generated net inflows in continental Europe of £2.6 billion in 2012 (2011: net outflows of £2.9 billion), with good performance in Institutional across the region.

Key developments

Our Intermediary business saw significant levels of net sales in the second half, for the first time since the first half of 2011, as concerns over the Eurozone subsided and investor sentiment improved.

Chairman's statement

Our focus on delivering for clients and the stability of the Group over the long term have been key to Schroders' success.

"In 2012, we have continued to take advantage of our financial strength and invested for the future."

In 2012, we have continued to invest in the business at a time when many other companies in the financial sector were reducing headcount and cutting costs. This investment for the long term had an impact on profitability in the year. Profit before tax was 12 per cent. lower at £360.0 million (2011: £407.3 million) and basic earnings per share were 104.7 pence (2011: 115.9 pence). The Group performed well overall in 2012: for clients, with a very high proportion of assets under management outperforming; for our prospects in 2013, as we go into the year with a record level of assets under management; and for shareholders, with a 28 per cent. increase in the share price during the year. The Group's performance in 2012 is outlined in more detail in the Chief Executive's statement on page 10.

Dividend

Recognising our financial strength and confidence in the Company's long-term growth prospects, the Board has decided to increase the final dividend to 30.0 pence (2011: 26.0 pence). This will bring the total dividend for the year to 43.0 pence (2011: 39.0 pence), an increase of 10 per cent. The final dividend will be paid on 9 May 2013 to shareholders on the register at 2 April 2013.

It remains our policy in the long term to increase dividends progressively, in line with the trend in profitability.

Strategic review

In 2012, the Board undertook a detailed review of the firm's strategy including reviewing future trends in the asset management and private banking industry, likely demand patterns from clients, the changing nature of competitors in our industry and the regulatory environment. More information on these long-term trends can be found on page 12.

This review confirmed our belief that Schroders is positioned to continue to perform well, with a highly diversified business model, supported by a strong financial position and trusted reputation. We reconfirmed our exclusive focus on asset management and private banking and identified a number of growth opportunities, including our intention to increase our business in the US. More information can be found in the operating review on page 29.

Dividend per share

	pence per share
Interim	13.0
Final	30.0
Full year	**43.0**

The final dividend is payable on 9 May 2013.

Special thanks

On 1 January 2013, Bruno Schroder had served as a Director of Schroders for 50 years. The experience that he brings to the Board is unrivalled. On behalf of the Company, I offer him our congratulations on achieving this significant milestone.

Regulatory change

As a result of the financial crisis, we have seen unparalleled regulatory change and political involvement in the financial services industry. We recognise that regulatory changes were necessary to reduce systemic risk and improve client protection. From 1 April 2013, we will be regulated by the Financial Conduct Authority (FCA) and, in relation to our deposit-taking and insurance businesses, the Prudential Regulation Authority (PRA).

To help shareholders understand the importance of regulation, we have included a new diagram on page 37 in the key risks and mitigation section of the Annual Report, which highlights some of the main regulatory changes that we expect to impact our business over the next few years.

The Board

In September, we welcomed Nichola Pease as a non-executive Director. Her experience of the asset management industry brings additional insights to our discussions.

After nine years on the Board, Merlyn Lowther will stand down at the 2013 Annual General Meeting. We thank her for her contribution over many years, most recently as Chairman of the Audit and Risk Committee. Ashley Almanza will succeed Merlyn as Chairman of the Audit and Risk Committee and Nichola Pease will join the Committee.

In November, we announced that, after ten years' service, Kevin Parry had decided to step down from the Board in May 2013. We also thank Kevin for his contribution to Schroders, initially as a non-executive Director and then as Chief Financial Officer. We intend to appoint Richard Keers to the Board as Chief Financial Officer on 5 May 2013. Richard's previous experience, in PricewaterhouseCoopers' financial services practice since 1988, and as the Global Relationship Partner for Schroders from 2006 to 2010, positions him well for his new role.

People

Of all Schroders' many attributes, the talented people we employ around the world are our greatest asset. On behalf of the Board I would like to take this opportunity to thank them for their hard work in 2012 and their continued commitment to the firm.

Andrew Beeson
Chairman
6 March 2013

Disciplined

Delivering competitive performance through disciplined investment processes

Consistent and superior investment performance is the key factor behind growth in net new business. We target at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

71%

of assets under management outperformed over the three years to 31 December 2012

Strategy

Chief Executive's statement

We are confident that the strategy that has served the Company well over the past decade will continue to deliver value for shareholders.

"Investment performance for clients has been strong across the board with 71 per cent. of funds outperforming benchmark or peer group over the three years to the end of 2012 and 78 per cent. outperforming over one year."

Financial markets and investor sentiment fluctuated sharply in the first half of 2012, with early gains in equity markets given back in the second quarter as concerns grew over the Eurozone and faltering economic growth. In the second half, confidence recovered as central banks continued to provide liquidity, convincing actions were taken in Europe to address the challenges facing the single currency and the likelihood of a hard landing for the Chinese economy receded. Sentiment improved markedly and, with equity valuations looking historically attractive against bonds and investors seeking to reduce their underweight positions, equity markets moved higher.

Against this volatile background, Schroders had a solid year, with four quarters of positive net new business flows in Institutional and Intermediary, £9.4 billion of net new business for the year as a whole and assets under management reaching their highest ever level of £212.0 billion (2011: £187.3 billion). Profit before tax was down 12 per cent. at £360.0 million (2011: £407.3 million), with a small reduction in net revenue attributable to lower net revenue margins, and a 4 per cent. increase in costs as we continued to invest in the business.

Asset Management

Asset Management net revenue declined 3 per cent. to £1,014.8 million (2011: £1,041.5 million) including performance fees of £28.4 million (2011: £36.6 million). Net revenue margins, excluding performance fees, were 54 basis points (2011: 56 basis points) reflecting the significant growth of Institutional in recent years. Asset Management profit before tax was £348.5 million (2011: £389.4 million).

Last year we continued our programme of selective investment in support of future growth. Notable areas were Multi-asset and Fixed Income; control functions in the context of the significant expansion in our business and the increased regulatory agenda; and information technology upgrades in order to give us greater scale benefits and provide our fund managers with a leading support capability.

Investment performance for clients has been strong across the board with 71 per cent. of funds outperforming benchmark or peer group over the three years to the end of 2012 and 78 per cent. outperforming over one year. Net new business in Institutional was £6.4 billion (2011: £6.8 billion) with positive flows in most asset classes and a particularly strong performance in Equities. Assets under management in Institutional ended the year at £123.7 billion (2011: £108.4 billion).

Despite weak retail investor demand early in the year, we achieved four quarters of positive net inflows in Intermediary in 2012 and net inflows for the year as a whole were £3.3 billion (2011: net outflows £3.8 billion), predominantly in Multi-asset. Assets under management in Intermediary ended the year at £72.0 billion (2011: £62.9 billion).

During the year we announced two acquisitions which are complementary to our organic growth strategy. In India we acquired a 25 per cent. shareholding

Our strategy

Asset management is our business and our goals are completely aligned with those of our clients. Our objective is to build long-term value for our clients and our shareholders by:

Delivering consistent and above average performance through disciplined investment processes

Building close relationships with clients

Ensuring operational effectiveness

Retaining and developing a deep pool of talent

Investing in future growth opportunities

For more information go to page 16.

in Axis Asset Management, the asset management subsidiary of the third largest private sector bank in the country. India's demographics and economic growth prospects will lead over time to a major asset management opportunity and Axis shares our long term approach to building businesses as well as bringing a strong distribution capability.

Towards the end of the year we announced the acquisition of STW, a US fixed income business with US$11.6 billion of assets under management at 31 December 2012. STW has an excellent investment track record, adds 100 new institutional client relationships and meets our strategic objectives of building scale in Fixed Income and growing our presence in the US. We expect the transaction to complete in the first half of 2013.

Private Banking

Our Private Banking business faced a number of challenges in 2012. Net revenue declined 17 per cent. to £94.4 million (2011: £114.3 million), with lower management fee and commission income as a result of subdued client activity and business outflows. Net revenue was also impacted by a further £7.9 million of loan losses on previously impaired loans, principally as a result of the continued weakness in the commercial property market.

Costs were reduced by 9 per cent. to £82.6 million (2011: £90.5 million) and profit before tax was £11.8 million (2011: £23.8 million).

We continued to generate inflows in the UK private client and charities business but we saw outflows from our cash management service and in our Swiss business, reflecting changes in our client base. Net outflows were £0.3 billion (2011: net inflows: £0.2 billion) and assets under management ended the year at £16.3 billion (2011: £16.0 billion).

In the short term we may see further net outflows, but longer term we remain positive about opportunities in Private Banking. We are streamlining the management structure, adding to our talent pool and strengthening our business development activities.

Group

The Group segment comprises returns on investment capital, which increased during 2012, and central costs including management, governance and the Group's insurance arrangements. The loss before tax for the year was £0.3million (2011: loss £5.9 million).

Shareholders' equity at the end of 2012 was £2.1 billion (2011: £1.9 billion).

Outlook

With economic activity likely to be subdued for some time, and with austerity programmes being increasingly challenged, the outlook for markets is still uncertain. However, corporate balance sheets are healthy and, while earnings may only grow modestly in 2013, dividends remain well supported. In the first two months of the year equity markets have extended their strong showing as investors have continued to switch funds from low yielding cash and bonds. Good investment performance and a broad product range have enabled us to benefit from this pick up in investor demand for equities.

We are confident that the strategy that has served the Company well over the past decade, of building a diversified business across different client types, asset classes and regions, and of focusing on the long term rather than on short-term trends or market cycles, will continue to deliver value for shareholders.

Michael Dobson
Chief Executive
6 March 2013

Market developments: longer-term trends

Global demographics, average income, savings ratios and growth in total savings are the key structural drivers of the asset management industry.

"Client demand for income generation and outcome-orientated strategies continues as clients seek to secure income and manage risk."

Massimo Tosato
Executive Vice-Chairman and Global Head of Distribution

The key structural drivers of global demographics, average income, savings ratios and growth in total savings, together with regulation, affect the potential size of the market and the level of penetration of asset management products. We have identified a number of key trends that will determine our opportunity set over the coming years:

Geographies and demographics

Established saving pools and mature markets, such as Europe and the US, will remain important, despite lower growth rates. We expect the US to remain the largest market for our industry and intend to grow our presence here.

Global demographics

The retirement of the 'baby boomer' generation, which owns a majority of global wealth, creates a major opportunity in the decumulation space as individuals seek to finance retirement, and could account for nearly 40 per cent. of available industry flows within mature economies. Commercial banks and insurance companies will see the majority of these flows and are an increasingly important distribution partner. We expect insurance companies to expand the outsourcing of asset management.

Defined benefit pension schemes are maturing rapidly, driven by the increasing longevity of an ageing population. This has forced a move to defined contribution pension schemes and is a catalyst for the growing importance of individual personal savings. Accessing the individual and focusing on their needs in a multi-layered servicing, packaging or distribution framework will be paramount for asset managers.

Emerging economies

In 2012, global wealth was estimated to be in excess of US$223 trillion, with 62 per cent. held in Europe and North America. However, wealth accumulation in emerging markets is more significant with average annual growth rates between 15 and 25 per cent. Asia, Latin America and the Middle East will continue to represent major growth opportunities for our business with new savings flows driven by the emergence of a large and increasingly prosperous middle class in these countries. Official Institutions, such as sovereign wealth funds and central banks, will continue to accumulate surplus assets as global imbalances are maintained and they are an increasingly important institutional market segment.

Continued risk aversion and demand for outcome-orientated solutions

We have been preparing for an increased demand for multi-asset solutions to accommodate the growth in defined contribution, post-retirement and annuity markets, driven by an ageing investor base with a lower risk profile.

In addition to addressing decumulation needs, this trend has accelerated as a result of the financial crisis and market volatility in recent years. We have been developing our product offering to include regular income, outcome-orientated, absolute return and benchmark-unaware strategies for all client segments.

We also expect high alpha strategies to continue to remain in demand from asset allocation specialists in a more multi-layered industry, provided that asset managers are able to deliver performance with a high degree of consistency. Low cost beta will be accessed by clients through passive strategies and ETFs.

Regulatory complexity

Wide-ranging regulatory reform is underway globally, to address issues from systemic risks to investor protection, transparency and governance. Asset managers, particularly globally-diversified firms, need to meet the increased cost of more complex regulation and balance the competing demands of different jurisdictions.

The Retail Distribution Review (RDR) has come into force in the UK and there will now be greater transparency for the end retail client as the fees paid will be 'unbundled', with no commission or rebates permitted for advisers. As a result of changes in the structure of our industry, we expect retail fees to come under pressure over the long term. Similar developments are underway in the Netherlands.

In the European Union, the focus includes proposed changes to the Markets in Financial Instruments Directive (MiFID), new regulations for alternative investment fund managers (AIFMD) and the operation of derivatives markets. Consultations continue on remuneration policies, to enhance transparency and provide greater protection in relation to more complex products and the Packaged Retail Investment Products (PRIPs) Initiative, and to improve disclosure and level the playing field between product providers.

Regulatory changes are driving industry consolidation, which we believe will favour asset managers such as Schroders with scale, a broad offering and established client relationships.

Market developments: 2012 overview

Liquidity and political risk dominated financial markets during the year.

2012: market overview
Financial markets were largely divorced from macro-fundamentals in 2012 and risk assets performed well, despite continued weak global growth. Equities and corporate bond markets outperformed risk-free assets such as cash and core government bonds as investors looked for yield to protect against inflation in an environment of negative real interest rates.

The Eurozone, problems in the Middle East, the fear of a China ‘hard landing’ and the ‘fiscal cliff’ in the US all contributed to macro-economic uncertainty, as markets adopted a ‘risk on, risk off’ approach, which was particularly negative in the second quarter of the year. Risk assets staged a recovery from late July in response to further quantitative easing from central banks and the perception of a stabilisation of the Eurozone problems.

As a result of the additional liquidity, all major asset classes, with the exception of commodities, moved higher during the year.

“We believe that equities are generally valued attractively and prospects are positive in 2013 and longer term.”

Peter Harrison
Head of Equities (from 15 March 2013)

Equity markets
2012 was a good year for equities, despite the fact that there has been little progress in resolving the underlying structural issues in the developed economies. Both developed and emerging equity markets delivered reasonable returns against a difficult macro-economic background.

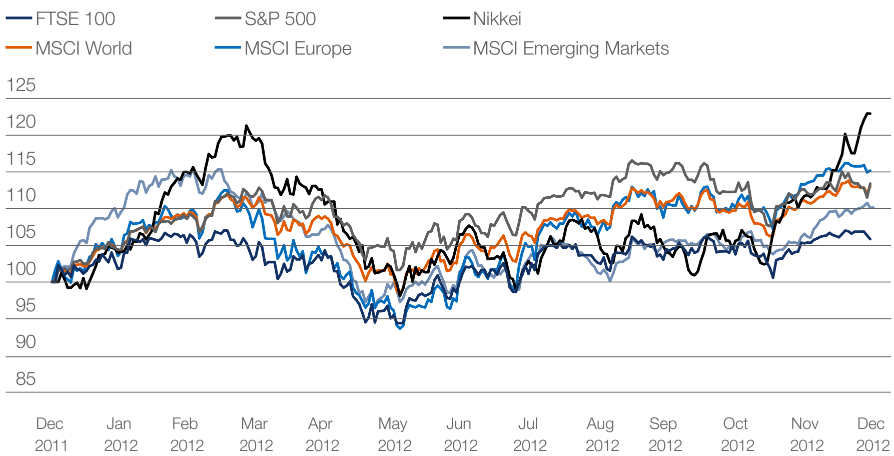
In the first quarter, equity markets improved steadily, before becoming particularly volatile in the second quarter as the Eurozone problems dominated and then recovered in the third quarter. The FTSE 100 and S&P 500 indices increased 5.8 per cent. and 13.4 per cent. respectively during the year.

The MSCI World Index increased 13.1 per cent. and the MSCI Emerging Markets Index increased 13.9 per cent. in 2012.

The Nikkei Stock Average in Japan increased 22.9 per cent. in the year. This was its first positive performance in three years and its best percentage rise since 2005. The index closed at its highest level since March 2011, before the earthquake and tsunami struck the north-east region of Japan.

Outlook
Central banking policy and the stabilisation of the Chinese economy have reduced risk in the developed economies. This bodes well for both global and emerging market equities. In continental Europe, we remain conscious of the macro-economic and political headwinds, but see opportunities to invest in attractively valued, global businesses.

Equities – world indices performance
%



Market developments continued

"Fixed income assets benefited from more central bank intervention in 2012, which also helped credit. The gains in equity markets and the search for yield helped push investors into corporate debt. High yield and investment grade assets both performed well."

Karl Dasher
Co-Head of Fixed Income

Fixed income markets

Government bonds continued to perform as low interest rates underpinned the asset class. The premium placed on AAA assets continues to rise, especially with the ongoing increase in requirements for banks to hold more safe assets.

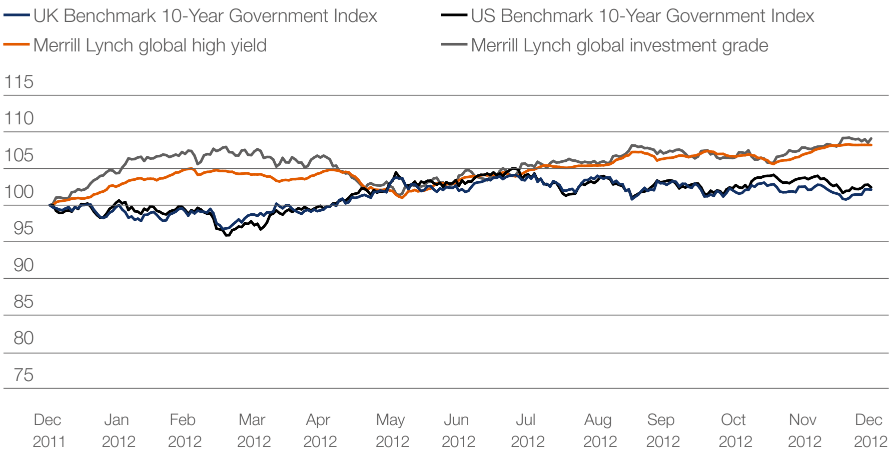
Corporate and high yield bonds have provided stronger returns as investors have taken on more risk. Monetary policy announcements were significant catalysts for higher risk markets. The European Central Bank's more proactive approach under Mario Draghi, as well as significant policy announcements in early September and a new round of quantitative easing in the US, further supported the rally.

Emerging market debt also performed strongly with each of the major sub-components of the asset class – sovereign, corporates and local currency – posting double-digit returns.

Outlook

We expect fixed income markets to continue to be affected by political and macro-economic news in 2013. Yields on developed market bonds and credit are still depressed and credit spreads are considerably lower than 2012, especially for corporate debt. We remain positive about the potential for active management to deliver in 2013 using our top-down macro-economic themes to assist our bottom-up credit research. We will continue to be active in the new issue market when valuations are attractive for corporate bonds issued by companies with good fundamentals.

Fixed income performance
%



"'Safe havens' are expensive and the search for yields is creating 'bubble-like' conditions in certain asset classes. We are increasingly focused on combining diversified growth exposure with downside risk management within our Multi-asset portfolios."

Nico Marais
Head of Multi-asset and Portfolio Solutions

Multi-asset

Against the backdrop of receding fears about the future of the Eurozone, continued quantitative easing and more encouraging economic statistics, higher-risk assets such as equities and high yield debt have delivered strong returns in 2012. We continued to increase our allocation to equities during the year. While our core exposure continues to emphasise quality, we began to take advantage of pockets of extreme value. For example, buying European equities in June and Japanese equities in the third quarter.

Outlook

In 2013, we expect low interest rates and weak global growth to continue. We believe that a strategy which favours higher-quality stocks and is focused on enhancing yield through asset classes such as high yield debt will continue to deliver. However, the absence of a convincing global recovery will continue to weigh on more cyclical assets.

Visit Schroders Talking Point for market news and expert views **www.schroders.com/talkingpoint**.

"Commodity markets experienced a typical level of volatility in 2012 but, in the end, few major surprises."

Geoff Blanning
Head of Emerging Market Debt and Commodities

Emerging Market Debt and Commodities

Commodity markets experienced a typical level of volatility in 2012 but, in the end, few major surprises. The negative effects of weaker-than-forecast demand from Europe and China were largely offset by the positive effects of easy global monetary policies.

Absolute Return Emerging Market Debt and Currency Funds faced, throughout the year, a similarly volatile and somewhat precarious market environment dominated by the European crisis and by the extraordinary monetary policy actions of developed country Central Banks.

Outlook

While Central Bank officials and the vast majority of global market participants retain strong conviction that the recent, post-crisis, mildly deflationary global environment is set to persist, an increasingly important section of the investment community now recognises the clear risk to conventional asset allocation strategies, in the medium-to-long term, from monetary instability.

We remain focused on providing clients with a choice of multiple alternative investment strategies which offer attractive risk-return characteristics under a variety of economic scenarios.

Property

Overall, capital values for prime property assets increased in 2012, against a backdrop of improved investor demand. In contrast, the lack of available bank debt and the risk averse nature of many investors caused secondary property values to fall further. Markets in southern Europe were effectively closed due to the effect of the Euro crisis.

In terms of investment performance, central London was the stand-out real estate market registering both rental and capital value growth across all sectors. Low levels of supply caused rents to rise despite relatively weak occupational demand and significant inward flows of capital pushed investment yields down.

Outlook

In the UK and northern Europe, we expect prime capital values to remain firm in 2013, driven by continued strong investor demand for high quality real estate assets. London is likely to remain strong. Pricing of secondary assets is starting to look more attractive but careful stock selection will be critical to generating attractive returns.

Strategy

We are a leading, global asset management business – diversified by asset class, sales channel and region.

Our goal is completely aligned with that of our clients and shareholders – to create value over the long term.

We achieve our goal by:	Measurable by:	Benefits:	Risks:
Delivering consistent and above average performance through disciplined investment processes	– Targeting at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.	Consistent and superior investment performance is the key factor behind growth in net new business.	Market, investment performance, liquidity and credit risks – see pages 32 and 33.
Building close relationships with clients	– Levels of gross sales; and – Levels of net new business.	A close understanding of our clients' investment needs leads to enduring relationships.	Investment performance and product risks – see pages 32 to 34.
Ensuring operational effectiveness	– Targeting a cost:net revenue ratio of 70 per cent. over a market cycle; and – Targeting a compensation cost:operating revenue ratio of 45 per cent. over a market cycle.	Operational effectiveness ensures we maintain high service quality and control operational risk.	Operational risk, including operations, technology, legal, regulatory and compliance – see pages 33 to 35.
Retaining and developing a deep pool of talent	– Developing and training our employees; and – Retaining employees performing at or ahead of expectations.	Retaining and developing talent is key to organisational stability and long-term success.	People risk – see page 34.
Investing in future growth opportunities	– Investment in both organic growth and acquisition opportunities throughout the market cycle, enabled by a strong financial position.	The long-term creation of shareholder value.	Losses on the Group's Investment Capital – see pages 32 and 33. Emerging risks – see page 36.

Results: (key performance indicators are in bold)	2012	2011	Our expectations for 2013:
The percentage of assets under management that outperformed over three years to 31 December* (see 1, overleaf)	**71%**	**70%**	Performance improved in 2012. We expect this to benefit our long-term investment performance measure in 2013, where we continue to target 60 per cent. outperformance.
Gross sales	£57.6bn	£59.3bn	If markets maintain their positive start to the year, we would expect to achieve a higher level of net inflows in 2013.
Net new business (see 2, overleaf)	**£9.4bn**	**£3.2bn**	
Cost:net revenue ratio (see 5, overleaf)	**70%**	**66%**	We expect these ratios to remain at or slightly above our long-term targets as we continue to invest in talent, develop new products and markets and upgrade our information technology infrastructure.
Compensation cost:operating revenue ratio (see 6, overleaf)	**49%**	**44%**	
Employee training (number of sessions)	7,940	10,125	Retention has been unusually high during the last three years and could be affected by an improvement in market conditions during 2013.
Employee retention	93%	96%	
Operational capital	£957m	£884m	We expect seed capital deployed in seeding new investment strategies to increase as we continue to develop our products.
Investment capital	£926m	£837m	
of which: Seed capital investments	£156m	£178m	

* See Glossary for definition.

Key performance indicators

We use a number of key performance indicators to measure our performance over the long term. A five-year view is shown below.

Our objective:	How we performed:	Long-term performance:

1. Investment performance

Our objective: We target at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

How we performed: Investment performance has been above our target over the last five years.

Long-term performance:

	%
08	67
09	79
10	81
11	70
12	**71**

2. Net new business†

Our objective: We seek to generate positive net inflows in Institutional, Intermediary and Private Banking.

How we performed: Net inflows increased significantly in 2012, as we generated net sales in Intermediary.

Long-term performance:

	£bn
08	(9.6)
09	15.0
10	27.1
11	3.2
12	**9.4**

3. Assets under management (at 31 December)

Our objective: The principal influence on assets under management is the level of markets, but we aim to grow assets under management over time in excess of market growth, through positive investment performance and net new business inflows.

How we performed: Assets under management ended 2012 at a record level as a result of higher market levels and net new business inflows.

Long-term performance:

	£bn
08	110.2
09	148.2
10	196.7
11	187.3
12	**212.0**

4. Net revenue margins (excluding performance fees)

Our objective: As a key driver of revenue, we focus on net revenue margins by product and by channel. As Institutional has grown, net revenue margins have declined but we benefit from greater client longevity in Institutional.

How we performed: Net revenue margins reduced to 55 basis points reflecting the impact of significant levels of net new business in Institutional in recent years.

Long-term performance:

	basis points
08	65
09	61
10	60
11	57
12	**55**

Our objective:	How we performed:	Long-term performance:

5. Cost:net revenue ratio

Our objective: We target a 70 per cent. cost:net revenue ratio over a market cycle, recognising that in weaker markets the ratio may be higher than our long-term target.

How we performed: We have been below our long-term target of 70 per cent. over the last two years due to higher revenues and good cost control. In 2012, this ratio increased as we invested in new talent, developed new products and markets and began a new three-year project to upgrade our Investment IT infrastructure.

Long-term performance:

	%
08	72*
09	78*
10	67
11	66
12	**70**

* before exceptional items

6. Compensation cost:operating revenue ratio

Our objective: By targeting a compensation cost:operating revenue ratio over a market cycle, we align the interests of shareholders and employees. We aim over the long term for a compensation cost:operating revenue ratio of 45 per cent.

How we performed: This ratio increased in 2012 as we invested in new talent, having recruited over 280 new employees in the last two years.

Long-term performance:

	%
08	45*
09	49*
10	45
11	44
12	**49**

* before exceptional items

7. Earnings per share†

Our objective: We aim to grow earnings per share recognising the impact of market volatility on our operating businesses and Group investments.

How we performed: Earnings per share decreased in 2012, as a result of the investments made to deliver future growth.

Long-term performance:

	pence per share
08	27.5
09	34.3
10	111.8
11	115.9
12	**104.7**

8. Dividend per share (in respect of the year)

Our objective: We follow a policy of increasing the dividend progressively, in line with the trend in profitability.

How we performed: The Board is recommending a final dividend of 30.0 pence per share, bringing the total dividend for the year to 43.0 pence per share, an increase of 10.3 per cent., recognising our financial strength and confidence in the Group's long-term growth prospects.

Long-term performance:

	pence per share
08	31
09	31
10	37
11	39
12	**43**

Key performance indicators used as a key measure in the remuneration of executive Directors are identified with this symbol: †

How we are structured

Schroders is an investment-led firm supported by a strong client service and business development capability. There are two operating segments: Asset Management and Private Banking.

Our operating segments

Consistent and superior investment performance is key to growing the business

Asset Management (see pages 21 and 22)

- Assets under management: £195.7 billion
- Employs over 2,650 people
- Three divisions: Investment, Distribution and Infrastructure
- M1 Fitch Asset Management Rating

Investment

Distribution

Equities

Fixed Income

Multi-asset

Emerging Market Debt, Commodities and Property

Product development

Product specialist sales resources

Channel sales specialists, client servicing, marketing and communications

Client service through our worldwide offices

Institutional clients
- Corporate pension plans
- Insurance companies
- Official institutions

Intermediary clients
- Banks
- Independent financial advisers
- Insurance companies
- Individual pension plans
- Platforms

Private Banking (see page 23)

- Assets under management: £16.3 billion
- Employs 340 people
- Tier 1 capital ratio of 26 per cent.
- Highly personalised investment management service
- Customised investment solutions geared to client-specific financial goals

Investment management

Deposit taking and cash

Custody and execution

Specialised lending

Private Banking in seven locations

Private Banking clients
- Charities
- Family offices
- High net worth individuals

Infrastructure – supports the business in delivering superior investment performance and excellent client service. It consists of information technology, operations, finance, risk management, human resources, legal, compliance and internal audit.

Group (see page 23)

The non-operating Group segment is focused on capital management, governance and corporate management.

- Manages the Group's investment capital of £926 million
- Allocates capital to seed new investment strategies before bringing them to the Institutional or Intermediary market

In August, we recruited a new Head of European Credit as part of our strategy to recruit new investor talent into Fixed Income.

Asset Management – Investment

The Investment division comprises portfolio management, research and dealing functions across Equities, Fixed Income, Multi-asset, Emerging Market Debt and Commodities, and Property. We have a broad range of products and solutions that meet investor demand at different phases of the economic and market cycle. All investment activities are managed with the aim of delivering performance that meets or exceeds client objectives within specific risk parameters. We primarily assess investment performance relative to benchmark and peer group over a three-year period.

Product range – by asset classes

Equities
(302 employees)

Our Equity products range from single country to regional and global funds, small and mid-cap funds and defensive strategies which reduce market risk.

Assets under management
£96.3bn
(2011: £80.4bn)

Asia Pacific	17%
Australia	8%
Emerging markets	17%
Europe	8%
Global	13%
Japan	3%
Quantitative equities	16%
UK	14%
US	4%

Investment capabilities
- Asia Pacific
- Australia
- Emerging markets
- Europe
- Global
- Japan
- Quantitative equities
- UK
- US

Fixed Income
(141 employees)

Our global Fixed Income capability employs fundamental and quantitative approaches and is based on research-intensive, globally-integrated, credit and macro capabilities.

Assets under management
£37.6bn
(2011: £34.5bn)

Americas	23%
Asia Pacific	9%
Australia	10%
Europe	19%
Global	27%
UK	12%

Investment capabilities
- Aggregate and multi-strategy
- Cash/liquidity
- Credit
- Emerging market debt relative return
- Global
- Government
- High yield
- Tax-exempt

Multi-asset
(92 employees)

We offer a comprehensive range of customised solutions, pooled products and advisory services. We specialise in providing a consultative, solutions-based approach for clients, which efficiently diversifies risk.

Assets under management
£42.8bn
(2011: £36.4bn)

Americas	10%
Asia Pacific	14%
Australia	6%
Europe	4%
Funds of hedge funds	3%
GAIA range	2%
LDI	19%
Multi-manager	3%
Structured	2%
UK	37%

Investment capabilities
- Customised solutions
- Funds of hedge funds
- Liability-driven investments
- Multi-asset strategies
- Structured investments

Emerging Market Debt, Commodities and Property
(126 employees)

We manage emerging market debt, commodities, currency and agriculture funds.

Our Property business manages a wide range of open and closed-ended property funds.

We offer private equity fund of funds.

Assets under management
£19.0bn
(2011: £20.0bn)

Agriculture and commodities	29%
Emerging market debt	14%
Private equity	5%
Property	52%

Investment capabilities
- Agriculture
- Commodities
- Currencies
- Emerging market debt absolute return
- Gold and precious metals
- Private equity funds of funds
- Property

How we are structured continued

Asset Management – Distribution

Distribution employs over 580 people globally, specialising in sales, client service, marketing, product development and product management, and serving both Institutional and Intermediary sales channels.

Distribution works closely with Investment and is responsible for the development of our investment products, focusing particularly on the risk/reward features and on producing products that deliver the intended results. We monitor gaps in our product range, launching new products and retiring products that are no longer in demand.

The majority of our Intermediary assets are in Luxembourg and UK funds. Domestic ranges in other countries are important to address local tax, regulatory or client requirements. We manage segregated accounts for Institutional clients.

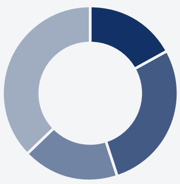
21 countries
operate fund ranges

over 580
funds

Institutional clients

We manage segregated accounts for Institutional clients involving multiple different strategies across equities, multi-asset, fixed income and alternatives.

Location by client domicile

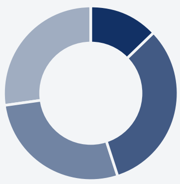


Institutional clients
- Charities
- Corporate pension plans
- Endowments
- Government funds
- Insurance companies
- Local authority pension plans
- Sovereign wealth funds

Intermediary clients

We work closely with both local and global distributors across Europe, Asia and the Americas to develop products for their retail clients which meet their needs over different stages of the market cycle.

Location by client domicile



Intermediary clients
- Banks
- Independent financial advisers
- Insurance companies
- Online platforms
- Private banks
- Private wealth managers

Asset Management – Infrastructure

The Infrastructure division employs over 1,350 people in information technology, operations, finance, risk management, human resources, legal, compliance and internal audit. We continue to invest in talent and technology in order to support our investors' evolving needs, enhance our client service capabilities, advance our risk management solutions and meet new regulatory requirements.

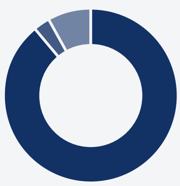
Asset Management revenue and costs

Asset Management revenue primarily comprises fees charged as a percentage of assets under management. The level of assets under management changes as a result of net new business, and changes in investment performance and market levels.

Revenue is also earned from performance fees calculated on excess returns over agreed targets, and from transaction-related revenue. The revenue margin on assets under management is affected by the business mix with, for example, higher fees typically earned on equity mandates and lower fees earned on fixed income and multi-asset mandates, and fees in Intermediary generally exceed Institutional.

Costs include fixed and variable remuneration and non-staff related costs such as office accommodation, information technology, operations, legal, compliance, risk and audit. Asset Management generated net revenue of £1,014.8 million (2011: £1,041.5 million) and profit before tax of £348.5 million (2011: £389.4 million).

Asset Management net revenue 2012



£1,014.8m
(2011: £1,041.5m)

For more information on the financial performance of Asset Management, see page 94.

We created a new role of Global Head of Consultant Relationships during the year to enhance our relationships with major global consultants.

Private Banking

Private Banking offers investment management and specialist banking services to high net worth individuals, family offices and charities from offices in London, Zurich, Geneva, the Cayman Islands, Guernsey, Jersey, Milan and Singapore.

Client service

Dedicated relationship management is core to our proposition, tailoring our service to clients' individual needs. Our investment proposition for high net worth individuals includes accessing the full range of investment skills within Asset Management as well as capabilities from third-party providers.

Infrastructure

Private Banking is supported by a centralised administration capability in Zurich.

Private Banking revenue and costs

Private Banking net revenue comprises fees charged as a percentage of assets under management, transaction related fees, net interest income and fees for specialist banking services. Private Banking costs include fixed and variable remuneration and non-staff related costs such as office accommodation, information technology, operations, legal, compliance, risk and audit.

The Private Banking segment achieved net revenue of £94.4 million (2011: £114.3 million) and profit before tax of £11.8 million (2011: £23.8 million).

For more information on the financial performance of Private Banking, see page 94.

The business model draws on in-house expertise and third-party managers, working closely with clients and their professional advisers.

Services offered

- Discretionary and advisory asset management on behalf of high net worth individuals and family offices
- Cash management and deposit taking
- Custody and execution services
- Specialised lending

Group segment

The Group segment includes the offices of the Chairman, Chief Executive and Chief Financial Officer, as well as employees involved in the management of investment capital.

Group capital comprises operating capital required for regulatory and operational purposes and investment capital, surplus to operating requirements.

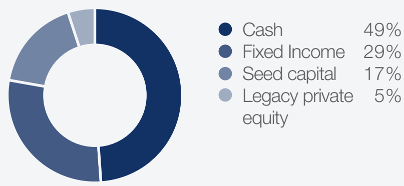
Investment capital is managed with the objective of a LIBOR+ return with low volatility. Individual investments are diversified across asset classes that are judged to be compatible with the investment objectives. Investments are made in approved asset classes, subject to limits as to quantum and value at risk approved by the Board.

Group segment revenue and costs

Revenue comprises income and net gains on investment capital. Costs relate to the offices of the Chairman; Chief Executive and Chief Financial Officer; Group capital and treasury; the Board; and other costs, including those associated with governance, corporate management and external and captive insurance arrangements.

The Group segment net revenue was £25.7 million (2011: loss of £3.2 million) and costs were £37.2 million (2011: £12.8 million). After taking account of interest income of £11.7 million (2011: £14.8 million) and the loss from a private equity associate of £0.5 million (2011: loss of £4.7 million), the segment incurred a loss before tax of £0.3 million (2011: loss of £5.9 million).

Investment capital



£926m

(2011: £837m)

For more information on the financial performance of the Group segment, see page 95.

Partnerships
Building close relationships with our clients

A detailed understanding of our clients' investment needs leads to enduring relationships. We manage assets on behalf of institutional and retail investors, financial institutions and high net worth individuals across the world, and offer a comprehensive range of products and services to meet our clients' investment objectives.

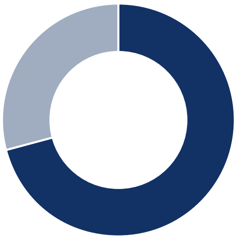
£9.4bn
of net new business

Business review

Operating review

Schroders performed well in 2012, with strong investment performance and £9.4 billion of net new business.

Investment performance
%



Investment performance

Over the three years to 31 December 2012, 71 per cent. of assets under management outperformed their benchmark or peer group.

We focus on investment performance over a three-year rolling period, which is consistent with our aim to create value for clients over the long term. Over one year, we have seen an improvement in investment performance, particularly in equities, with most strategies outperforming.

Product management and development

We monitor the capacity of our investment products closely to avoid assets in a specific class reaching levels which could inhibit investment performance. This sometimes causes us to soft close or hard close a product to new flows, which in turn can lead to net outflows as clients are no longer able to invest additional funds in closed strategies.

Over the last three years, we have closed eight funds to new inflows. These include the following areas which have been popular investment themes in recent years:

Asset class	AUM at 31 December £bn
Commodities	2.2
Asian Total Return Equities	1.2
Asian Equity Yield	1.1
European Special Situations	1.3
GAIA Egerton Fund	0.7
US Small Cap	2.9

In the second quarter of 2012, we recommenced marketing of the European Alpha Plus fund that was soft closed in November 2011. We also partially re-opened our US Small- and Mid-Cap Funds to new money. In July, we re-opened the C-share class in our Commodity Fund, but other share classes remain closed.

We maintain and continue to impose some restrictions on additional investment in funds to minimise the risk of having to hard close the fund in the future.

Multi-asset has been the most significant contributor to net inflows in 2012 with £5.4 billion of new business won across all regions.

£9.4 billion

net inflows in 2012 (2011: £3.2 billion)

Alan Brown stepped down from the Board in May 2012 and continues to work with some of our largest clients as a Senior Adviser.

IT is leading a three-year Investment Platform Programme, to upgrade and materially improve the IT infrastructure supporting our fund managers.

We take a long-term approach to product development. A new product will often require a three-to five-year performance record before it can attract inflows. At 31 December 2012, £156 million of seed capital (2011: £178 million) was invested in seeding new investment strategies.

During the year, we launched over 35 funds to meet changing client demands, including:
- Strategic Bond Fund, which aims to achieve a total return by investing across a broad range of fixed income markets, designed for investors seeking high performance potential;
- European Total Return Fund, which aims to offer access to long-term capital growth whilst using derivatives and other instruments to lower the volatility of those returns;
- Quantitative Equity Products (QEP) Global Emerging Markets Fund, an unconstrained equity strategy, using a combination of the existing QEP Global Value and Global Quality investment strategies;
- Three Emerging Market Debt relative return funds, which aim to deliver attractive capital and income returns. This is a new asset class for Schroders;
- Global Multi-Asset Income Fund, which aims to provide sustainable income through investment in income-producing opportunities across a range of asset classes, regions and sectors; and
- Secure Distribution Fund 2032, an outcome-orientated strategy that aims to assist investors in the transition from working life to retirement by providing a supplement to pension provision or serving as a mechanism to save for future expenses, such as university fees.

UK Retail Distribution Review (RDR)

The RDR, as explained in the market developments section of this report, became effective on 1 January 2013. We were one of the first asset managers to introduce a clean fee share class in the UK in preparation for these changes. A clean fee provides transparency in relation to the proportion of the overall fee for an investment product or solution that is received by the asset manager. We have also launched a range of core UK, RDR-ready products, including UK core and QEP Global core funds, to offer a low-cost, actively-managed alternative to passive investing.

EU Alternative Investment Fund Managers Directive (AIFMD)

The AIFMD aims to create a comprehensive pan-European regulatory and supervisory framework for alternative investment fund managers, with increased transparency of the activities of non-UCITS fund managers towards investors and regulators. A number of Schroders funds will be affected by AIFMD, which comes into effect in July 2013, including investment trusts, hedge funds, property funds and charity funds.

This Directive will impose new requirements on alternative investment fund managers in respect to risk management, liquidity management, remuneration, depositaries, delegation and marketing. Schroders is reviewing its governance arrangements and processes in response to these changes.

We generated net inflows into European Equities during the fourth quarter of 2012 as retail investor confidence improved.

£212.0 billion

Assets under management ended 2012 at a record high, up 13 per cent. on 2011

People and Infrastructure

In 2012, Schroders continued to take advantage of difficult market conditions and invested for future growth.

At the end of December 2012, we employed 3,011 people. We have continued to recruit new talent to support growth in multi-asset strategies, where we see significant long-term potential. Multi-asset has been the most significant contributor to net inflows in 2012. We continue to expand our Fixed Income capabilities, with new hires in emerging market debt relative return and European corporate bonds. We have also recruited in Compliance and Risk in recognition of the scale of regulatory change facing our industry.

We have recruited in IT and Operations in support of our Investment Platform Programme, a three-year programme to upgrade the functionality of the information technology platform which supports our investment business across all asset classes.

Acquisitions

In 2012, the purchase of 25 per cent. of Axis Asset Management Company (Axis AMC), the Indian asset management business of Axis Bank Limited, created a strategic relationship with a leading Indian private sector bank. Together we aim to build a leading competitor in the Indian asset management market. Longer term, in addition to distributing Axis AMC's funds internationally, there will be an opportunity to distribute Schroders' funds through Axis Bank's distribution network.

The acquisition which we announced in December, of STW Fixed Income Management LLC, a value-orientated, US investment-grade fixed income manager, is an important development for our Fixed Income and US businesses. It broadens our product and service platform and extends our institutional client base. The transaction is expected to be completed in the first half of 2013.

New business flows

Total assets under management

At 31 December 2012, assets under management were at a record high of £212.0 billion, an increase of 13 per cent. compared to the start of the year (2011: £187.3 billion). Our strong investment performance, broad product range and proven distribution capability led to a significant increase in net inflows to £9.4 billion (2011: £3.2 billion). We continued to benefit from our global presence with strong sales internationally across most asset classes.

Multi-asset performed well during the year, with net inflows of £5.4 billion,

Rajeev Anand, the CEO of Axis Asset Management, participated in the Distribution strategy session held in Schroders' London office in January 2013.

Assets under management – 2012 flows

	Total £bn	Institutional £bn	Intermediary £bn	Private Banking £bn
1 January 2012	**187.3**	**108.4**	**62.9**	**16.0**
Gross inflows	57.6	21.8	31.8	4.0
Gross outflows	(48.2)	(15.4)	(28.5)	(4.3)
Net flows	**9.4**	**6.4**	**3.3**	**(0.3)**
Investment returns	**15.3**	**8.9**	**5.8**	**0.6**
31 December 2012	**212.0**	**123.7**	**72.0**	**16.3**

US Intermediary performed well in 2012, with net inflows of £3.5 billion.

with a strong performance from Intermediary sales, particularly in Asia Pacific and the US.

Equities also performed well with £3.6 billion of net inflows in 2012, dominated by Quantitative Equity Products, Emerging Market and Asian Equities. We generated net inflows of £1.2 billion in Fixed Income, principally in Global, Australian and Latin American bonds.

Property performed well with net inflows of £1.5 billion in the year.

Investment returns

Investment returns for clients were positive in 2012, increasing assets under management by £15.3 billion.

Asset Management

Total net new business in Asset Management was £9.7 billion (2011: £3.0 billion) consisting of £6.4 billion net inflows from Institutional clients and £3.3 billion net inflows from Intermediary clients. Institutional investor demand remained robust throughout 2012, with gross sales of £21.8 billion (2011: £23.9 billion). We saw high demand for Equities, Multi-asset and Fixed Income. Assets under management in Institutional ended the year at £123.7 billion (2011: £108.4 billion).

Schroders benefited from the diversity of its Intermediary business globally and saw net inflows in every quarter of 2012, with strong inflows into Multi-asset, particularly from our US Intermediary business during the first half of the year. Investor confidence began to return in Europe during the second half of the year, with signs of an improved risk appetite and demand for equities. Gross inflows were broadly unchanged at £31.8 billion (2011: £31.1 billion); however, gross outflows fell to £28.5 billion (2011: £34.9 billion). For the year as a whole, net inflows were £3.3 billion (2011: net outflows £3.8 billion). Assets under management in Intermediary ended the year at £72.0 billion (2011: £62.9 billion).

Private Banking

Private Banking saw net outflows of £0.3 billion (2011: £0.2 billion net inflows) across its UK and European operations, in line with broader industry trends and difficult market conditions in the high net worth sector. Assets under management ended the year at £16.3 billion (2011: £16.0 billion).

Strategic review

The Board and Group Management Committee conduct regular reviews of Schroders' strategic direction. In 2012, this involved discussions with a number of stakeholders including shareholders, clients and employees.

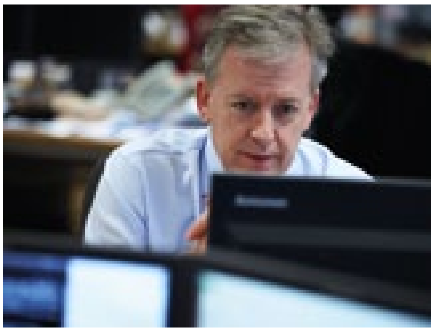
We identified a number of key growth initiatives that will be areas of focus over the next three to five years, including our intention to grow alternative and outcome-orientated strategies as part of our core Equities, Multi-asset and Fixed Income activities. We also plan to expand our presence in the US, which represents less than 10 per cent. of our business.

We will continue to grow our presence in developing markets where we are already well positioned in terms of both investment and distribution capabilities.

For more information see our website
www.schroders.com/ir.

Key risks and mitigations

We continually seek to strengthen our risk control processes and technological support tools to increase their effectiveness.



At Schroders, risk management is embedded within the business and is the responsibility of all employees.

This section summarises how we control risk. It sets out how we manage the risks in our business and how we have developed risk management. It summarises the role of the Group Risk Committee (GRC) and outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current economic and political environment. Finally, it provides an overview of the impact of emerging risks.

Managing risk

It is the responsibility of all employees to uphold the control culture of Schroders and we embed risk management within the business.

The Board also has accountability for risk management. It regularly considers the most significant risks facing the Group and uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive oversight of the risk management process is exercised through the Audit and Risk Committee.

The Chief Executive and Group Management Committee (GMC) regularly review the key risks facing the Group. Individual risks are managed in accordance with the risks and their potential impacts, so as to mitigate adverse consequences. We group the risks we face into market, investment performance and liquidity risks, credit risks, operational risks, and emerging risks.

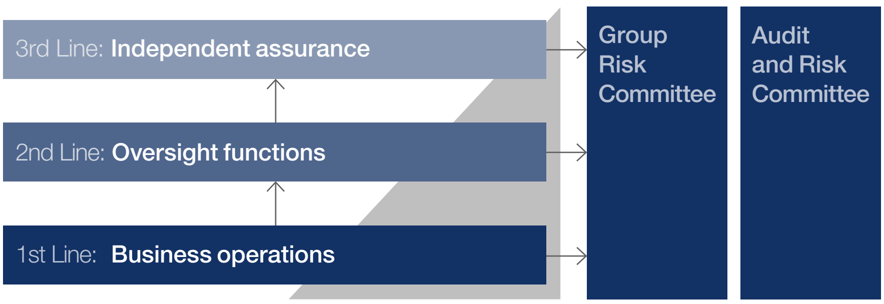
We continually upgrade our risk control processes and technological support tools to increase their effectiveness. The Chief Executive has delegated the executive oversight of risk to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and the independent monitoring and reporting of risks and controls.

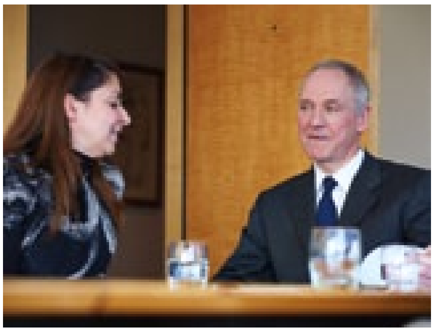
The Chief Financial Officer is supported by the Group Head of Risk and chairs the GRC. The Committee meets ten times a year. Meetings are attended by the executive Directors, the heads of the control functions, the Chief Operating Officer, and by GMC members consistent with the quarterly cycle of reviewing their areas of responsibility. As the principal executive committee for the monitoring and reporting of risks and controls, the GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and exceptions in the most significant risk exposures.

Three lines of defence

The first line of defence against unexpected outcomes lies with line managers, whether they are in Investment, Distribution, Private Banking or Infrastructure. Members of the GMC have risk management responsibility for their respective business areas. The senior management team takes the lead role with respect to implementing appropriate controls across the business to maintain the quality standards expected by clients and regulators.

Three lines of defence





Investment Risk is fully independent of the Investment function.

Line management is supplemented by oversight functions (i.e. Group Risk, Financial Control, Compliance and Legal) that provide a second line of defence.

Group Internal Audit provides retrospective independent assurance over the operation of controls and is the third line of defence against unexpected outcomes. The internal audit programme includes reviews of the risk management process and advice and recommendations to improve the control environment. Schroders also carries a comprehensive insurance programme, providing further assurance.

2012 developments

The membership of the GRC was expanded during the year to include all GMC members. Agendas are tailored to Investment, Distribution and Infrastructure on a sequential quarterly cycle and GMC members attend the meetings relevant to their responsibilities. In order to simplify agendas, sub-committees comprising Group policy reviews, credit reviews, financial crime and Private Banking have been established. They report to the GRC.

Group Risk prepared a dedicated Eurozone crisis management plan for the Group during the year.

During 2012, we continued to devote resources to the management of risks associated with potential Eurozone instability and the weak economic environment. A crisis management exercise was held during the year to consider our response to Eurozone risks, which led to the delivery of a Eurozone crisis management plan to the GMC.

We revised our assessment of operational risk controls during the year, piloting the approach successfully in seven business areas and across a variety of supporting systems. A number of new operational key risk indicators were introduced to monitor potential risks such as unauthorised trading.

In addition, we reviewed the operation of the Investment Risk team, changing the reporting line to make it fully independent of Investment.

The GRC's work in 2012 also included emerging risk identification; hard to value and illiquid instruments; mandate breaches; taxation; Private Banking specific risks; preparations for regulatory developments, including Client Asset Sourcebook (CASS) revision; Recovery and Resolution Plans; Anti-Money Laundering and market abuse developments; and policy reviews such as Group pricing, personal account dealing and Group order management and execution.

Key risks

The following tables summarise key business risks. These are not exhaustive but aim to provide information on the risks that are currently considered to be most relevant to our business.

Key risks and mitigations continued

Market, investment performance and liquidity risks

We face risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent. We have principal exposure in the Life Company in Asset Management which holds investments in funds; in our Private Banking business, where we hold bank paper and government securities; and through the Group's investment capital, where we hold bank paper, government and corporate bonds, equities, funds of hedge funds, property and private equity. There is agency exposure in Asset Management and Private Banking in respect of the assets we manage on behalf of our clients.

Key risk	Description	How we manage risk
Market risk	Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management. Equity, net fee income and expenses of the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk.	Our geographically-diversified, broad product range enables us to provide clients with solutions tailored to a variety of market conditions and serves to diversify individual market dependencies. The Group Capital Committee regularly reviews all holdings within Group capital. All principal investments are managed within approved limits. The Group's seed capital investments may be hedged in respect of market risk and currency risk. These decisions are taken by the Group Capital Committee, chaired by the Chief Financial Officer. Income and expenses are, where possible, matched in the currency of individual subsidiaries. We also use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements. In Private Banking, market risk is monitored and managed at a local level and by the Private Banking Risk Committee.
Investment performance risk	The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives. This can adversely affect levels of net new business.	The Schroder Investment Risk Framework provides review and challenge of investment risks across each of the asset classes managed by the Group. The Investment Risk team is independent of the Investment function. We adhere to clearly-defined investment processes which seek to meet investment targets within stated risk parameters. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and management on a regular basis, as well as Pricing and Valuation Committees, allowing issues to be identified and mitigated. Recognising that products will not outperform all of the time, we offer a diversified product set which reduces the concentration of risk on the performance of any one fund or asset class. Investment performance is monitored as part of our investment risk management process.
Liquidity risk	Liquidity risk, in relation to client portfolios, is the risk that funds cannot be generated to meet redemptions or other obligations as they arise. Liquidity issues can arise as a result of market conditions or through inherently illiquid investments. Liquidity risk also applies to the Group's own capital position.	To mitigate this risk within client portfolios, we seek to match, where possible, the liquidity of a portfolio's underlying investments with the anticipated liquidity requirements. We actively monitor markets for indicators of declines in liquidity. We also review products and portfolios to identify capacity constraints. Each of our regulated subsidiaries, and the Group as a whole, meet regulatory capital requirements. In addition, we maintain sufficient liquidity for our anticipated needs, taking account of the risks we face. We have developed a new Individual Liquidity Analysis Assessment (ILAA) and implemented improved liquidity analysis and reporting in Private Banking in London.

Financial Control and Regulatory Reporting monitor unusual transactions or patterns of transactions and provide assurance in reporting to regulators.

Credit risk

We face risks from the default of counterparties to our principal financial transactions. Our clients also face counterparty risk in relation to the financial transactions in their portfolios and funds. Private Banking additionally faces principal credit risk on its lending activities.

Key risk	Description	How we manage risk
Credit risk	We face credit risk as a result of counterparty exposure.	In order to manage this risk we actively monitor counterparty creditworthiness with limits expressed in terms of value and term to maturity. The Group sets overall limits in respect of both principal and agency counterparty risk. Where possible, we seek to diversify our exposure across different counterparties. All counterparties are reviewed on a regular basis and limits are amended following changes to their financials. We actively monitor market data and rating agency outputs in assessing counterparties. Collateral is taken in most cases.
	We face credit risk through Private Banking lending activities.	In Private Banking, we mitigate credit risk where possible through collateralisation in the form of cash, portfolio investments or property. Credit risk is monitored and managed against the performance of the collateral.

Operational risk

Operational risk arises in our investment management activities, distribution activities, product development and the operation of our IT and operations infrastructure. Local management is responsible for operational risk controls.

Key risk	Description	How we manage risk
Operational risk	Operational risk could arise from the failure of significant business processes undertaken by Schroders, including mandate compliance and suitability.	All business processes are subject to review in order to identify suitable operational controls to mitigate potential risks.
	We have a number of outsourced supplier relationships that are an important part of our business model, particularly in respect of fund administration services.	Before entering outsourcing arrangements, we undertake due diligence on third-party suppliers. We then maintain a programme of regular assessment against agreed service levels.
Distribution risk	Distribution risk arises from relationship management and concentration across different distribution channels and products. We have three broad client groups: institutional clients, often advised by consultants; retail clients, intermediated through banks, brokers and independent advisers; and private clients.	The broad range of distribution channels mitigates against a key dependency on any sales channel. No single client accounts for more than two per cent. of total revenue.

Key risks and mitigations continued

Operational risk continued

Key risk	Description	How we manage risk
Product risk	Product risk arises from product complexity and the risk these products do not meet their performance objectives or are unsuitable for certain clients.	We have a dedicated Product Development team and a product approval and review procedure. We consider carefully the suitability of products for clients and where possible, monitor the way products are sold.
	Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class makes it more difficult to trade efficiently in the market.	We actively monitor potential capacity constraints and may mitigate them by closing products to new investment in certain circumstances.
Technology risk	We rely on technology and qualified professionals to maintain our infrastructure, and we invest in information technology projects with long lead times.	We regularly review the progress of major information technology projects and new projects are subject to rigorous testing before approval. Our technology is partly outsourced and our platform uses well-established, tested technology from outsource partners which we assess to be financially stable and able to provide the required level of service. Outsource partners are an important part of our business model and we work with them to maintain the quality and continuity of service. Due diligence is undertaken before entering into new arrangements and performance is reviewed on an ongoing basis. Continuity and business resumption planning is in place across the business globally.
People risk	Our business depends on people. We ensure we employ people with skill sets appropriate to our changing business needs.	We recruit and develop specialist skills as the range of our product offerings deepens and our investment and distribution strategies develop into new areas. To mitigate people risks, we have competitive remuneration plans, with appropriate deferred benefits targeted at key employees, and we seek to build strength in depth and put in place sustainable succession plans. We also operate from many international centres, which reduces reliance on single pools of talent and individual country stability.
	We expect our employees to behave with integrity, which is one of our core values.	Clear objectives are set for employees and we measure individual success in the annual review process. This allows us to identify motivational employee development initiatives, which helps to retain talented people. We demand high ethical standards and train our employees accordingly.

The Legal function works with the business to consider the obligations we assume.

Operational risk continued

Key risk	Description	How we manage risk
Geographical diversity risk	Our business is broadly diversified by region which, whilst mitigating aggregate risk, introduces risks as a result of complexity, local laws, regulations, business customs and traditions.	We employ local people with local expertise and also second employees internationally within the Group. The Group Risk Committee receives reports from line management regarding matters giving cause for concern and recommendations for appropriate remedial action. We keep our employees up-to-date on relevant international regulation. An independent team, reporting to the Group Head of Risk, is responsible for assessing the impact of material issues and implementing appropriate and timely risk mitigation. Our overseas operations are regularly reviewed by Internal Audit.
Legal risk	The risk that Schroders or its counterparties fail to meet their legal obligations and the risk of legal proceedings.	We rely on our employees, with support from our Legal function, to consider carefully the obligations we assume and our compliance with them. Confirmations are obtained from representatives around the Group that any actual or potential dispute or claim has been brought promptly to the attention of the General Counsel.
Regulatory and compliance risk	The risk of loss arising from failure to meet regulatory requirements in those jurisdictions in which the Group operates.	We maintain compliance procedures across our global offices, and our Global Compliance function supports business management in meeting its obligations. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.

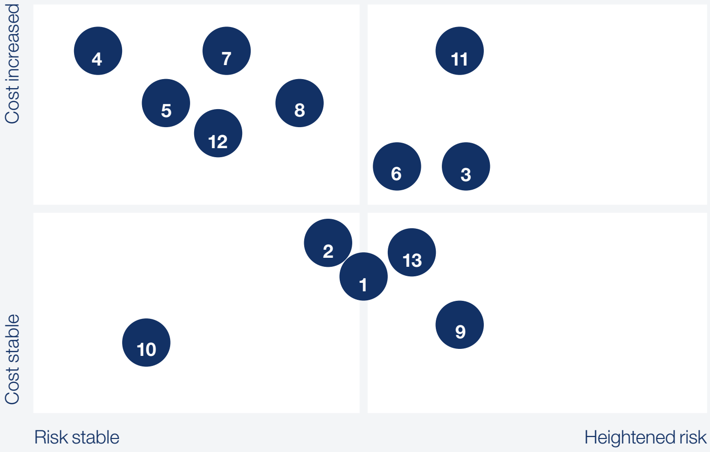
Key risks and mitigations continued

Key continuing risks

The key continuing risks outlined on pages 32 to 35 have been assessed in the light of the current economic and geopolitical environment as summarised in the diagram below.

The horizontal axis shows whether risk is stable or heightened in current market conditions. The vertical axis shows whether the potential cost of the key risk is stable or has increased due to current market conditions. The Group undertakes additional work to address those risks that it considers to be potentially heightened and/or more costly.

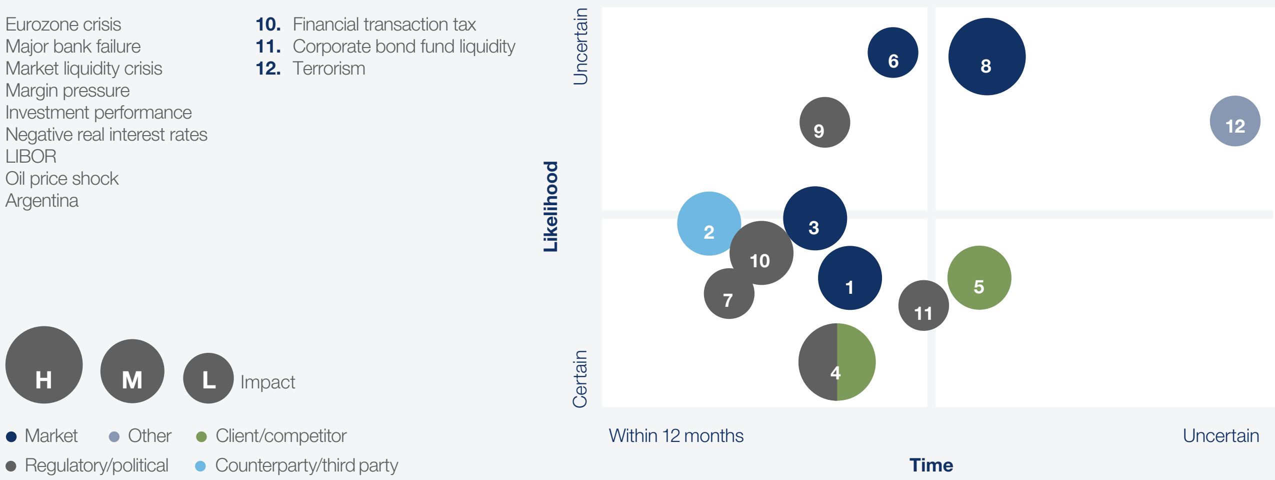
1. People risk: Employment practices and workplace safety
2. Geographical diversity: Disasters and public safety
3. Regulatory and compliance risk
4. Operational risk: Distribution risk
5. Operational risk: Clients, products and business practices
6. Legal risk
7. Operational risk: Technology and infrastructure failures
8. Operational risk: Execution, delivery and process management
9. Counterparty credit risk
10. Credit lending risk
11. Liquidity risk
12. Investment performance risk
13. Market risk



Key emerging risks

Emerging risks are those with uncertain impact, probability and timeframe that could cause risk to the Group. These are the hardest to define and may change in nature. We analyse each risk and, if needed, develop and apply mitigation and management plans. The external emerging risks that are currently our focus of attention are set out below. The diagram indicates our assessment of the likelihood, timeframe and impact on our business. The estimated impact and likelihood may change as circumstances change and mitigation plans are developed. Regulatory risks are reported on the following page.

1. Eurozone crisis
2. Major bank failure
3. Market liquidity crisis
4. Margin pressure
5. Investment performance
6. Negative real interest rates
7. LIBOR
8. Oil price shock
9. Argentina
10. Financial transaction tax
11. Corporate bond fund liquidity
12. Terrorism

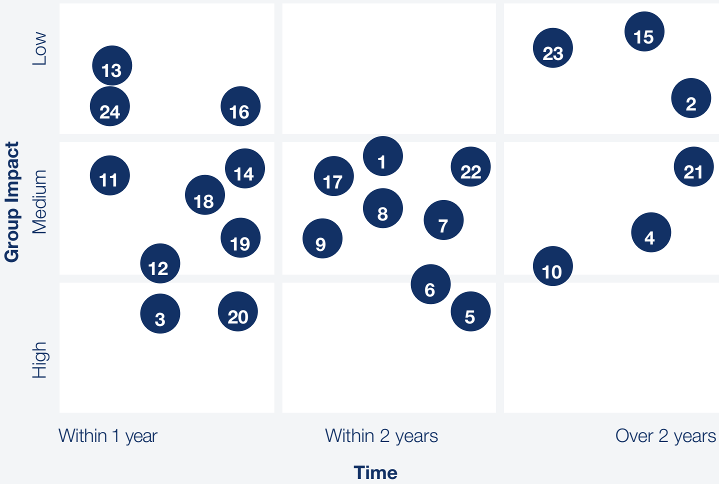


Asset managers are updating their governance, risk and fiduciary processes in response to regulatory change.

Key regulatory change risks

The extent of regulatory change facing the asset management and private banking industries has increased significantly in recent years. As part of our risk reporting, we have introduced the following diagram that combines both known and emerging regulatory change risks, to identify both the likely timing and estimated impact of regulatory change on our business.

1. Financial Services Compensation Scheme levy
2. Vickers report impact
3. AIFMD impact
4. Basel III/Capital Requirements Directive (CRD) IV
5. MiFID II
6. UCITS V
7. Anti-Money Laundering (AML)
8. Client Asset Sourcebook (CASS) revision
9. Solvency II client reporting
10. Market Abuse Directive (MAD) II
11. Remuneration policies
12. Dodd-Frank OTC
13. European Banking Authority's common regulatory reporting framework (COREP)
14. RDR for platforms
15. EU Securities Law
16. Private Banking Recovery and Resolution Plans
17. Group Recovery and Resolution Plans
18. European Market Infrastructure Regulation (EMIR – OTC market reform)
19. Asia OTC
20. Dodd-Frank commodities
21. Data protection
22. UCITS VI
23. Solvency II
24. FSA change to FCA/PRA



Corporate responsibility

Corporate responsibility is important to Schroders. We want to ensure that the Group acts in a socially responsible way in its day-to-day operations.

In 2012, Schroders joined the London Benchmarking Group to understand how we can improve our CR programmes.

Oversight

In order to ensure that CR is embedded within our business, the Corporate Responsibility Committee is chaired by Philip Mallinckrodt, an executive Director.

The principles of corporate responsibility (CR) are embedded in the way we run our business. We have policies in place to ensure that Schroders behaves in a socially responsible way in its day-to-day activities. As a major investor, we also monitor the activities of the companies in which we invest and use our influence as a shareholder to encourage these businesses to act responsibly.

Schroders is committed to conducting its tax affairs in an open and transparent way. In 2012, we paid corporate income taxes of £81.6 million (2011: £78.5 million). Further information on tax can be found in our financial statements on page 102.

We aim to comply with our tax obligations worldwide and to maintain a good reputation with tax authorities in the key jurisdictions in which we operate. In the UK, Schroders was one of the first businesses to enter into a framework agreement with HMRC. We keep HMRC informed of business activities, results and key developments as they arise and proactively disclose issues, risks and uncertain tax positions.

We have also signed up to the Code of Practice on Taxation for Banks and comply with its requirements. During 2012, we engaged in dialogue with a number of external action groups to share details of our approach in this area.

Marketplace

Corporate engagement is an integral part of our investment processes. It allows us to understand the sustainable value of the companies in which we invest on behalf of our clients. During 2012, our fund managers and analysts attended approximately 15,000 meetings with companies to discuss issues such as financial performance, strategy and management.

We are committed to the UK Stewardship Code published by the Financial Reporting Council in 2012 and we state on our website how we comply with the code.

Our global Investment and Corporate Governance Policy sets out our approach to engaging with companies in which we hold equity investments and our approach to conflicts of interest in that regard. We will engage and normally vote on any issue affecting the long-term sustainable value of a company in which we invest. Our focus is primarily on issues material to the value of the company's shares.

Our approach to CR is built around four areas:

Marketplace
- Being transparent in our operations and reporting
- Encouraging and supporting these principles in the companies in which we invest

People
- Attracting, developing and retaining people of integrity

Environment
- Minimising our environmental footprint

Community
- Supporting the communities in which we operate

Our behaviour is also influenced by our core values of integrity, passion, innovation, teamwork and excellence.

Company resolutions voted on

	%
2010	88
2011	85
2012	**90**

During the year, we voted at over 5,600 company meetings. We aim to vote at all company meetings where we have an equity holding and will vote on all resolutions except where there are onerous conditions attached to voting.

Voting reports are provided quarterly to Institutional clients and we also publish details of our voting record on our website after a suitable period so that the publication of voting does not influence the outcome of any company discussions. We believe that effective engagement with management should, if at all possible, remain confidential since publicity can frequently entrench positions rather than resolve issues.

People

Schroders employs more than 3,000 people across 27 countries and we work to ensure that our employment policies reflect best practice globally. We strive to be an employer of choice.

It is important that employees understand the strategic aims and objectives of the Group and are clear about their role in achieving them. We communicate regularly with employees worldwide through a variety of channels.

Annual employee meetings are also held to facilitate the exchange of views with senior management and discussion of the progress made by the Group. In the UK, an Employee Forum provides an additional channel for representing employee views to management.

Remuneration

Our approach to remuneration is explained in the Remuneration report on page 62. Employees can personalise elements of their benefits package to suit their own needs and ambitions.

High ethical standards

We promote high ethical standards through our internal 'whistle-blowing' process, whereby employees can raise concerns about behaviour or decisions that would indicate potential wrongdoing. Personal securities trading by employees is subject to a clearly defined set of internal policies.

Employees are not permitted to solicit or accept any inducements that are likely to conflict with their duties. Training is provided in relation to anti-bribery, anti-money laundering, terrorist finance, data protection and treating customers fairly.

Equal opportunities

We are committed to providing equal opportunities in employment and to avoiding unlawful discrimination. We expect our workforce to reflect the diversity of the many communities in which we operate. Where possible, we monitor the ethnic, age and gender composition of our existing workforce and those applying for jobs and the number of people within each of these groups.

A flexible working policy has been developed to recognise the diverse needs of employees in managing the responsibilities of their work and personal lives. We believe that achieving an effective balance in these areas is beneficial to both the Group and the individual.

The Employee Forum meets regularly in London and provides an additional channel for representing employee views.

Our policy is to give fair consideration to all applications for employment, having regard to particular aptitudes and abilities. The Group gives full and fair consideration to applications for employment from disabled persons. If employees become disabled, employment continues wherever possible, with retraining given if necessary. For the purposes of training, career development and progression, all employees are treated equally.

The Group is committed to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect. A policy is in place to assist the Group and our employees in treating everyone fairly regardless of their age, gender, race, sexual orientation, disability, religion or beliefs. This policy is monitored periodically to judge its effectiveness.

Managing diversity

We believe that appointments to roles should be based on merit and performance. We do not support quotas of any sort but do recognise that to attract, retain and develop a diverse workforce, we must have a proactive and coordinated approach.

Schroders is already diverse in terms of the nationalities employed in our local offices across the world. This is a key strength that provides us with local market knowledge and a deep understanding of our clients' needs.

The ratio of men to women in the organisation has remained constant since 2007 with 44 per cent. of employees being female. In 2012, 52 per cent. of our graduate intake was female, compared with 33 per cent. in 2011 and 25 per cent. in 2010. To support our ongoing commitment to diversity, we intend to assess maternity leaver and return rates, by country and function, to understand how this impacts our pipeline of talent. We are also considering the introduction of a 'maternity mentoring' programme, to offer practical support and coaching.

Personal development

The Group operates an engaging performance management model which encourages all of our employees to continue to develop and progress. An annual appraisal is at the core of our model, where performance is measured against agreed objectives to inform decisions on remuneration, career development and future progression.

HR has introduced a number of new initiatives in 2012 to promote diversity within the firm.

£1.2 million

Charitable donations in 2012 (2011: £1.2 million)

We strive to encourage all of our employees to fulfil their potential by providing access to training and development opportunities, thus ensuring they have the resources available to learn and build their own successful career in line with business objectives.

Environment

We are committed to minimising the environmental impacts of our operations through good management, and to delivering continuous improvement in our environmental performance.

Energy usage

Energy usage is one of the most significant ways in which our operations directly affect the environment. In 2012, we exceeded our five-year target of a 15 per cent. decrease in our energy usage from 2007 levels. Energy usage has reduced by 24.3 per cent. over this period.

We used best practice 2012 guidelines from DEFRA/DECC's Greenhouse Gas Conversion Factors for Company Reporting to calculate our CO_2 emissions in London. During the five-year period, our carbon output has reduced by 25.7 per cent. which reflects our investment in energy efficiency measures. More information on other environmental measures can be found on our website www.schroders.com/cr.

24.3%

reduction

We exceeded our five-year target to reduce energy usage by 15 per cent. from 2007 levels

Community

We support the communities in which we operate and encourage our employees to do the same.

Charitable giving

Our approach to charitable giving focuses on employee choice, supplemented by discretionary donations. The Group matches employee charity donations and sponsorship raised, up to £2,400 per employee, per year.

In 2012, we maintained our donations at £1.2 million (2011: £1.2 million), despite a reduction in profitability. This included discretionary, one-off donations of £300,000, to charities involved with social welfare around the world.

Payroll-giving schemes are operated in a number of our offices. In the UK, 25 per cent. (2011: 25 per cent.) of employees continued to give in this way in 2012, and charitable matching donations by the firm of £280,000 (2011: £250,000) were made to support these donations. We received the newly-created Payroll Giving Quality Mark Platinum Award from the Charities Aid Foundation in recognition of this, having received the Gold Award in 2011.

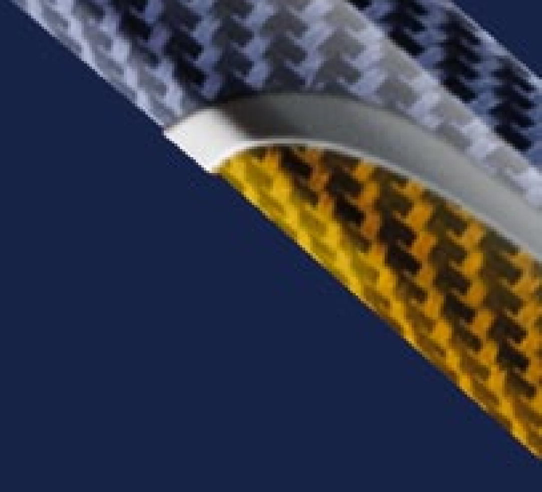
Volunteering

To underpin our focus on employee community involvement, employees in many of our offices are able to take up to 15 hours of paid leave per year for volunteering services.

In London, Schroders has been a corporate sponsor of the Hackney Schools' Mentoring Programme, established by the East London Business Alliance and Hackney Learning Partnerships, for the past five years. Our employees mentor 14- to 17-year-old students in the London Borough of Hackney, increasing their self-confidence, allowing them to gain experience of the working environment and broadening their aspirations.

Employees across the globe have also volunteered to help a variety of local charities throughout 2012, both through the volunteering schemes organised by Schroders and in their own free time.

For a more detailed look at Schroders' activities across all areas of CR, please visit **www.schroders.com/cr**.



Oversight
Ensuring operational effectiveness

Operational effectiveness ensures we maintain high service quality and control operational risk. We target a 70 per cent. cost:net revenue ratio over a market cycle, recognising that in weaker markets the ratio may be higher than our long-term target.

70%

cost:net revenue ratio
in line with our target

Governance

Board of Directors

The Board is responsible for the oversight of the management of the business and for ensuring high standards of corporate governance. The Board's principal aim is to enhance Schroders' long-term value for the benefit of shareholders.

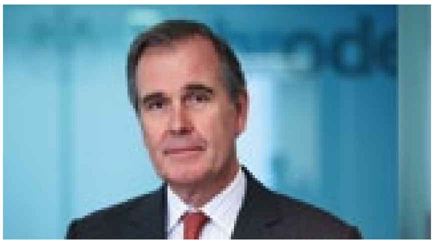
Andrew Beeson
Chairman (68)

Appointed Chairman in May 2012, having been a non-executive Director since October 2004 and the Senior Independent Director from May 2010 to May 2012.

Experience: He was the Founder and Chief Executive of the Beeson Gregory Group and subsequently Chairman of Evolution Group plc, following its merger with Beeson Gregory. He was a Founder Director of IP Group plc, and also founded what is now known as the Quoted Company Alliance.

External appointments: Member of the Advisory Committee of Westhouse Holdings plc.

Committee membership: Chairman of the Nominations Committee.



Michael Dobson
Chief Executive (60)

Chief Executive since November 2001, having joined the Board as a non-executive Director in April 2001.

Experience: He was previously Chief Executive of Morgan Grenfell Group and a Member of the Board of Managing Directors of Deutsche Bank AG.

External appointments: Member of The Financial Services Practitioner Panel of the FSA and Member of the Independent Compensation Review Panel of Deutsche Bank. He was a Member of the Advisory Committee of the Staff Retirement Plan of the International Monetary Fund until October 2012.

Luc Bertrand
Senior Independent Director (62)

Appointed Senior Independent Director in May 2012, having been a non-executive Director since March 2006.

Experience: He started his career with Bankers Trust and held various corporate finance positions in New York, London and Amsterdam (1974 – 1980). He is Chairman of the Executive Committee and Chief Executive of Ackermans & van Haaren N.V.

External appointments: Independent Director of ING Belgium and a number of other profit and not-for-profit companies; Chairman of the Guberna Belgian Institute; and Member of the Advisory Council of INSEAD Belgium.

Committee membership: Member of the Nominations and the Remuneration Committees.

Philip Mallinckrodt
Group Head of Private Banking (50)

Appointed a Director in January 2009, having joined Schroders in 1994.

Experience: He started his career with Credit Suisse First Boston. He joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002.

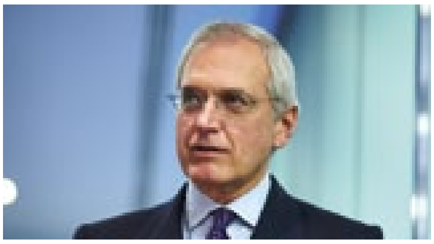
External appointments: Member of the International Advisory Council of the Brookings Institution.

Kevin Parry
Chief Financial Officer (51)

Appointed Chief Financial Officer in January 2009, having previously been a non-executive Director since January 2003. He will step down as Chief Financial Officer and as a Director with effect from 5 May 2013.

Experience: He qualified as a chartered accountant with KPMG and became a Partner and later a Managing Partner at KPMG's London office. He was subsequently Chief Executive of Management Consulting Group plc.

External appointments: Senior Independent Director and Chairman of the Audit and Risk Committee of Intermediate Capital Group PLC and Deputy Chairman of the Royal National Children's Foundation.



Massimo Tosato
Executive Vice-Chairman and Global Head of Distribution (58)

Appointed a Director in August 2001, having joined Schroders in 1995.

Experience: He was a Founding Partner and Chief Executive Officer of Cominvest SpA., and a Partner and Managing Director of Euromercantile SpA.

External appointments: Member of the International Advisory Board of Columbia Business School; Vice President of the European Fund and Asset Management Association; and a Trustee of the Parasol Unit Foundation for Contemporary Art, London.

Ashley Almanza
Independent non-executive Director (49)

Appointed a non-executive Director in August 2011.

Experience: He is a chartered accountant and has held a number of senior roles at BG Group including Managing Director – UK, Europe and Central Asia, and was Chief Financial Officer of BG Group plc from 2002 to 2011.

External appointments: Member of the Advisory Board of the Oxford University Centre for Business Taxation.

Committee membership: Member of the Nominations, Remuneration and the Audit and Risk Committees. He will become Chairman of the Audit and Risk Committee at the conclusion of the 2013 Annual General Meeting.

Robin Buchanan
Independent non-executive Director (60)

Appointed a non-executive Director in March 2010.

Experience: He served as the Senior Partner of Bain & Company Inc. in the UK until 2007 and remains a Senior Adviser. He was Dean and President of London Business School.

External appointments: Chairman of Michael Page International plc and a non-executive Director of LyondellBasell Industries N.V. He is a Member of the Trilateral Commission; the International Advisory Council of Recipco; and the Remuneration Committee of Coller Capital Ltd.

Committee membership: Member of the Nominations and the Audit and Risk Committees.

Lord Howard of Penrith
Independent non-executive Director (67)

Appointed a non-executive Director in November 2008.

Experience: He was previously the Deputy to the Chairman of Lehman in Europe until 1998 and was the Partner in charge of international fixed income at Phillips & Drew.

External appointments: Chairman of Tarchon Capital Management LLP, Chief Investment Officer at Beazley plc and a Member of the Advisory Board of Ondra Partners.

Committee membership: Chairman of the Remuneration Committee. Member of the Nominations and the Audit and Risk Committees.

Merlyn Lowther
Independent non-executive Director (59)

Appointed a non-executive Director in April 2004. She will step down as a Director at the conclusion of the 2013 Annual General Meeting.

Experience: She has held several senior management positions at the Bank of England (1975 – 2004) including Personnel Director, Deputy Chief Cashier and Chief Cashier.

External appointments: Non-executive Director of The Co-operative Bank plc, Trustee of The Henry Smith Charity and the Winston Churchill Memorial Trust.

Committee membership: Chairman of the Audit and Risk Committee. Member of the Nominations Committee.

Nichola Pease
Independent non-executive Director (51)

Appointed a non-executive Director in September 2012. She will stand for election at the 2013 Annual General Meeting.

Experience: She has 30 years' experience in the asset management and stock broking industries. Most recently she was the Chief Executive and then Deputy Chairman of JO Hambro Capital Management Ltd.

External appointments: Non-executive Member of the Executive Committee of the Army Board and recently appointed Chairman of the Army Independent Assurance Committee; Trustee, Chairman of the Investment Committee and Member of the Audit Committee of Guy's and St. Thomas' Charity; and Member of the Eton College Investment Committee.

Committee membership: Member of the Nominations Committee. She will join the Audit and Risk Committee in May 2013.

Bruno Schroder
Non-executive Director (80)

Appointed a Director in January 1963.

Experience: He is the great-great-grandson of Johann Heinrich Schroder, co-founder of the Schroders businesses in 1804. He joined the Schroder Group in London where he worked in the Commercial Banking and Corporate Finance divisions of J. Henry Schroder Wagg & Co Ltd, London.

External appointments: Director of a number of private limited companies.

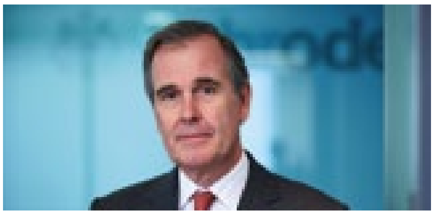
Committee membership: Member of the Nominations Committee.

Michael Miles and Alan Brown also served on the Board during 2012. Both retired from the Board at the conclusion of the Annual General Meeting held on 3 May 2012.

Group Management Committee

The Board has delegated the authority to manage the business to the Chief Executive who delegates specific responsibilities to members of the Group Management Committee (GMC). This Committee supports him in running the business and in the delivery of his and the Board's objectives.

Executive Directors



Michael Dobson
Chief Executive (60)

Responsible for the management of the overall business and the strategic development of the Group.

Philip Mallinckrodt
Group Head of Private Banking (50)

Responsible for the Group's Private Banking business and Property investment team.

Kevin Parry
Chief Financial Officer (51)

Responsible for financial management, tax, capital and treasury, corporate development, risk management, internal audit, Corporate Communications and Human Resources.

Other GMC members

Geoff Blanning
Head of Emerging Market Debt and Commodities (50)

Experience: He joined Schroders in 1998 and developed the Commodity and Currency investment teams. He managed Global Bond Funds at N M Rothschild and Bankers Trust before developing and managing Morgan Grenfell's first Emerging Market Debt Fund in 1993.

Responsibilities: He is Head of Emerging Market Debt and Commodities.

Karl Dasher
Co-Head of Fixed Income (43)

Experience: He joined Schroders in 2007 as Global Head of Product and became Head of Fixed Income in October 2008. He previously worked at SEI Investments in various investment roles, including Chief Investment Officer between 2004 and 2007.

Responsibilities: He is Co-Head of Fixed Income. He will also become Head of North America on 1 July 2013.

Jamie Dorrien-Smith
Head of North America (55)

Experience: He joined Schroders in 1994 and became Head of the Global Financial Institutions Group in 2000, where he helped to build the Intermediary sales channel through our local offices around the world. He became Head of North America in 2006.

Responsibilities: He has responsibility for the Group's operations in the United States and Canada. He retires from the firm in July 2013.

Markus Ruetimann
Chief Operating Officer (54)

Experience: He joined Schroders in 2004 from UBS Global Asset Management where he was Global Head of Technology and Portfolio Services. Prior to that he was Chief Operating Officer for Phillips & Drew in London from 1988 to 1998.

Responsibilities: He has global responsibility for Institutional Portfolio Services, Fund Services, Information Technology, Change and Project Management and Corporate Services.

John Troiano
Deputy Head of Distribution (54)

Experience: He joined Schroders in 1981 as an investment analyst and became Head of the American equity team in 1988. He established Schroders' emerging market equity capability in 1991. He was appointed Global Head of Institutional in 2003 and became Deputy Head of Distribution in September 2012.

Responsibilities: As Deputy Head of Distribution, he shares responsibility for the Distribution division, including sales, marketing, product development and product management.

Howard Trust
General Counsel (58)

Experience: He joined Schroders in 2003 from Barclays where he held various roles including Group General Counsel and Board Secretary. He qualified as a solicitor with Lovell, White & King, before joining Morgan Grenfell in 1985.

Responsibilities: He is responsible for the Group's Compliance, Legal and Company Secretariat functions.

Massimo Tosato
Executive Vice-Chairman and Global Head of Distribution (58)

Responsible for the Group's global Distribution function, including sales, marketing, product development and product management.

Graham Staples
Company Secretary (51)

Experience: He joined Schroders in 2004. Previously, he has held senior company secretarial, compliance and business development roles at Barclays, Computershare and NatWest.

Responsibilities: Secretary to the Board of Schroders plc and the GMC. He is not a member of the GMC but is responsible for the Group's governance, advising the Board and GMC on governance matters.

Richard Keers (49)

It is the Board's intention that Richard Keers will take over as Chief Financial Officer and join the Board on 5 May 2013. Richard is currently a partner at PricewaterhouseCoopers (PwC) in its financial services practice and was PwC's Global Relationship Partner for Schroders from 2006 to 2010.

Peter Harrison
Head of Equities from 15 March 2013 (46)

Experience: He joined Schroders in March 2013 having been CEO of RWC Partners, an asset management business which he joined in 2006. He was Global Chief Investment Officer of Deutsche Asset Management between 2004 and 2006 having previously been CIO of Global Equities and Multi-asset at J.P. Morgan.

Responsibilities: He is Head of Equities.

Richard Mountford
Head of Asia Pacific (54)

Experience: He joined Schroders in 1980 as a UK equities analyst and held a number of investment roles before becoming Regional Managing Director for South East Asia in 1991. In 2004, he was appointed Head of UK Distribution and in 2008 became Global Head of Intermediary Sales.

Responsibilities: Since September 2012 he has been responsible for the Group's operations in Asia Pacific.

Nico Marais
Head of Multi-asset and Portfolio Solutions (49)

Experience: He joined Schroders in March 2011 from BlackRock, where he was Head of Global Active Portfolio Management in the Multi-asset client solutions group in London. His investment career began in 1989 at the South African Reserve Bank before joining the World Bank in 1994. He joined BGI in 2000 and held various investment roles.

Responsibilities: He is Head of Multi-asset and Portfolio Solutions.

Philippe Lespinard
Co-Head of Fixed Income (49)

Experience: He joined Schroders in 2010 as Chief Investment Officer Fixed Income. He was previously a Partner at Brevan Howard and CIO at BNP Paribas Asset Management.

Responsibilities: He is Co-Head of Fixed Income.

Lester Gray
was Head of Asia Pacific until September 2012

Lester Grey stepped down as Head of Asia Pacific in September 2012. He remains Chairman of Asia Pacific and on the boards of our three joint ventures in the region.

Ken Lambden
was Head of Equities until 15 March 2013

Ken Lambden stepped down as Head of Equities in March 2013.

Corporate governance report

"This is my first report as Chairman having taken over from Michael Miles in May 2012. We have a robust governance framework and our actions in 2012 demonstrate our commitment to maintaining and, where appropriate, enhancing that framework for the long-term stability and success of the Group."

As the UK's largest listed asset management company, Schroders is committed to high standards of corporate governance. The Board is responsible for the oversight of the sound management of the Company and ensuring that high standards are met throughout the business. We have considered the revised UK Corporate Governance Code and, where appropriate, adopted some of the new provisions early.

Board succession and effectiveness

An effective Board is essential for every company and ensuring we have the right people on our Board is important. Board succession was a key focus in 2012 with the appointment of Nichola Pease and planning for the succession of Kevin Parry who, as we announced in November 2012, will step down as Chief Financial Officer in May 2013.

It is also important to ensure that the Board, its Committees and individual Directors continue to perform effectively. As we said in the 2011 Annual Report, we have used an external facilitator to undertake the annual Board evaluation process. More information on this process can be found on page 51.

In addition, from the 2013 Annual General Meeting we have decided that all Directors will stand for annual re-election (see page 50).

External audit tender

In light of changing governance best practice, we decided to put the external audit out to tender. The Audit and Risk Committee led the process and more information can be found in its report on pages 54–57.

Governance Framework

Schroders Corporate Governance Guidelines set out the expectations and responsibilities of the Board, its Committees and the Directors. With continuing change in governance best practice, the Guidelines and the Group's other core governance documents, including the Schedule of Matters Reserved to the Board, and the terms of reference of the Board Committees, have either been reviewed during the year or are under review, and the current versions are available on our website at www.schroders.com/ir.

With numerous consultations from UK Government departments and global regulators, and the introduction of new legislation and regulation across our operations, we can expect the regulatory and governance environment to continue to evolve.

Andrew Beeson
Chairman

Board attendance in 2012

During the year there were five scheduled and two ad hoc board meetings.

Details of attendance at each of the Board meetings are set out below:

Andrew Beeson, Chairman	7/7
Executive Directors	
Michael Dobson	7/7
Philip Mallinckrodt	7/7
Kevin Parry	7/7
Massimo Tosato	7/7
Non-executive Directors	
Ashley Almanza	7/7
Luc Bertrand	6/7
Robin Buchanan	7/7
Lord Howard	7/7
Merlyn Lowther	7/7
Nichola Pease	3/3
Bruno Schroder	6/7
Other Directors who served during the year	
Alan Brown	2/2
Michael Miles	2/2

Changes to the Corporate Governance report

This report is intended to give shareholders a clear and comprehensive picture of the Group's governance arrangements and how they operated during the year.

We have made changes to the structure and layout of our Corporate Governance report this year to improve transparency and provide additional information. The report structure is as follows:

- **Responsibilities of the Board and its Committees** (page 49);
- **Board focus during 2012, Board Effectiveness and Diversity** (page 50);
- **Nominations and Audit and Risk Committee Reports** (pages 52 to 57);
- **Compliance with the UK Corporate Governance Code** (pages 58 to 60); and
- **Ownership, capital structure and voting rights** (page 61).

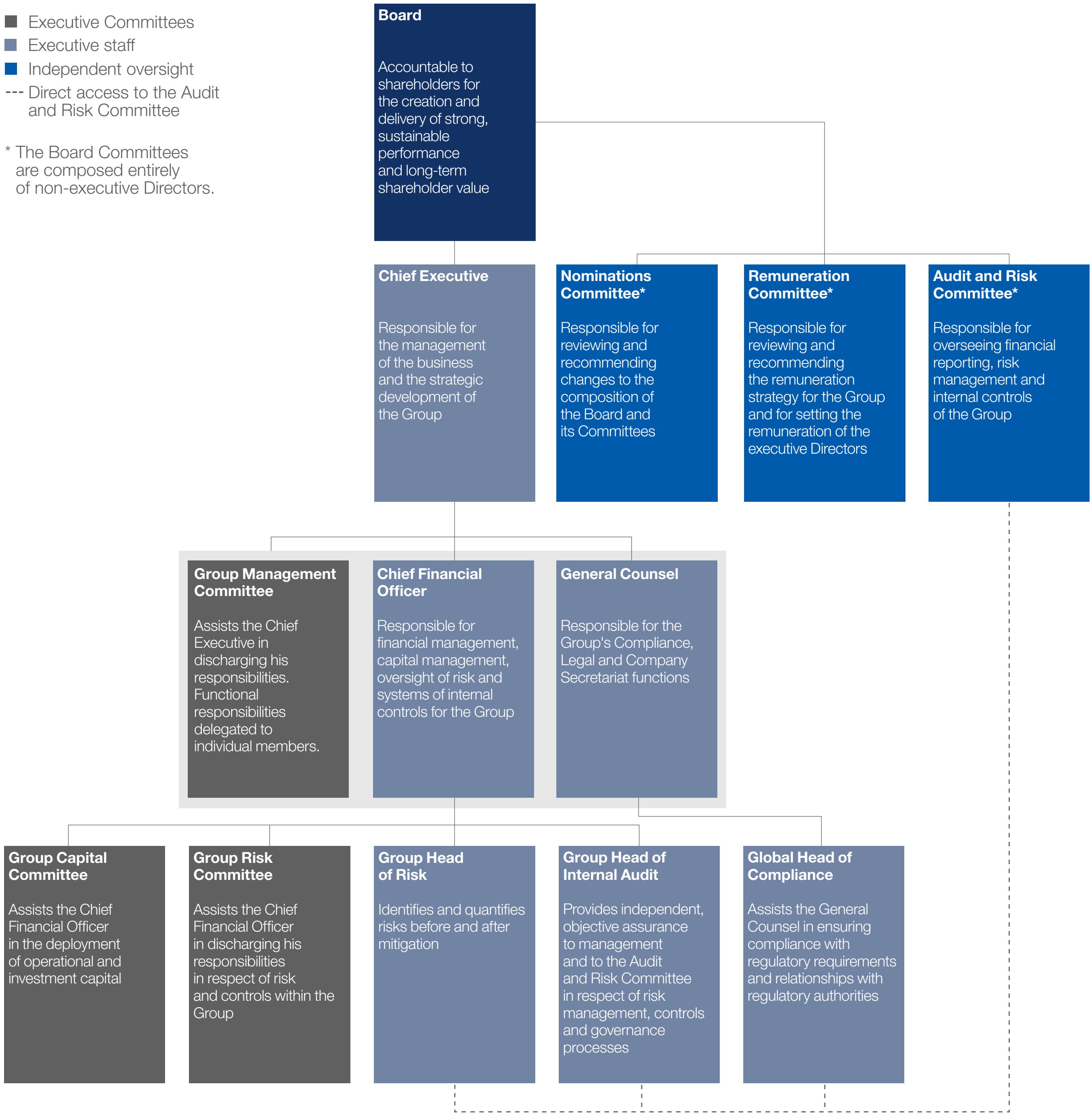
Responsibilities of the Board and its Committees

The diagram below illustrates the Group's core governance framework, how authority is delegated from the Board and how independent oversight at Board level is organised.

The Board is authorised to manage the business of the Company in accordance with the Company's Articles of Association. The Articles of Association may be amended by special resolution of Shareholders, unless specified to the contrary in them. The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board achieves this through its own decision-making, by delegating responsibilities to Board Committees and delegating authority to manage the business to the Chief Executive within the constraints set by the Board. The principal Board Committees comprise the Nominations Committee, the Audit and Risk Committee and the Remuneration Committee.

Reports from each of these Committees follow.

Governance Framework



Board focus during 2012

There were five scheduled and two ad hoc Board meetings held during 2012. At each of the scheduled Board meetings, the Board considered reports from the Chief Executive on the performance of the business, including the core areas of Investment, Distribution, Private Banking and Infrastructure, and the Chief Financial Officer's review of the Group's financial results, including the Group's investment capital and liquidity.

An important element of the Board's focus during the year was the Group strategic review. More information on this can be found in the Operating review.

During the year the Board also focused on:
- Corporate Development – the acquisition of 25 per cent. of the share capital of Axis Asset Management Company, the Indian asset management business of Axis Bank Limited, and the acquisition of STW Fixed Income Management, a value-orientated, US investment grade fixed income manager;
- The introduction of a transformational IT platform, in support of our fund managers;
- Risk matters including the ICAAP;
- Governance and regulatory developments;
- The external audit tender; and
- Board effectiveness (see below).

Responsibilities of the Group Management Committee

The Chief Executive delegates specific responsibilities to members of the senior management team who comprise the Group Management Committee (GMC). They manage the day-to-day operations of the Group and support the Chief Executive in the delivery of his and the Board's objectives. The GMC meets fortnightly and is chaired by the Chief Executive. The members and their areas of responsibility are shown on pages 46 and 47.

Annual re-election of Directors

Except in certain specific circumstances, Directors have not previously been required to stand for re-election annually. The Board has kept this under review and has decided that, in light of developing practice, from the 2013 Annual General Meeting all Directors, with the exception of Kevin Parry, will stand for annual re-election. Only those Directors expected to serve until the next Annual General Meeting will stand for re-election and therefore Kevin Parry will not be required to stand.

Board Effectiveness

The Board is committed to ensuring it operates effectively. Three important elements which support Board effectiveness are composition, development (which includes induction training and ongoing briefing sessions) and evaluation. Details of the Board's succession arrangements are set out in the Nominations Committee report on page 52. Details of development and evaluation are set out opposite.

Diversity

The Board recognises the importance of diversity and that it is a much wider issue than gender. The Board agrees that its members should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group's business. The Board also believes in the value and importance of diversity throughout the Group, but does not consider it appropriate or in the interests of the Company or its shareholders to set prescriptive, quantitative diversity targets.

Fundamental to increasing diversity is the development of a pipeline of talented and diverse employees within the business which requires a proactive and coordinated approach. More information on our approach to diversity can be found on page 40 in the corporate responsibility section.

Induction training

New Directors receive a personalised induction programme to familiarise them with their duties and the Group's businesses, operations, risks and governance arrangements.

The Company Secretary developed an induction programme for Nichola Pease on joining the Board. This was developed in consultation with Ms Pease, the Chairman and the Chief Executive. The programme involved meeting Board members and senior members of the management team. In addition, Ms Pease received information on the Group's history, strategy and any material projects under consideration or which had been considered recently. Ms Pease provided positive feedback on her induction through the external evaluation process.

Briefing sessions for Board members

Briefing sessions are held to inform Directors of developments in the business and the asset management industry, and other external factors, for example, changes to regulation or accounting practices. All Directors are asked to identify any specific development needs. The sessions are delivered by management or external advisers, as appropriate. Directors also attended numerous external courses relevant to their responsibilities. Briefing sessions held in 2012 included Quantitative Equity Products, and our businesses in Latin America and Australia.

Board Evaluation

An external consultant, Independent Board Evaluation, was appointed to facilitate the 2012 Board evaluation process following a formal request for proposal and interview selection process coordinated by the Company Secretary. Independent Board Evaluation has no connection with Schroders or any member of Schroders management and is considered to be independent of the Company. This was a key factor in the appointment process. The evaluation has involved attendance at Board, Audit and Risk Committee and Remuneration Committee meetings together with interviews with all Board members, the Company Secretary and the General Counsel.

The 2012 evaluation focused on supporting the Chairman in identifying improvement opportunities and how they might be implemented. It encompassed evaluation of the Board, the Board Committees, the Chairman and the Directors.

The overall findings of the evaluation were presented to the non-executive Directors, and the Chairmen of the Remuneration and Audit and Risk Committees received specific reports on their respective Committees. The Chairman received feedback on individual Directors which will be discussed with them in one-to-one meetings. Luc Bertrand, as Senior Independent Director, received a report on the evaluation of the Chairman which he discussed with the non-executive Directors and subsequently with the Chairman. The final report will be shared with the whole Board.

The Board evaluation report contained a detailed review of the Board's performance in key areas such as strategy, succession planning, governance and risk management. Areas of particular strength were the stability of the Board, accountability to shareholders and governance and compliance arrangements. The areas of focus for the Chairman in 2013 are the assessment of the Board's skills to support the Group's strategy, as set out on page 16; creating opportunities outside of Board meetings for more unstructured discussions; and enhancing the discussion of the Group's strategy through more analysis of the external landscape. The Chairman is developing an action plan which will be discussed with the Board.

Nominations Committee report

“To ensure that the Board and its Committees have the appropriate balance of skills, experience and independence to challenge management constructively and operate effectively, our focus has been on the evaluation of the Board’s composition and succession arrangements. This includes the diversity of the Board and a desire to have a range of views underpinning the Board’s discussions.”

The report outlines the work of the Committee and changes made to the Board’s composition during the year. Nichola Pease is already making a valuable contribution to our discussions and her experience within the asset management industry has further strengthened the Board.

The Committee, and particularly I as Chairman, welcome the findings of the externally facilitated Board evaluation process in respect of the composition of the Board, its Committees and our activities. We will look to build on the findings of the evaluation in 2013.

Andrew Beeson
Chairman of the Nominations Committee

Committee attendance in 2012

During the year there were four meetings.

Details of attendance at the Committee meetings are set out below:

Andrew Beeson	4/4
Ashley Almanza	4/4
Luc Bertrand	2/4
Robin Buchanan	4/4
Lord Howard	4/4
Merlyn Lowther	4/4
Nichola Pease	1/1
Bruno Schroder	4/4
Other Directors who served during the year	
Michael Miles	3/3

The Chief Executive is usually invited to attend Committee meetings.

Responsibilities

The role of the Committee is to make recommendations to the Board in order to ensure that the composition of the Board and its Committees is appropriate and to ensure appropriate succession plans are in place.

Activities

The key areas of the Committee’s work in 2012 are summarised below:

– Succession planning for Merlyn Lowther and the appointment of a new non-executive Director;
– Succession planning for Kevin Parry as Chief Financial Officer; and
– Composition of the Board’s Committees, notably the identification of a new Chairman of the Board Audit and Risk Committee.

The Nominations Committee considers diversity, including the balance of skills, experience, gender and nationality, amongst many other factors when reviewing the appointment of new Directors. The Board’s policy on diversity is set out on page 50 and more information on the Group’s approach to diversity in the wider business is set on page 40.

The key areas of the Committee’s work cover:

– Reviewing the size and composition of the Board and its Committees;
– Board succession planning;
– Making recommendations to the Board with respect to the role, capabilities and time commitment for each appointment, giving due consideration to the balance of skills, experience and knowledge on the Board and the benefits of diversity;
– The procedure for the appointment of new Directors;
– Identifying and recommending for the approval of the Board, potential candidates to fill Board and Committees vacancies;
– Developing and recommending appropriate criteria for Director independence;
– Reviewing the terms of appointment for non-executive Directors; and
– Conducting an annual review of the Committee’s performance.

The Committee's work in recommending my appointment as Chairman was carried out in 2011. This, together with other changes to the Board subsequent to my appointment, were set out in the 2011 Annual Report and took effect from the conclusion of the 2012 Annual General Meeting.

Nichola Pease was appointed as a non-executive Director in September 2012. Prior to Ms Pease's appointment, the Committee reviewed the composition of the Board and its Committees and developed the criteria for the appointment. Ms Pease was recommended to the Committee without using the services of an external search consultant. The Committee's recommendation to the Board to appoint Ms Pease was made following a thorough interview process. Ms Pease was interviewed by the Chairman, all members of the Committee and the executive Directors.

Merlyn Lowther joined the Board in 2004. Having served for nine years she will stand down as a Director and Chairman of the Audit and Risk Committee at the conclusion of the 2013 Annual General Meeting. Ashley Almanza will become Chairman of the Audit and Risk Committee upon Mrs Lowther's retirement and Ms Pease will join the Committee.

In November 2012, the Company announced that Kevin Parry would step down as Chief Financial Officer and as a Director of the Company in May 2013. Richard Keers was identified as Mr Parry's successor.

The Board believes his experience positions him well for the role of Chief Financial Officer at Schroders. The intention to appoint Mr Keers complies with our policy on the appointment of employees from the Group's external auditors (PwC) and relevant professional rules.

The use of an external recruitment consultant or open advertising was not considered appropriate. The Board was unanimous in accepting the Committee's recommendation to appoint Mr Keers.

The Committee also reviewed the Directors standing for election or re-election at the Annual General Meeting, taking into account their effectiveness, commitment and any conflicts of interest. The Committee also reviewed the independence of the non-executive Directors and concluded that all were independent other than Bruno Schroder. All Directors standing for election or re-election are recommended by the Committee and the Board.

Support

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. The Committee has the right to appoint external advisers, although none were used during the year.

Andrew Beeson
Chairman of the Nominations Committee
6 March 2013

Audit and Risk Committee report

"The Committee put our external audit out to tender during 2012 and I should like to extend my thanks to all the firms who participated in the process."

The economic and political uncertainties seen in 2011, particularly in respect of the Eurozone, continued well into 2012. Regulatory obligations on the asset management industry continued to develop, notably with the impending changes to the Financial Services Authority together with a broader focus on introducing regulation since the financial crisis. These external pressures were considered in detail during the year and they were also factors taken into account when considering the key risks affecting the Group. The key risks and mitigations are set out on pages 30 to 37.

As part of the Board's strategic review the Committee also considered the risks that could impact the strategy or the Group's business model.

During the year we put our external audit out to tender. The Committee led the process and I would like to thank Kevin Parry and his team for the significant support provided throughout.

The tender process was extremely competitive and tightly contested, and is described on page 55. The Committee had anticipated recommending KPMG as external auditor for the Group with respect to the 2013 audit. KPMG already provided a number of services to the Group and since the conclusion of the tender process KPMG advised the Company that it did not meet the regulatory requirements for independence for all relevant Group companies. Independence is a pre-requisite for any audit appointment and consequently the Board is proposing to re-appoint PricewaterhouseCoopers (PwC) and a resolution regarding this appointment will be put to shareholders at the 2013 Annual General Meeting.

I will stand down from the Board at the conclusion of the Annual General Meeting and Ashley Almanza will become Chairman of the Committee. He is a chartered accountant and was Chief Financial Officer of BG Group until March 2011. The Board considers that he has the recent and relevant financial experience appropriate for this appointment. Nichola Pease will also join the Committee in May 2013. I believe Ashley will make an excellent Chairman of the Committee and is well qualified to lead it during the next phase of Schroders' development.

Merlyn Lowther
Chairman of the Audit and Risk Committee

Committee's attendance in 2012

During the year there were four scheduled meetings and four ad hoc meetings.

Details of the attendance at Committee meetings are set out below:

Merlyn Lowther	8/8
Ashley Almanza	8/8
Robin Buchanan	6/8
Lord Howard	6/7
Other Directors who served during the year	
Andrew Beeson	1/1

At the invitation of the Chairman, the Chief Executive, the Chief Financial Officer and Bruno Schroder attended most meetings during the year. Other regular attendees who advised or reported to the Committee were the Head of Financial Reporting, the Global Head of Compliance, the Group Head of Risk, the Group Head of Internal Audit and the General Counsel.

Other members of senior management were also invited to attend as appropriate. Representatives from the Group's auditor, PwC, attended all of the Committee's scheduled meetings.

Private meetings

During 2012, two private meetings were held with PwC without management present. Private meetings were also held with the Chief Financial Officer and the heads of the Compliance, Risk and Internal Audit functions. These meetings provided an opportunity for matters to be raised confidentially.

The key areas of the Committee's work cover:

Audit and operational 'business as usual' risks

- Monitoring the content and integrity of financial reporting;
- Reviewing the appropriateness of accounting judgements;
- Reviewing the Group's risk and control framework;
- Reviewing the Group's regulatory reporting procedures and relationships with regulators;
- Reviewing the external auditors;
- Recommending to the Board the appointment of external auditors; and
- Reviewing the Group's internal audit function.

'Forward-looking' emerging and thematic risks

- Considering emerging and thematic risks which may have a material impact on the Group's operations in the future.

Responsibilities

The Committee seeks to encourage and safeguard high standards of integrity, financial reporting, risk management and internal controls. Its activities cover audit and operational 'business as usual' risks as well as more 'forward-looking' emerging and thematic risks.

Activities

The principal areas of the Committee's work in 2012 are summarised below.

Financial reporting

The Committee reviewed the 2012 half-year results and the Annual Report and Accounts, prior to recommending them to the Board for approval. The Committee's reviews included the Group's exposure to country and currency risk, particularly in relation to developments within the Eurozone, and the key areas of judgement in the financial statements. Among the key areas of judgement were provisioning and risk disclosures. To assist its reviews of the statements, it received reports prepared by Group Finance addressing presentational and judgemental issues, accounting developments, estimates and policies. It also received reports setting out the responsibilities for particular areas of reporting. The Committee also considered reports from PwC providing an assessment of the financial reporting, an audit opinion on the Annual Report and Accounts and an independent report on the half-year results.

External audit

In the 2011 Annual Report we reported that the Committee would review the credentials of other providers of external audit services. A wide-ranging request for information (RFI) was issued not only to the 'Big Four' audit firms (PwC, KPMG, Ernst & Young, and Deloitte), but also to two firms in the next tier. This covered their capability to conduct the audit and other non-audit services provided by accounting firms to the Group. In July, the Committee decided, in light of developing EU regulation and UK market practice and the information gleaned from responses to the RFI, that it would be appropriate to conduct a tender exercise for the external audit. Schroders had not previously put its audit out to tender. Due to the Group's relative complexity and geographical spread, the two firms outside the 'Big Four' were not invited to participate and the request for proposal was limited to those global providers with the necessary resources to audit a diverse global Group.

External auditors – non-audit services

The Committee is responsible for maintaining a policy on the engagement of the external audit firm to provide non-audit services. This policy precludes the provision of non-audit services that might lead to a conflict of interest. The policy also has strict rules in relation to the approval of contracts for non-audit services which do not present a possible conflict of interest. All contracts for non-audit services must be notified to the Head of Financial Reporting and contracts valued in excess of £25,000 require prior approval. During the year, the Committee revised the policy to require that where non-audit fees were expected to breach certain thresholds in proportion to the statutory audit fee, the Committee must approve in advance any further non-audit fee expenditure.

External Audit Tender Process

In September 2012, a request for proposal (RFP) was issued to provide the following external audit and audit-related services:

- The audit of Schroders' parent Company, the Group accounts and those of certain subsidiaries;
- To report, in the Annual Report, whether certain remuneration and governance disclosures were in accordance with applicable legislation and rules/regulations;
- To review the interim financial statements;
- Regulatory reporting in various locations;
- Client asset reporting to the FSA or its successor bodies; and
- Controls reporting in various locations.

The four firms participating in the tender process were required to submit their proposals against the following criteria:

- Organisation and capability – including the firm's global coverage, experience, scope of service, technical expertise and support, culture and independence assurance;
- Audit approach and delivery – including knowledge of the business, audit planning process, quality of accounting judgements, liaison with and reliance upon Internal Audit, timely resolution of audit issues and transition experience;
- Audit quality – including quality assurance, audit effectiveness, audit reporting, integrity, independence, objectivity, process improvement and added value;
- Resourcing and engagement team – including quality of proposed audit team, skills and personal qualities of audit partners and leadership, team structure, resourcing model and succession, responsiveness; and
- Fees and terms.

The process comprised three stages:

- 28 interviews for each firm with Schroders personnel including the Chairman, Executive Directors, Audit and Risk Committee members and key members of management (both UK and globally);
- Written proposals; and
- A presentation to the Committee and the Chairman, the Chief Executive, the Chief Financial Officer, Bruno Schroder, the General Counsel, the Head of Financial Reporting and the Company Secretary.

All four firms met the criteria for appointment; the Committee concluded, however, that two firms, PwC and KPMG, demonstrated better the resource, expertise, quality control and audit approach to deliver a high-quality audit service to Schroders.

As part of the process to confirm the independence of the audit firm prior to making a recommendation to shareholders, KPMG advised the Company that it did not meet the regulatory requirements for independence for all relevant Group companies. As Schroders' incumbent auditor, PwC had maintained its independence throughout the process.

Independence is a pre-requisite for an audit appointment and therefore the Committee has recommended that the Board propose to shareholders that PwC be re-appointed as the Company's auditors for the 2013 audit.

Audit and Risk Committee report continued

The Committee reviewed the fees paid to PwC against compliance with the Group's policy for procuring non-audit work. During the year the total fees paid to PwC amounted to:

	2012 £m	2011 £m
Audit	2.7	2.9
Audit-related	0.3	0.4
Non-audit related		
– Assurance services	0.3	0.2
– Tax advisory services	0.6	0.5
– Tax compliance services	0.5	0.4
– Other non-audit services	1.5	0.3
Total non-audit related	2.9	1.4
Total	5.9	4.7
Percentage of audit and audit-related fees to total fees	51%	70%

The Committee also receives six-monthly reports on the non-audit services provided and the auditors are required to confirm that prior to undertaking any non-audit service they have completed their own independence confirmation processes which are approved by the senior statutory auditor. During the year, PwC were appointed for two 'significant' non-audit services. There was a review of the Group's transfer pricing arrangements for compliance with best practice and a review, including of internal controls, relating to an investment in mainly unlisted securities for certain Private Banking clients. These appointments were determined to be in the best interests of shareholders because the work required specialist regulatory knowledge and benefited from pre-existing knowledge of the Group's practices. The Committee was satisfied that PwC received adequate compensation to undertake its obligations thoroughly and that the quantity and type of non-audit work undertaken did not impair their independence.

Risk management and internal controls

On behalf of the Board, the Committee carried out the annual assessment of the effectiveness of internal controls during 2012, including those related to the financial reporting process. In undertaking its assessment, the Committee considered a number of reports on presentational and judgemental issues, accounting developments and policies, together with quarterly reports from the Group Heads of Compliance, Risk, Internal Audit and the General Counsel and reports on specific issues received during the year.

As part of its review of the financial statements, the Committee considered key financial reporting risks arising from changes to the business and accounting standards. It also received a report from the Head of Financial Reporting confirming the operation of the controls over the financial reporting process including the Group's consolidated accounts. This outlined the financial reporting control framework, including the operation of a Group-wide general ledger, consolidation system and preventative and detective controls, which include automated system controls on high-volume, low-value transactions. Key controls in Finance are tested regularly by Internal Audit and are subject to external audit.

The Internal Audit reports described progress against the rolling plan of audits approved by the Committee, any significant adverse findings from audits and their subsequent remediation, and recommendations to improve the control environment. During the year, management proposed, and the Committee approved, an independent review of the Internal Audit function which reported it to be operating at a high standard.

The Compliance reports similarly highlighted compliance matters and issues requiring rectification, together with international developments in the regulatory environment in which the Group operates.

The Risk reports set out changes in the level or nature of the risks faced by the Group, developments in risk management and significant errors and omissions. Separate reports allowed the Committee to consider the most significant risks faced by the Group and assessments of risk tolerance, as well as the construction, output and stress testing of the ICAAP. The Pillar 3 disclosures of the ICAAP, which are available on our website at www.schroders.com/ir, were also reviewed by the Committee.

Key topics discussed by the Committee included the impact of the Retail Distribution Review, the introduction of the Investment Platform Programme and whistle-blowing procedures. The most significant developments in the risk profile of the business are set out on pages 36 and 37.

The Committee also received reports from PwC and noted the work undertaken to test specific controls of a number of major subsidiaries as part of the internal controls assessment work. PwC provided an independent opinion on the internal controls of certain subsidiaries.

Lessons learned from operational events together with the ongoing development of the control functions and general market practice means there are often areas for development which the Committee monitors through specific reports and periodic updates against a targeted timescale for delivery.

The Committee also focused on specific control recommendations within Private Banking and received reports and considered recommendations to strengthen the investment management process, compliance activities (particularly in respect of monitoring) and other control activities arising from mandate compliance reviews with respect to certain client investments in mainly unlisted securities. As a result of the action taken by management and through ongoing development of risk management, compliance and the assessments performed by Internal Audit, the Committee was satisfied with the overall adequacy of the lines of defence as described on page 30.

Emerging and thematic risks

Emerging and thematic risks are now standing items on the Committee's agenda. During the year the Committee considered:

- The impact of the Olympics on the Group's London-based operations;
- The possibility and potential impact of unauthorised trading;
- Investment risk; and
- The Eurozone crisis and the implications of a possible break-up of the Eurozone.

Additionally, in conjunction with the strategic review undertaken by the Board, the Committee considered the strategic risks the Group faces. The focus was on risks related to clients and markets and the external environment, including regulation. The results of this review were reported to the Board.

The Committee's terms of reference were last updated in March 2012 and are available at www.schroders.com/ir.

The Committee's performance is evaluated annually. The findings of the externally facilitated review in respect of 2012 were satisfactory and were discussed by the Committee and with the Chairman of the Board.

In light of its work, the Committee was content with the quality of the Group's financial and regulatory reporting, its ethical standards and its relationships with regulators, the Group's risk monitoring and the internal control framework and the adequacy of the lines of defence (see the Key risks and mitigations section of this Annual Report).

Merlyn Lowther
Chairman of the Audit and Risk Committee
6 March 2013

Compliance with the UK Corporate Governance Code ('the Code')

As the UK's largest listed asset management company, corporate governance is very important to us. We are committed to business integrity, high ethical values and professionalism across all of our activities. The Board supports the highest standards of corporate governance as it firmly believes good governance fosters an environment which contributes to effective, long-term decision-making.

Compliance with the Code
Throughout the year, the Company complied with all provisions of the Code as set out below, with the exception that Directors were not required to stand for re-election annually at the 2012 Annual General Meeting. An explanation in respect of this non-compliance is provided under section B.7 below.

Copies of the Code can be obtained from the UK Financial Reporting Council's website at www.frc.org.uk.

A: Leadership
A.1 '…an effective board…collectively responsible for the success of the company…'
The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board achieves this through its own decision-making, delegating responsibilities to Board Committees and delegating the authority to manage the business to the Chief Executive, as described below.

The Chairman and the Chief Executive agree an 18-month rolling programme of items for discussion, which is regularly reviewed and updated to ensure key issues are considered in a timely manner.

A.2 '…clear division of responsibilities…' and
A.3 '… the chairman is responsible for the leadership of the board and ensuring its effectiveness…'
The roles of Chairman and Chief Executive are separate and clearly defined.

The Chairman is responsible for leading the Board, ensuring its effectiveness, promoting a culture of openness and debate, and monitoring and evaluating the performance of the Board, its Committees and individual Directors including the Chief Executive.

As chairman of the Nominations Committee, the Chairman also oversees the Chief Executive's and Board's succession planning.

The Chief Executive is responsible for the executive management and strategic development of the Group and its businesses. This includes recommending the Group's strategy and budget to the Board and thereafter the successful implementation of the strategy, assisted by the Group Management Committee.

The Senior Independent Director provides shareholders with an alternative means of communication with the Board should they have concerns that cannot be resolved by discussions with the Chairman or executive Directors. He is also responsible for the annual evaluation of the Chairman's performance, where this is not externally facilitated.

In addition to their letters of appointment and service contracts, the Chairman, Chief Executive and Senior Independent Director each have a role description setting out their respective responsibilities.

A.4 '…non-executive directors should constructively challenge and help develop proposals for strategy.'
During the year the Board undertook a strategic review which was considered at two separate Board meetings, one of which was the annual two-day strategy meeting.

All non-executive Directors attended both meetings and were encouraged to challenge management's proposals. In addition, the Audit and Risk Committee held a meeting which considered those risks which could impact the Group's strategy or undermine its business model.

The Chairman and non-executive Directors also met, as the Chairman's Committee, on four occasions prior to Board meetings. At the Chairman's invitation, the Chief Executive also attended these meetings. Matters discussed included strategy, effectiveness, succession planning and Board evaluation.

B: Effectiveness
B.1 '…board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company…'
Board member biographies are provided on pages 44 and 45 and identify the experience each Director brings to the Board.

At the end of 2012 there were 12 Directors: the Chairman, four executive Directors, six independent non-executive Directors and one non-executive Director who is not independent. At the time of his appointment as Chairman, on 3 May 2012, the Board considered that Andrew Beeson was independent. Bruno Schroder does not meet the test of independence under the UK Corporate Governance Code in view of his relationship with the principal shareholder group and because he has served on the Board for more than nine years.

B.2 '…a formal, rigorous and transparent procedure for the appointment of new directors to the board.'
The Nominations Committee leads the process for Board appointments and makes recommendations to the Board.

See the Nominations Committee report on page 52 for a description of the work of the Committee.

The rules providing for the appointment, election, removal and re-election of Directors are contained in the Company's Articles of Association.

B.3 'All directors should be able to allocate sufficient time to the company…'
On the appointment of Andrew Beeson as Chairman and of Nichola Pease, the Board considered their other commitments and was satisfied that they had sufficient time to discharge their responsibilities.

The terms and conditions of appointment of non-executive Directors include a provision outlining the expected commitment of Directors to discharge their duties. No changes were made to the executive Directors' service contracts and with the exception of Andrew Beeson, whose letter was amended to reflect his appointment as Chairman, no changes were made to the non-executive Directors' letters of appointment in 2012.

The Board considers the time commitments of all Directors standing for election or re-election before recommending them to shareholders.

The Board believes that by holding external appointments executive Directors and other employees can benefit the Group through broadening their skills, experience and expertise. The Board has a policy on external appointments which allows executive Directors to take up non-executive directorships. Non-executive Directors are required to notify the Chairman before taking on any additional appointments.

Directors and employees are usually permitted to retain any fees paid in respect of such appointments. No executive Director has taken on more than one non-executive directorship or the chairmanship of another FTSE 100 company. Details of external appointments are set out on pages 44 and 45.

A register of disclosed actual or potential conflicts is maintained and reviewed annually by the Board. Any actual or potential conflicts that arise during the year are considered by the Board at the next Board meeting. None of the Directors had an interest in any significant contract with the Company or any of its subsidiaries, either during or at the end of the year.

B.4 'All directors should receive induction on joining the board…'

In order that newly appointed Directors are familiar with the Company's strategy, business model, operations and the risks it faces, all new Directors receive a tailored induction programme upon appointment.

On joining the Board Nichola Pease received a tailored induction programme. More detail can be found on page 51.

B.5 '…board should be supplied in a timely manner with information…'

The Company Secretary is responsible for ensuring there are appropriate information flows between the Board and its Committees and between senior management and non-executive Directors.

Prior to each meeting, reports and papers are distributed to the Board. In addition to the Board papers, relevant information is circulated between meetings including information on financial performance, management changes, analysts' commentaries on the Group and information on the competitive environment and the asset management industry generally. Minutes of Board Committee meetings are circulated to Directors and the Board also receives regular reports from the Chairmen of the Remuneration, Nominations and Audit and Risk Committees. Minutes of Group Management Committee meetings are also circulated to the Board. Other executives below Board level are invited to present on their areas of responsibility at Board meetings and other meetings such as Board briefing sessions. Direct access to senior management is open to all Directors through such presentations.

During the year the Group introduced the electronic delivery of Board papers. This removed the need for printing and mailing papers. Directors are able to view material immediately upon publication securely on tablet devices.

The Company Secretary is responsible for advising and supporting the Chairman and the Board on governance matters. All Directors have access to the advice and services of the Company Secretary and can arrange through him to receive professional advice independently of the Company, at the Company's expense.

B.6 '…board should undertake a formal and rigorous annual evaluation…'

In 2012, the Board used an external facilitator to conduct the evaluation of its effectiveness. More detail can be found on page 51.

The performance of the Chief Executive in managing the business was considered by the Chairman and was discussed with the Chief Executive.

B.7 'All directors should be submitted for re-election…'

At the 2012 Annual General Meeting Directors were not subject to annual re-election. In accordance with the Group's Corporate Governance Guidelines which existed at that time and the Company's Articles of Association, each Director was required to retire no later than the third Annual General Meeting following their last election or re-election to the Board. Any non-executive Director who had served more than nine years was required to seek re-election annually. Bruno Schroder had therefore retired and stood for re-election at the 2012 Annual General Meeting. The Board had previously decided not to comply with the provision B.7 on the grounds that it did not believe that annual re-election encourages taking a long-term view of the business. However, in light of developing market practice, the Board has decided that from the 2013 Annual General Meeting all Directors expecting to serve throughout the year will stand for election or re-election.

The Notice of Annual General Meeting sets out relevant information to enable shareholders to make an informed decision on the election and re-election of Directors.

C: Accountability

C.1 '…board should present a balanced and understandable assessment of the company's position and prospects.'

The Directors' statement of responsibilities for the preparation of the Annual Report is set out on page 77. The going concern statement can be found on page 76. The Strategy and Business review sections of this report describe the performance of the business as set out on pages 10 to 41. The independent auditors' report to the members of Schroders plc is set out on page 140.

Compliance with the UK Corporate Governance Code ('the Code') continued

C.2 '…board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives…'
and
C.3 '…board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.'
The Board is accountable for risk and is responsible for the oversight of the risk management process, the Group's system of internal controls and for reviewing the effectiveness of those controls. The system can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to mitigate, not eliminate, risk. The responsibilities do not extend to the Group's joint ventures and associates. The Audit and Risk Committee supports the Board with this responsibility. The Audit and Risk Committee report on page 54 sets out a description of the work of the Committee. This covers financial reporting, risk management, internal control and how the Group ensures the auditor's continued independence. In addition to information received from the Audit and Risk Committee, the Board reviewed the Group's key risks, risk management framework and governance arrangements and is of the view that the control processes for identifying, evaluating and managing the Group's significant risks have been in place throughout the year and also up to the date of this report and that they comply with the Financial Reporting Council's guidance for directors on internal controls. The Board also considers that these processes ensure necessary actions have or are being taken to remedy any significant failings identified as part of the ongoing risk management processes.

D: Remuneration

D.1 'Levels of remuneration should be sufficient to attract, retain and motivate directors of quality… A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.'
and
D.2 '…a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors…'
The Group's remuneration policy is set out in the Remuneration report on pages 62 to 75.

Long-term thinking governs our approach to remuneration, with a strategy that seeks to ensure pay for performance, aligning the interests of employees and shareholders; incentivising and retaining talented individuals; and complying with current best practice and regulatory requirements. Performance-related elements of executive Directors' remuneration are designed to promote the long-term success of the Company.

The Group's main deferred remuneration plans expired in March 2011 and, having consulted shareholders on the design of replacement plans that included provisions for claw back, the Committee recommended to the Board new plans which were approved by shareholders at the 2011 Annual General Meeting.

We have looked to adopt early some of the proposals from the Department for Business Innovation & Skills recommendations on 'Narrative Reporting and Executive Remuneration' to explain better our reward philosophy and how our long-term thinking is reflected in how we reward our people. We believe strongly in the principle of pay for performance and as an asset manager and a listed company we participated in the UK Finance Reporting Council's Reporting Lab review of these new disclosure requirements.

E: Relations with shareholders

E.1 '…board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.'
and
E.2 '…board should use the AGM to communicate with investors and to encourage their participation.'
The Company maintains a relationship with shareholders through a regular programme of presentations and meetings to inform institutional investors, analysts and prospective shareholders, attended by the Chief Executive, Chief Financial Officer and other senior executives. The Company holds in excess of 100 such meetings each year. Information about significant developments, financial statements and other corporate information are made available via our website at www.schroders.com/ir. Feedback from shareholders is reported to the Board as appropriate.

The Annual General Meeting provides shareholders with an opportunity to question the Board. The Chief Executive gives a review of the Group's performance and informs shareholders of the first quarter results. The Annual Report and the Notice of Annual General Meeting are available to shareholders at least 20 working days before the meeting.

The Senior Independent Director is available to shareholders as an alternative means of communication with the Board should they have concerns that cannot be resolved by discussions with the Chairman or executive Directors.

Ownership, capital structure and voting rights

Ownership, capital structure and voting rights

Schroders has developed under stable ownership for more than 200 years, and has been a public company listed on the London Stock Exchange since 1959. The Schroder family interests are in shares owned by trusts settled by members of the family and in personal shareholdings. Relevant statutory and regulatory disclosures are in the table below.

The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each.

The non-voting share class was created in 1986 to facilitate the operation of an employee share option plan without diluting the voting rights of ordinary shareholders. 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 the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

When the non-voting share class was created there was a ratio of four ordinary shares to one non-voting ordinary share. Since 1986 the Company has at times issued additional non-voting ordinary shares, principally as a result of the exercise of awards made under the Group's share and share option plans. The Company did not intend to increase the issued non-voting share capital over the medium term as a result of such awards. Therefore the Company has, at times, undertaken repurchases of non-voting ordinary shares to eliminate the increase in shares in issue arising from shares issued and to neutralise the dilutive effect of expected future issues of non-voting ordinary shares. A resolution has been put to shareholders each year to authorise the Directors to undertake such repurchases. At the 2012 Annual General Meeting shareholders gave approval for the Company to purchase up to 14,100,000 non-voting ordinary shares. A similar resolution will be proposed to shareholders at the 2013 Annual General Meeting.

The Company has no authority either to issue or repurchase any ordinary shares and the number of ordinary shares in issue was 226,022,400 throughout the year.

At the last Annual General Meeting, shareholders renewed the Directors' general authority to issue non-voting ordinary shares up to an aggregate nominal value of £5,000,000 for the purposes of providing the Directors with the flexibility to make limited issues of non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares. Renewal of this authority will be sought at the 2013 Annual General Meeting. This authority does not cover shares issued under employee share plans.

At the start of the year there were 56,505,600 non-voting ordinary shares in issue, of which 554,847 were held in treasury. During the year 473,750 non-voting ordinary shares were issued and no shares were repurchased by the Company. The Company cancelled 473,750 non-voting shares held in treasury. The result of these transactions was that as at 31 December 2012, 56,505,600 non-voting ordinary shares were in issue, of which 81,097 were held in treasury, and the ratio of ordinary shares to non-voting ordinary shares in issue was four to one.

Since 31 December 2012, 40,000 non-voting ordinary shares have been issued under the Group's share option plans; the corresponding number of shares held in treasury were cancelled and therefore as at the date of this report 56,505,600 non-voting ordinary shares were in issue, of which 41,097 remained in treasury.

Under the terms of the Schroders Employee Benefit Trust the trustee may vote or abstain from voting, or accept any offer relating to shares, in any way it thinks fit. In so doing, it may take into account both financial and non-financial interests of the beneficiaries and their dependents. Under the terms of the Share Incentive Plan, for which more detail can be found in the Remuneration report, shares are held in trust on behalf of participants. The trustee can exercise the voting rights in respect of the participants' share entitlements but can only do so at the participants' direction.

There are no restrictions on the transfer of the Company's shares save for:

- restrictions that may from time to time be imposed by laws and regulations (for example, those relating to market abuse and insider dealing);
- restrictions that may be imposed pursuant to the Listing Rules of the UK Financial Services Authority (or its successor bodies), whereby certain employees of the Group would require approval to deal in shares;
- restrictions on the transfer of shares that may be imposed under the Company's Articles of Association or under Part 22 of the UK Companies Act 2006, in either case following a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- restrictions on the transfer of shares held under certain employee share plans while they remain subject to the plan.

The Company is not aware of any agreement between shareholders which may restrict the transfer of securities or voting rights.

Governance

Substantial shareholdings

As at 31 December 2012, the Company had received notifications, in accordance with the FSA's Disclosure and Transparency Rule 5.1.2R, of interests in three per cent. or more of the voting rights attaching to the Company's issued share capital, as set out in the table below. There have been no changes to these notifications as at the date of this report.

Notifier	Class of shares	No. of voting rights held indirectly	% of voting rights held indirectly
Vincitas Limited[1]	Ordinary	60,724,609	26.87
Veritas Limited[1]	Ordinary	36,795,041	16.28
Flavida Limited[2]	Ordinary	60,951,886	26.97
Fervida Limited[2]	Ordinary	40,188,706	17.78
Harris Associates L.P.	Ordinary	15,969,200	7.07

[1] Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder family.

[2] The interests of Flavida Limited and Fervida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited and Veritas Limited are interested as trustees.

Remuneration report

"Long-term thinking governs our approach to remuneration. Our strategy reflects the global marketplace in which we operate and seeks to ensure pay for performance; align the interests of employees and shareholders; incentivise and retain talented individuals; and comply with best practice and regulatory requirements."

Pay for performance is critical to our philosophy. Much has been written and proposed in recent years about the capping of variable compensation. We cap this at the Company level, not at the individual level. We believe this is important for the success of Schroders and for the interests of shareholders. By setting an annual target for the percentage of revenues allocated to compensation, and a profit-share ratio to determine variable compensation, we establish clear parameters for protecting the interests of shareholders which employees can understand and respect. These targets are set by the Board, on the recommendation of the Remuneration Committee.

We achieve two goals by not capping individual variable compensation. We are able to keep base salaries relatively low, thereby controlling our cost base when times are difficult, and we are able to compete for and retain the best global talent, who know that good performance will be rewarded. Without this we would be unable to compete effectively for mandates in the global marketplace, where our competitors are mostly large global firms, not listed UK or European companies. The variable element, with a significant element of deferred compensation, helps to retain key employees, and aligns their interests with those of shareholders.

Our compensation to operating revenue ratio and profit-share targets are not fixed because flexibility is needed at different stages in the cycle. We aim to keep the compensation to operating revenue ratio within a band of 45-49 per cent. and our long term target is 45 per cent. For 2011, when profits were strong, the cost of previous deferred awards was low and the Group saw a one-off gain in respect of the closure of the Group's primary defined benefit pension scheme, this ratio was 44 per cent. In 2012, profit before tax was down 12 per cent. at £360 million but the cost of deferred awards rose and we invested for the long term by adding headcount. Given this continued strong investment performance, and the growth in net new business, the Board considered it was appropriate to raise the ratio to 49 per cent. However, variable compensation was down in 2012.

The executive Directors' annual variable compensation is assessed on a combination of results against key Group performance indicators and the achievement of personal and strategic objectives. Variable compensation awards for the current executive Directors were between 13 per cent. and 39 per cent. lower than 2011. This reflects the strong results achieved in terms of investment performance and net new business, but also the reduction in profit before tax. The Group's KPI results are shown in the Overview section of this report on pages 18 and 19.

We have adopted some of the BIS recommendations on 'Narrative Reporting and Executive Remuneration' to explain our reward philosophy and how our long-term thinking influences how we reward our people. We believe strongly in the principle of pay for performance and, as an asset manager, participated in the 'Lab review' of these new disclosure guidelines. I hope that you will find the improvements that we have made to this report helpful. We hope to receive your support at the Annual General Meeting on 2 May 2013.

Lord Howard of Penrith
Chairman of the Remuneration Committee

Committee attendance in 2012

During the year there were four meetings.

Details of the attendance at Committee meetings are set out below:

Lord Howard of Penrith (Chairman)	4/4
Ashley Almanza (joined May 2012)	3/3
Luc Bertrand	4/4
Other Directors who served during the year	
Andrew Beeson (stepped down May 2012)	1/1

At the invitation of the Chairman, the Chief Executive and Bruno Schroder attended all four meetings. The Chief Financial Officer attended three meetings. The Chief Executive and Chief Financial Officer were not involved in discussions relating to their own remuneration.

The Group Head of Risk, the Global Head of Compliance and the General Counsel also advised the Committee on matters that could influence remuneration decisions.

The Global Head of Human Resources and the Head of Compensation and Benefits attended the meetings to provide advice on market practice and support the Committee with secretarial services.

Changes to the Remuneration report

We have made changes to the structure and layout of our Remuneration report this year to improve transparency and provide additional information as set out below:

– **Remuneration policy for executive Directors** (pages 63 to 66);
– **Implementation** (pages 67 to 70);
– **Remuneration policy for other senior executives** (page 71);
– **Additional disclosures** (pages 72 to 74); and
– **Compliance and governance for remuneration** (page 75).

Our remuneration policy has been developed with a number of principles in mind. The overall policy should be:

Competitive	Employees receive a competitive compensation and benefits package, which is reviewed annually and benchmarked by reference to the external market.
Aligned with shareholders	Up to 50 per cent. of any annual variable compensation is deferred for three years into Schroders shares and/or fund awards. Executive Directors and the other members of the Group Management Committee (GMC) are required, over time, to acquire and retain a holding of Schroders shares or rights to shares, equivalent to 300 per cent. of annual base salary.
Aligned with clients	Any deferred variable compensation in excess of £50,000 is generally delivered equally in share awards and fund awards, subject to a minimum into fund awards of £10,000. Fund awards are notional investments in funds managed by the Group, thereby aligning the interests of the employees with clients.
Aligned with financial results	The Group's total spend on compensation is set as a percentage of operating revenue. Over the long term, we aim for a compensation cost:operating revenue ratio of 45 per cent. Variable compensation, being a component of profit, is set as a percentage of pre-bonus profit before tax, determined by the Committee and recommended to the Board. This approach aligns compensation with financial results.
Designed to encourage retention	Deferred variable compensation does not give rise to any immediate entitlement and awards normally require the participant to be employed continuously by a Group company until the third anniversary of grant in order to vest in full.

Policy for executive Directors

Executive Directors are remunerated through a combination of base salary, which is adjusted infrequently in order to limit the increase in fixed costs, and annual variable awards reflecting current year performance. 50 per cent. of variable awards is paid in cash, and 50 per cent. in a combination of Schroders shares and awards in Schroders funds which must normally be held for three years to vest in full.

In addition, the executive Directors and a small number of senior employees participate in a long-term incentive plan with demanding performance conditions and deferred vesting, further aligning the interests of employees and shareholders. The operation of the remuneration plans utilising Schroders shares are non-dilutive to shareholders as shares are purchased in the market to hedge awards.

Remuneration report continued

Remuneration policy for executive Directors continued

Components of remuneration

Component	Policy	Further information
Fixed		
Base salary	For senior employees, including executive Directors, the Group's policy is to restrict base salaries, reviewing them annually but adjusting them infrequently.	There were no changes to the base salaries of executive Directors during 2012.
Benefits	Executive Directors may participate on the same basis as other UK employees in those benefits covered by our UK flexible benefits plan, including, for example, private healthcare, life assurance and the Share Incentive Plan (SIP).	Michael Dobson, Alan Brown, Kevin Parry and Massimo Tosato participated in the SIP during 2012. Massimo Tosato also benefits from additional permanent total disability and life assurance cover.
Pension	Base salary is the only element of remuneration that is pensionable and executive Directors may participate on the same basis as other employees in the UK pension arrangements. The UK defined benefit pension scheme, of which two of the executive Directors were members in 2011, was closed to future accrual on 30 April 2011.	Following the closure of the defined benefit pension scheme, all executive Directors now receive either cash in lieu of pension, or payments by the Group into defined contribution schemes.
Pay for performance		
Variable compensation - annual bonus award	To attract and retain talented people, employees are eligible for a discretionary, non-pensionable bonus award based on Group, business area, team and individual performance. As noted previously, the Group's total spend on compensation is capped and set as a percentage of operating revenue. Executive Directors are eligible to receive an annual bonus award of which 50 per cent. is deferred into awards under the **Equity Compensation Plan (ECP)** (see fig 1). Awards are based on performance, as explained opposite. The Group's policy is to make guaranteed bonus awards on an exceptional basis and generally only for the first 12 months of employment. No Director has a guaranteed award.	In addition to the financial results of the Company, the objectives of the Chief Executive and other executive Directors are taken into account and include non-financial measures, including: – Investment performance – Net new business – Control of Group risks – Development of our product range – Succession planning – Management of investment capital
LTIP	Executive Directors and other senior employees are eligible to participate in the **Long Term Incentive Plan (LTIP)** (see fig 2). LTIP awards are capped at four times salary for any individual for any year and the awards do not accrue dividends. The LTIP has a four-year performance period. If a participant ceases to be employed before the awards may be exercised, the LTIP awards will be forfeited in full, except in circumstances such as death or disability, or other cases decided by the Committee.	Performance conditions are: – Earnings per share (EPS) – Net new business (NNB)

Fig 1 **Equity Compensation Plan (ECP)**

The ECP is the Group's main deferral arrangement for variable compensation.

Deferrals into the ECP are awarded for prior performance and are not therefore subject to any further performance conditions. However, in order to provide retention incentives, ECP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by a Group company until the third anniversary of grant in order to vest in full.

If a participant resigns before the third anniversary of grant, awards are normally subject to forfeiture as follows:

Completed years of service from date of award	Less than 1	More than 1 and less than 2	More than 2 and less than 3
Percentage of award forfeited	100%	66.7%	33.3%

Deferrals up to £50,000 are generally delivered as ECP Share awards, which are conditional rights to acquire shares in the Company at nil cost. At the Company's discretion, ECP Share awards may be settled in cash. The number of shares subject to an award is adjusted up to the date they are exercised to accrue additional shares in lieu of dividends paid after the grant date. Any deferral in excess of £50,000 is generally delivered equally in ECP Share awards and ECP Fund awards, subject to a minimum Fund award of £10,000.

The general application of ECP may be subject to variation in some locations to reflect local restrictions, regulation and practice. ECP awards may also be used to buy out the deferred awards of senior hires.

Fig 2 **Long Term Incentive Plan (LTIP)**

LTIP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by a Group company until the awards may be exercised. The awards are conditional rights to acquire shares in the Company at nil cost. At the end of the four-year performance period, the Committee will determine, with external verification, the extent to which the performance conditions have been achieved and the extent to which the awards may be exercised. LTIP awards may then be exercised within a 12-month period.

The Committee determines the performance conditions and uses its judgement to set challenging criteria that are consistent with the Group's business strategy.

For all outstanding LTIP awards the following performance conditions have been set by the Committee:

Earnings per share (EPS): (50 per cent. of award)
If the growth of EPS in the fourth year compared with EPS in the year prior to grant exceeds a defined composite index by 20 per cent., then 12.5 per cent. of the award vests. If the comparative growth is 40 per cent. or more, then 50 per cent. of the award vests. Comparative growth of between 20 per cent. and 40 per cent. results in an award vesting on a straight-line basis between 12.5 per cent. and 50 per cent. Comparative growth of less than 20 per cent. is not rewarded.

The composite index is 60 per cent. equities, measured by the Morgan Stanley Capital International All Country Index, and 40 per cent. fixed income, measured by the Barclays Capital Global Aggregate Index. The Committee believes this composite index to be a reasonable proxy for the market movement of Schroders' assets under management.

Net new business (NNB): (50 per cent. of award)
If, over the four-year performance period, cumulative NNB is £15 billion, then 12.5 per cent. of the award vests. If NNB is £25 billion or more, then 50 per cent. of the award vests. NNB between £15 billion and £25 billion results in an award vesting on a straight-line basis between 12.5 per cent. and 50 per cent. NNB of less than £15 billion in the four-year period is not rewarded.

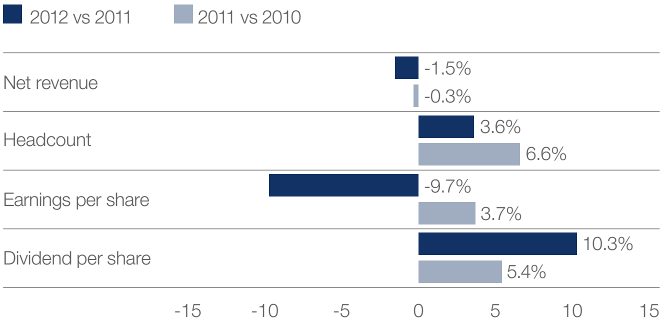
Remuneration report continued

Remuneration policy for executive Directors continued

Overall compensation cost

The total spend on compensation is determined by a profit-share ratio and compensation cost to net operating revenue ratio. This approach allows the Committee to ensure that the interests of shareholders and employees are aligned.

Key metrics

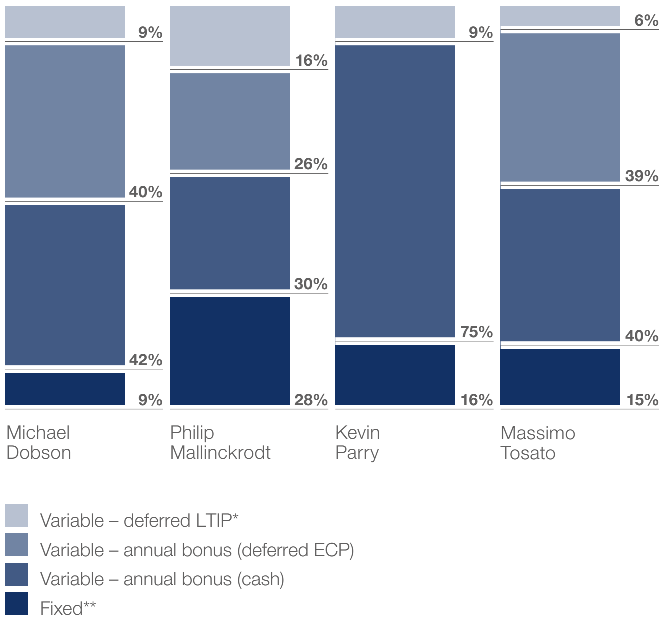


Consultation with shareholders

The Group's principal deferred remuneration plans expired in March 2011 and, having consulted shareholders on the design of replacement plans that included provisions for clawback, the Committee recommended to the Board new plans which were approved at the 2011 Annual General Meeting.

Fixed and variable compensation

For 2012, the balance between the fixed and variable elements of remuneration for each of the current executive Directors is shown below.



* Value at date of grant assuming all performance criteria are met.
** Fixed includes base salary, other cash payments, benefits-in-kind (each as disclosed in the Directors' emoluments table) and pension entitlements.

Kevin Parry has not received an ECP award for 2012 as he will step down from the Board in May 2013.

Remuneration policy for non-executive Directors

Non-executive Directors' annual fees currently payable are as follows:

	£
Board Chairman	300,000
Board Member	70,000
Senior Independent Director	10,000
Audit and Risk Committee Member	15,000
Audit and Risk Committee Chairman[1]	20,000
Nominations Committee Member	Nil
Nominations Committee Chairman	Nil
Remuneration Committee Member	15,000
Remuneration Committee Chairman[1]	15,000

[1] In addition to the Committee membership fee.

Non-executive Directors' fees

Fees for the Board Chairman and other non-executive Directors are determined by the Board based on market information for FTSE 100 companies and FTSE 100 financial services companies. Non-executive Directors do not participate in decisions concerning their fees.

Non-executive Directors are not eligible for incentive payments or for pension benefit accruals.

Fees are usually reviewed biennially. They were last reviewed and increased in 2011. No changes were made in 2012.

Directors' remuneration (audited information)

Summary of emoluments

The emoluments of the Directors for 2012, for the period in which they served on the Board, are set out below (this table does not include any awards under the ECP or the LTIP or pension entitlements, all of which are detailed elsewhere in this report):

	Salary and fees £'000	Other cash payments[1] £'000	Benefits-in-kind[2] £'000	Annual cash bonus £'000	2012 Total £'000	2011 Total £'000
Executive Directors						
Michael Dobson (Chief Executive)	400	58	12	2,263	2,733	3,120
Philip Mallinckrodt	300	14	4	375	693	929
Kevin Parry	300	–	6	1,600	1,906	1,268
Massimo Tosato	300	15	78	1,400	1,793	1,987
Former executive Director						
Alan Brown (retired 3 May 2012)[3]	102	11	2	300	415	1,477
Non-executive Directors						
Andrew Beeson (Chairman, appointed 3 May 2012)	242	–	–	–	242	115
Ashley Almanza	95	–	–	–	95	35
Luc Bertrand	92	–	5	–	97	76
Robin Buchanan	85	–	–	–	85	76
Lord Howard	105	–	–	–	105	76
Merlyn Lowther	105	–	1	–	106	96
Nichola Pease (appointed 1 September 2012)	23	–	–	–	23	–
Bruno Schroder[4]	98	–	2	–	100	94
Former non-executive Director						
Michael Miles (Chairman, retired 3 May 2012)	103	–	3	–	106	277
Total	**2,350**	**98**	**107**	**5,938**	**8,493**	**9,626**

1 Other cash payments include a cash allowance in lieu of a company car and/or cash allowances in lieu of pension entitlements.
2 Benefits-in-kind include one or more of: private use of company chauffeur, car parking, meals, travel costs, life insurance, permanent total disability insurance, private health care and Share Incentive Plan matching contributions.
3 Alan Brown received salary, cash allowances and other benefits amounting to £115,090 and a cash bonus of £240,000 for the period from 4 May 2012 to 31 December 2012.
4 Bruno Schroder received an annual fee of £70,000 as a Director, a fee of £28,000 for his additional services to the Group and £1,821 in benefits-in-kind.

Summary of LTIP awards

The table below sets out the number of shares granted and the share price at the date of grant for the LTIP awards to executive Directors during 2012 following the 2011 performance year. The extent to which these awards vest is subject to performance conditions described in this report.

	12 March 2012		
	Voting ordinary shares	Non-voting ordinary shares	Share price at grant £
Executive Directors			
Michael Dobson	32,051	–	15.60
Philip Mallinckrodt	–	16,012	12.49
Kevin Parry	12,820	–	15.60
Massimo Tosato	12,820	–	15.60

Remuneration report continued

Implementation continued

Summary of ECP awards

In addition to the amounts payable in cash, the executive Directors will be granted ECP shares and Fund awards in respect of services provided in 2012. The table below sets out the value at the date of these awards.

	ECP awards		
2012	**Share awards £'000**	**Fund awards £'000**	**Total ECP award[1] £'000**
Michael Dobson	1,093	1,044	2,137
Philip Mallinckrodt	188	137	325
Kevin Parry[2]	–	–	–
Massimo Tosato	700	650	1,350

	ECP awards		
2011	Share awards £'000	Fund awards £'000	Total ECP award £'000
Michael Dobson	1,250	1,200	2,450
Alan Brown	556	506	1,062
Philip Mallinckrodt	293	244	537
Kevin Parry	468	419	887
Massimo Tosato	793	744	1,537

1 The total ECP award is reduced by 25 per cent. of the grant value of the 2012 LTIP award.
2 Kevin Parry has not received an ECP award for 2012 as he will step down from the Board and cease to be an employee in May 2013.

Group performance

The Group had a successful year in 2012, despite volatile market conditions. Net revenues were little changed year on year. The Group continued to take a long-term view and has taken advantage of its strong financial position during difficult times to invest for the future. This investment for the long term has affected short-term profitability and profit before tax was down 12 per cent. at £360.0 million (2011: £407.3 million).

Net new business was very strong at £9.4 billion (2011: £3.2 billion), with positive flows in Institutional and Intermediary sales channels in each quarter and small outflows in Private Banking. Assets under management ended the year at a record high of £212.0 billion, (2011: £187.3 billion) up 13 per cent. on the start of the year and 71 per cent. (2011: 70 per cent.) of our assets under management outperformed their benchmark or peer group in the three years to 31 December 2012.

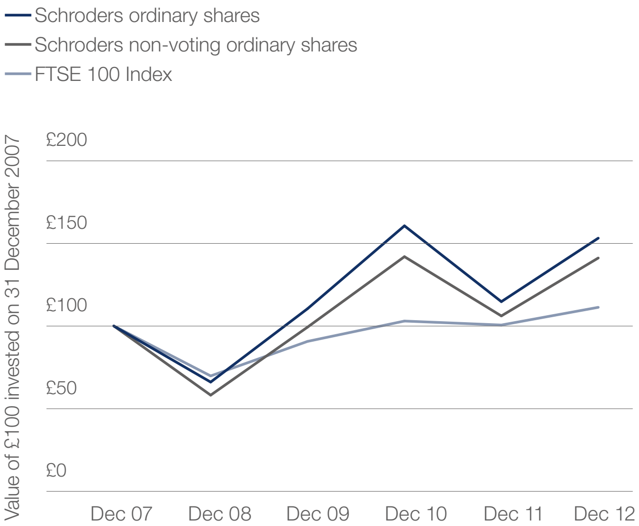
The financial and operating performance of the business is outlined in more detail in the Financial and Business review sections of this report.

In the graph opposite, the FTSE 100 Index has been chosen because it is a widely recognised performance comparison for large UK companies.

Basis of award of annual bonus

In determining the annual bonus award for the Chief Executive and other executive Directors, the Remuneration Committee takes account of a number of quantitative and qualitative factors including:
- The trend in profit for the year
- Investment performance
- Net new business
- The management of risks facing the Group
- Talent retention and succession planning
- Client satisfaction
- The Company's reputation
- The performance of the Schroders share price

Performance of Schroders plc shares against FTSE 100 Index



Directors' pension entitlements (audited information)

Defined benefit

The following table gives details of the accrued annual pension benefit and aggregate transfer value at 31 December 2012 for Directors who participated in the UK defined benefit pension scheme during the year to 31 December 2012. Further information concerning the Scheme is set out in the retirement benefit obligations note to the accounts.

	Accrued pension at 1 January 2012 £'000	Change in accrued pension due to inflation £'000	Change in accrued pension excluding inflation		Accrued pension at 31 December 2012 £'000	Transfer value at 1 January 2012 £'000	Change in transfer value £'000	Transfer value at 31 December 2012 £'000
			Decrease £'000	Transfer value £'000				
Executive Directors								
Michael Dobson[1]	12	–	(9)	(255)	3	360	(232)	128
Philip Mallinckrodt[2]	68	3	–	–	71	1,457	121	1,578
Massimo Tosato[2]	42	4	–	–	46	1,122	127	1,249
Non-executive Director								
Bruno Schroder[3]	35	1	–	–	36	490	(7)	483

1 Michael Dobson ceased further accrual in the Scheme on 31 March 2006. In lieu of this, he receives a taxable cash payment of £34,467 per annum, included in the emoluments table on page 67. No contributions were paid by the Company during the year. He began to draw his pension from the Scheme with effect from 13 May 2012.

2 Philip Mallinckrodt and Massimo Tosato ceased further accrual in the defined benefit section of the Scheme on 30 April 2011. They started to receive benefits under the defined contribution section of the Scheme from 1 May 2011.

3 No contributions for Bruno Schroder have been made by the Company into the Scheme since 17 January 1993. He began to draw his pension from the Scheme on 17 April 2007. The values shown in this table in respect of his pension benefits are notional.

The accrued pension represents the annual pension which each executive Director would be entitled to receive at the Scheme's normal retirement age (60). The accrued pension will be increased each year in accordance with statutory requirements.

The change in accrued pension represents the statutory inflation increase during the year.

The transfer value represents the current capital sum which would be required, using longevity and financial assumptions, to provide the accrued pension and ancillary benefits at the relevant date. Transfer values have been calculated using assumptions set by the Scheme Trustee, having taken advice from the Scheme Actuary, in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

The accrued pension and transfer values shown above do not include any allowance for additional voluntary contributions made by a Director.

Defined contribution

The following table gives details of the pension contributions paid by the Group into defined contribution arrangements for the year to 31 December 2012. The contributions exclude any contributions made by a Director.

	2012 Employer contributions £'000	2011 Employer contributions £'000
Executive Directors		
Philip Mallinckrodt	40	27
Kevin Parry	45	37
Massimo Tosato	117	108

Remuneration report continued

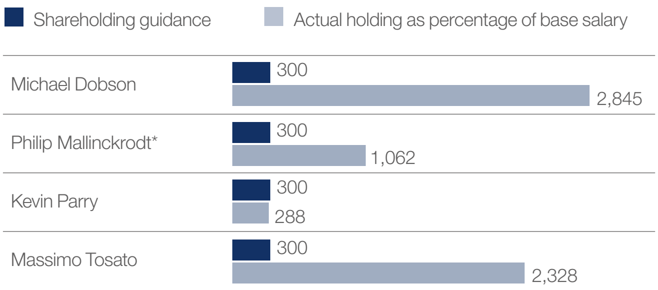
Implementation continued

Personal shareholding policy

In order to align the interests of senior employees with those of shareholders, the executive Directors and the other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares, equivalent to 300 per cent. of annual base salary. For these purposes, rights to shares include the estimated after tax value of ECP Share awards but do not include any unvested rights to shares awarded under the LTIP or any unexercised share options.

For each executive Director, other than Kevin Parry, this target had been achieved as at 31 December 2012 based upon the share price at close of business on that date.

Shareholding at 31 December 2012 against guidance (%)



* Philip Mallinckrodt's shareholding above is his holding derived from employment. It does not include his other share interests. See page 74.

Directors' service contracts

The Committee's general policy is that each executive Director should have a rolling contract of employment with mutual notice periods of six months. When recruiting executive Directors, the Committee's policy is that contracts should not contain any provision for compensation upon early termination and that the parties should rely on employment rights conferred by law. In the event that compensation for early termination is payable, the Committee's policy is to seek to keep such compensation to an appropriate level.

During 2012, Alan Brown received £34,500 from Pool Reinsurance Company Limited and £45,763 from Wellcome Trust and Kevin Parry received £70,000 from Intermediate Capital Group PLC.

The following table provides details of service contracts of the executive Directors who served during 2012:

	Date of contract(s)	Nature of contract(s)	Notice period from Company	Notice period from Director	Next re-election
Executive Directors					
Michael Dobson[1]	19 October 2001	Rolling	12 months	6 months	2013
Alan Brown[2]	17 May 2005	Rolling	6 months	6 months	–
Philip Mallinckrodt	4 February 2002	Rolling	6 months	6 months	2013
Kevin Parry[3]	17 December 2008	Rolling	6 months	6 months	–
Massimo Tosato[4]	27 July 2001 and 1 August 2001	Rolling	6 months	6 months	2013

1 If Michael Dobson's employment is terminated by the Company without cause he would be entitled to receive the equivalent of one year's remuneration, calculated as the annual average of the aggregate of base salary and discretionary annual bonus awards, cash and deferred, received in the preceding three years.
2 Alan Brown stepped down from the Board on 3 May 2012.
3 Kevin Parry will step down as an executive Director of the Company on 5 May 2013. He is not entitled to any compensation for stepping down and no additional notice period will be paid. In recognition of his agreement not to step down until May 2013, thereby ensuring an orderly transition to Richard Keers, the Remuneration Committee has decided he will be a 'good leaver' for the purposes of his deferred shares and fund awards. His LTIP awards will vest on a pro-rated basis and to the extent to which performance criteria have been met.
4 Massimo Tosato's contract dated 27 July 2001 covers his UK duties and some of his international duties and his contract dated 1 August 2001 covers his other international duties. If terminated by the Company without cause he would be entitled to 12 months' remuneration (calculated as base salary and discretionary annual bonus award, cash and deferred, for the previous year).

Remuneration policy for other senior executives

Policy for other senior executives

Senior executives below Board level receive the same components of remuneration as executive Directors, including:
- Base salary
- Benefits
- Pension
- Pay for performance, including annual bonus awards and, in some cases, a discretionary LTIP

These are provided on the same basis, with the following exceptions:
- Annual discretionary bonus awards – on an exceptional basis and only for the first year of employment, guaranteed awards may form part of the initial package necessary for senior employees
- Long-term incentives – as well as being eligible to participate in the LTIP arrangements described for executive Directors, some senior employees participate in the Equity Incentive Plan (EIP) under which a limited number of awards are made each year. The EIP is for employees identified as emerging talent who are not members of the Group Management Committee. EIP awards are not subject to performance conditions

Implementation

Taking account of the performance of the Group as described in the Annual Report, the Committee considered the position for the 2012 compensation review. The Committee received a report from the Chief Executive on the underlying strength of the business and reports on risk, legal and compliance matters from the heads of those areas.

The Committee set the pool for variable compensation purposes for the year ending 31 December 2012, based on a bonus charge of 42 per cent. (2011: 39 per cent.) of pre-bonus operating profit. The total compensation to operating revenue ratio for the year was 49 per cent. (2011: 44 per cent.).

The Chief Executive allocates the overall pool between the business functions headed by members of the GMC, taking into consideration the objectives, both financial and non-financial, that were set at the beginning of the year. Variable compensation awards for employees, other than those determined, approved or reviewed by the Committee, were recommended to the Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant area and the levels of reward for comparable roles in the market. The Committee was satisfied that the process was rigorous and that the allocation of the pool and the individual bonus awards took account of both financial and non-financial performance.

Equity Incentive Plan (EIP)

EIP awards are not subject to performance conditions. They do not give rise to any immediate entitlement and require the participant to be employed continuously by a Group company until the fifth anniversary of grant. If a participant resigns before the fifth anniversary of grant, awards are normally subject to forfeiture as follows:

Completed years of service from date of award	Less than 3	More than 3 and less than 4	More than 4 and less than 5
Percentage of award forfeited	100%	66.7%	33.3%

EIP awards are conditional rights to acquire shares in the Company at nil cost. The number of shares subject to an award is adjusted up to the date on which they are exercised to accrue additional shares in lieu of dividends paid after the date of grant.

EIP awards may also be used to buy out the deferred awards of senior hires.

EIP awards are recommended by the Chief Executive for approval by the Committee. Executive Directors are not eligible to receive EIP awards.

Share Incentive Plan (SIP)

The SIP, which provides potential UK tax benefits, is part of the flexible benefits programme to broaden the number of employee shareholders and increase their participation as shareholders.

Under the terms of the SIP, participating employees use their own funds to acquire shares in the Company (Partnership Shares) and in return receive awards of shares (Matching Shares) from the Company of up to £50 per month based on fair market value. To qualify for maximum tax benefits, these shares must be left in the SIP for five years. Performance conditions do not apply and participants are free to withdraw their Partnership Shares at any time but forfeit the corresponding Matching Shares if they do so or cease to be in employment within one year of acquiring the Partnership Shares, except for a cessation in circumstances set out in the rules of the SIP, such as death or disability.

71 per cent. of UK employees participated in the plan as at 31 December 2012 (2011: 66 per cent.).

Additional disclosures

Executive Directors' cumulative rights to shares and Fund awards (audited information)

The executive Directors had the following rights to ordinary and non-voting ordinary shares at 31 December 2012.

The market price of the ordinary shares at 31 December 2012 was £16.86 and the range during 2012 was £11.66 to £17.11. The market price of the non-voting ordinary shares at 31 December 2012 was £13.62 and the range during 2012 was £9.66 to £13.87.

				Number of shares					
	Notes	Held at 1 January 2012	Rights granted/ dividends during year	Rights exercised/ lapsed during year	Market price on exercise	Held at 31 December 2012	Exercise price of rights	Earliest exercise date	Latest exercise date
Executive Directors									
Michael Dobson	7	119,572		119,572		–		23 February 2012	23 February 2012
	2	59,678				59,678	–	8 March 2013	7 March 2020
	8	59,523				59,523	–	8 March 2014	7 March 2015
	2	108,916				108,916	–	11 March 2014	10 March 2021
	8	45,871				45,871	–	11 March 2015	10 March 2016
	4		82,665			82,665	–	12 March 2015	11 March 2022
	8		32,051			32,051	–	12 March 2016	11 March 2017
Philip Mallinckrodt		55,000		55,000	£11.90	–	£5.41	6 November 2005	5 November 2012
		30,000				30,000	£3.98	10 March 2006	9 March 2013
	1	23,224	923			24,147	–	10 March 2006	9 March 2013
	1	16,348	650			16.998	–	8 March 2007	7 March 2014
	1	37,743	1,499			39,242	–	7 March 2008	6 March 2015
	1	27,082	1,075			28,157	–	6 March 2009	5 March 2016
	1	24,468	971			25,439	–	8 March 2010	7 March 2017
	1	35,031				35,031	–	10 March 2011	9 March 2018
	1	47,046				47,046	–	23 February 2012	22 February 2019
	1	20,005				20,005	–	8 March 2013	7 March 2020
	9	28,382				28,382	–	8 March 2014	7 March 2015
	1	25,244				25,244	–	11 March 2014	10 March 2021
	9	21,645				21,645	–	11 March 2015	10 March 2016
	5		24,447			24,447	–	12 March 2015	11 March 2022
	9		16,012			16,012	–	12 March 2016	11 March 2017
Kevin Parry	2	26,257				26,257	–	8 March 2013	7 March 2020
	8	22,321				22,321	–	8 March 2014	7 March 2015
	2	37,259				37,259	–	11 March 2014	10 March 2021
	8	17,201				17,201	–	11 March 2015	10 March 2016
	4		30,995			30,995	–	12 March 2015	11 March 2022
	8		12,820			12,820	–	12 March 2016	11 March 2017
Massimo Tosato	2	42,054	1,332			43,386	–	6 March 2009	5 March 2016
	2	31,041	982			32,023	–	8 March 2010	7 March 2017
	2	33,451				33,451	–	10 March 2011	9 March 2018
	2	76,493				76,493	–	23 February 2012	22 February 2019
	3	25,497				25,497	–	23 February 2012	22 February 2019
	2	36,284				36,284	–	8 March 2013	7 March 2020
	3	9,071				9,071	–	8 March 2013	7 March 2020
	8	22,321				22,321	–	8 March 2014	7 March 2015
	2	57,514				57,514	–	11 March 2014	10 March 2021
	3	10,317				10,317	–	11 March 2014	10 March 2021
	8	17,201				17,201	–	11 March 2015	10 March 2016
	4		42,892			42,892	–	12 March 2015	11 March 2022
	6		9,595			9,595	–	12 March 2015	11 March 2022
	8		12,820			12,820	–	12 March 2016	11 March 2017

	Notes	Held at 1 January 2012	Rights granted/ dividends during year	Rights exercised/ lapsed during year	Market price on exercise	Held at 31 December 2012	Exercise price of rights	Earliest exercise date	Latest exercise date
				Number of shares					
Former executive Director									
Alan Brown	7	56,405		56,405		–	–	8 March 2012	8 March 2012
	2	56,209				56,209	–	10 March 2011	9 March 2018
	2	61,667				61,667	–	23 February 2012	22 February 2019
	2	28,644				28,644	–	8 March 2013	7 March 2020
	8	22,321				22,321	–	8 March 2014	7 March 2015
	2	43,949				43,949	–	11 March 2014	10 March 2021
	8	17,201				17,201	–	11 March 2015	10 March 2016
	4		36,781			36,781	–	12 March 2015	11 March 2022

1 2000 ECP: The figures shown above comprise the number of shares available on the third anniversary plus additional shares of up to 11.1 per cent. assuming shares remain within the Plan until the fifth anniversary. Awards that have passed the fifth anniversary are entitled to dividends. Awards are structured as nil-cost share awards over non-voting ordinary shares.
2 Per note 1, with the exception that these awards are structured as nil-cost share awards over ordinary shares.
3 Per note 2, with the exception that these awards will be settled in cash.
4 2011 ECP: The figures shown above comprise the number of shares available on the third anniversary. Awards are entitled to dividends between the grant date and exercise and are structured as nil-cost share awards over ordinary shares.
5 Per note 4, with the exception that these awards are structured as nil-cost share awards over non-voting ordinary shares.
6 Per note 4, with the exception that these awards will be settled in cash.
7 Awards exercised and satisfied by the award of ordinary shares subject to restrictions. The earliest and latest exercise dates are the same due to a deemed exercise on vesting.
8 LTIP: The extent of vesting is dependent on performance over four years relative to performance conditions, as described in this report. The exercise dates may vary based on the date of notification of the results for the final measurement year and the determination by the Committee.
9 Per note 8, with the exception that these awards are structured as nil-cost share awards over non-voting ordinary shares.

The executive Directors had the following rights to ECP Fund awards at 31 December 2012 based on the award values at grant:

	Rights held as at 1 January 2012 £'000	Rights granted during the year £'000	Rights exercised during the year[1] £'000	Rights held as at 31 December 2012 £'000	Earliest exercise date	Latest exercise date
Executive Directors						
Michael Dobson	994			994	10 March 2011	10 March 2013
	650			650	23 February 2012	23 February 2014
	575			575	8 March 2013	8 March 2015
	1,375			1,375	11 March 2014	11 March 2016
		1,200		1,200	12 March 2015	12 March 2017
Philip Mallinckrodt	132			132	10 March 2011	10 March 2013
	175			175	23 February 2012	23 February 2014
	125			125	8 March 2013	8 March 2015
	213			213	11 March 2014	11 March 2016
		244		244	12 March 2015	12 March 2017
Kevin Parry	225			225	8 March 2013	8 March 2015
	438			438	11 March 2014	11 March 2016
		419		419	12 March 2015	12 March 2017
Massimo Tosato	488		488	–	23 February 2012	23 February 2014
	425			425	8 March 2013	8 March 2015
	838			838	11 March 2014	11 March 2016
		744		744	12 March 2015	12 March 2017
Former executive Director						
Alan Brown	275			275	23 February 2012	23 February 2014
	250			250	8 March 2013	8 March 2015
	525			525	11 March 2014	11 March 2016
		506		506	12 March 2015	12 March 2017

1 The value of the award exercised was £700,250.

Additional disclosures continued

Directors' share interests (audited information)

At 1 January 2012 (or date of appointment, if later), 31 December 2012 and the date of this report, the Directors and their connected persons had the following interests in shares in the Company:

	1 January 2012		31 December 2012		6 March 2013	
	Ordinary shares	Non-voting ordinary shares	Ordinary shares	Non-voting ordinary shares	Ordinary shares	Non-voting ordinary shares
Executive Directors						
Michael Dobson	282,795	187,821	402,548	187,821	402,566	187,821
Philip Mallinckrodt[1]	79,461,706	5,816,700	79,461,706	5,887,200	79,461,706	5,917,200
Kevin Parry	5,791	–	5,950	–	5,968	–
Massimo Tosato	123,707	30,593	123,888	30,593	123,906	30,593
Former executive Director						
Alan Brown	1,276	–	n/a	n/a	n/a	n/a
Non-executive Directors						
Andrew Beeson	–	15,000	–	15,000	–	15,000
Ashley Almanza	–	–	–	–	–	–
Luc Bertrand	–	–	–	–	–	–
Robin Buchanan	–	1,941	–	4,514	–	4,849
Lord Howard	–	5,000	–	5,000	–	5,000
Merlyn Lowther	1,000	–	1,000	–	1,000	–
Nichola Pease	n/a	n/a	–	–	–	–
Bruno Schroder[1]	13,946,216	1,498,617	13,881,416	1,482,417	13,881,416	1,482,417
Former non-executive Director						
Michael Miles	5,000	–	n/a	n/a	n/a	n/a

1 The interests of Philip Mallinckrodt and Bruno Schroder set out above include beneficial interests of those Directors (and of their connected persons) in their respective capacities as members of a class of potential discretionary beneficiaries under certain settlements made by members of the Schroder family.

Non-executive Directors

Non-executive Directors' appointments are subject to annual re-election and are without a fixed term. Non-executive Directors and the Company are required to give reasonable notice to terminate their appointment. There are no contractual provisions for non-executive Directors to receive compensation upon termination.

The following table provides the dates of the current appointment letters of the non-executive Directors who served during 2012:

	Date of letter of appointment
Michael Miles[1]	17 December 2002
Ashley Almanza	2 August 2011
Andrew Beeson	3 May 2012
Luc Bertrand	20 February 2006
Robin Buchanan	3 March 2010
Lord Howard	20 November 2008
Merlyn Lowther	4 March 2004
Nichola Pease	1 September 2012
Bruno Schroder	24 December 2002

1 Michael Miles retired from the Board at the 2012 Annual General Meeting on 3 May 2012.

All non-executive Directors have a mutual notice period of six months. Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at the Annual General Meeting.

Compliance

This report has been prepared in accordance with the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Corporate Governance Code.

The Group's remuneration policies and practices take account of regulations, corporate governance standards, best practice and guidance issued by regulators and by representative shareholder bodies.

To ensure the Committee is adequately informed of risks facing the Group and the management of those risks, the Chairman of the Committee serves on the Audit and Risk Committee.

The full terms of reference of the Committee are available at www.schroders.com/ir.

Responsibilities of the Committee

The responsibilities of the Committee include:
- Reviewing and approving the remuneration strategy and policies of the Group
- Reviewing the design and operation of deferral plans and long-term incentive plans
- Reviewing remuneration in the context of risks and risk management
- Taking account of regulatory and corporate governance developments relevant to remuneration
- Receiving and considering feedback from shareholders and representative shareholder bodies
- Recommending to the Board the annual spend on fixed and variable compensation
- Monitoring employee compensation and the remuneration of members of the Group Management Committee and other senior employees
- Determining the remuneration of executive Directors

Advisers

The Committee appointed and received advice from:
- Aon Hewitt Limited group companies: information on pension benefit valuations. They also provided pension actuarial advice to the Group;
- McLagan International Inc: information on market conditions. They also provided similar information to the Group; and
- PricewaterhouseCoopers LLP (PwC): information on regulatory developments and market conditions. PwC is the Group's external auditor. Any non-audit services they provide are subject to review in accordance with arrangements for the provision of such services as described in the report of the Audit and Risk Committee.

Evaluation of the Committee

The Committee's performance is evaluated annually by the Board. For 2012, this was undertaken as part of the overall external Board evaluation process in December 2012. The findings of the review were satisfactory and were discussed by the Committee and with the Chairman of the Board.

Risk management and regulation

The Committee reviewed and reaffirmed the risk management principles underpinning the Group's remuneration practices. The Committee reviewed the FSA remuneration code and regulatory guidance on remuneration deferrals, claw backs, 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 the regulatory requirements. The plans approved at the 2011 Annual General Meeting provide that, at the discretion of the Committee, deferred awards may be reduced or lapsed in the event of a material misstatement of the Group's financial results. Employees are not allowed to enter into hedging transactions that undermine the intended performance alignment of deferred awards.

The Committee also reviewed the Group's regulatory disclosures in the context of the FSA's requirements. The required remuneration disclosures were incorporated into the Group's Pillar 3 disclosures and are available at www.schroders.com/ir. Individual pay and bonus decisions for those employees deemed to be Code Staff or Control Functions under the FSA's Remuneration Code were also considered. Schroders falls under the requirements of Tier 3 of the Code.

Approved and signed on behalf of the Board

Lord Howard of Penrith
Chairman of the Remuneration Committee
6 March 2013

Directors' report

Directors' report

The information contained in the sections of this Annual Report and Accounts set out below forms part of this Directors' report:

- Chairman's and Chief Executive's statements;
- Business review (which includes Strategy and the separate shaded sections contained within the Financial report identified as the Financial review);
- Board of Directors;
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report; and
- Statement of Directors' responsibilities.

Principal activities and business review

Schroders plc is the parent company of an international asset management and private banking group. A review of the Group's business during 2012 and likely future developments are contained within the Chairman's and Chief Executive's statements and the Business review.

Dividends

The Directors are recommending a final dividend of 30.0 pence per share which, if approved by shareholders at the Annual General Meeting, will be paid on 9 May 2013 to shareholders on the register of members at the close of business on 2 April 2013. Dividends payable in respect of the year and their total value are set out below:

Ordinary shares and non-voting ordinary shares	2012 £m	2011 £m
Interim dividend 13.0 pence per share (2011: 13.0 pence)	34.7	34.7
Recommended final dividend 30.0 pence per share (2011: 26.0 pence)	80.1	69.4
Total dividend 43.0 pence per share (2011: 39.0 pence)	114.8	104.1

The Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust have waived, in normal circumstances, their rights to dividends paid on both the ordinary and non-voting ordinary shares in respect of 2012.

Directors' share interests

The interests in the securities of the Company at the year end of the Directors who were on the Board in 2012 can be found in the Remuneration report.

Employees

Details of the Company's employment practices can be found in the Corporate responsibility section of the Business review.

Indemnities and Insurance

At the 2007 Annual General Meeting, shareholders authorised the Company to provide indemnities to Directors in certain circumstances and to fund defence costs. All Directors at the time shareholder approval was received were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. On their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third party liabilities which they may incur as a result of their service on the Board.

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

Change of control

Directors' and employees' employment contracts do not normally provide for compensation for loss of office or employment as a result of a change of control. However, the provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a change of control.

Charitable and political donations

The amount paid by Group companies to charitable organisations during 2012 was £1.2 million (2011: £1.2 million). Further information on the Group's charitable activities can be found in the Corporate responsibility section of the Business review. No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2011: nil) and there is no intention to do so in the current year.

Creditor payment policy

The Group's policy and practice in the UK is to agree the terms of payment with suppliers at the time of contract, to ensure suppliers are aware of payment terms and to make payment in accordance with those terms subject to satisfactory performance. The Group does not follow any code or standard on payment practice, but intends to adopt the UK Prompt Payment Code in 2013. Most suppliers' terms of settlement are in the range of 30 to 60 days. At 31 December 2012, the amount owed to the Group's trade creditors in the UK represented approximately 34 days' average purchases from suppliers (2011: 35 days).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review. In addition, the financial statements include information on the Group's approach to managing its capital and financial risk management; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group has considerable financial resources, a broad range of products and a geographically diversified business. As a consequence, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the Annual Report and Accounts.

By Order of the Board

Graham Staples
Company Secretary
6 March 2013

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration report and the consolidated financial statements in accordance with applicable law and regulations.

The Companies Act 2006, being the applicable law in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the EU, subject to any material departure disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the FSA to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company and Group.

The Directors are responsible for keeping proper books of accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose name and functions are listed in the Directors' profiles section of this Annual Report and Accounts confirms that, to the best of each person's knowledge and belief:
- The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group;
- The Directors' report contained in the Annual Report and Accounts which comprises the sections described on page 76, includes a fair review of the development and performance of the business and the position of the Company and the Group and a description of the principal risks and uncertainties that they face;
- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have each taken all the steps that ought to have been taken by them as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the audited financial information on our website at www.schroders.com.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Forward-looking statements

This Annual Report and Accounts and the Schroders website may contain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'aims', or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this report. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this report should be construed as a profit forecast.

Developing
Being an employer of choice

Retaining and developing talent is key to organisational stability and long-term success. The Group has more than 3,000 employees across 27 countries.

93%
Employee retention

Financial report

Financial review

Understanding the Financial review

Schroders supports the work of the Financial Reporting Council to 'de-clutter' annual reports. These financial statements exclude disclosures that are immaterial and judged to be unnecessary to understand our results and financial position.

We welcome feedback on the content and presentation of this report, which can be emailed to investorrelations@schroders.com.

Financial review

For increased clarity, the Financial review, where practical, is positioned to provide a commentary next to the financial statements. It begins with an overview of the primary financial statements and then provides more granular detail relevant to the segmental results. We have also included, at the beginning of each note, a 'plain English' description of the purpose of the note.

The separate shaded sections included on the following pages comprise the Financial review. It is unaudited and forms part of the overall Business review. It does not form part of the financial statements of the Group.

The blue print at the beginning of each note provides a 'plain English' description of the purpose of the note. Where the plain English description also fulfils accountancy requirements it also serves as the accounting policy.

Accounting policies

If separate accounting policies are needed they are identified with background shading in grey.

Financial review

"Over the last few years there has been a continued improvement in quality and efficiency."

Last year we positioned the financial review next to the relevant financial statements. Following positive feedback from shareholders and analysts, we have maintained that presentation for 2012.

The financial review starts with an overview of the primary financial statements and then provides more granular detail on the segmental results. The commentary elaborates on the numerical outcomes relating to our strategy, our business model, the key performance indicators and developments in the business.

The graphs opposite set out the year-on-year movements in the key financial metrics of net revenue, profit before tax and assets under management.

The report from the auditors on page 140 confirms that there are no matters that need to be brought to the attention of readers.

I am stepping down from the Board in May of this year and so this is my final Annual Report to shareholders. I would like to thank my financial, communication and governance colleagues for their professionalism during my tenure as Chief Financial Officer and pay tribute to the continual improvement in quality and efficiency standards that they have attained.

I should also like to thank PwC who have been rated very highly in our internal assessment process over many years. PwC works closely with the worldwide financial management team whilst maintaining an independence of mind that is a necessary pre-requisite of an external auditor. For that I would particularly like to thank the partners and staff who have worked on the audit.

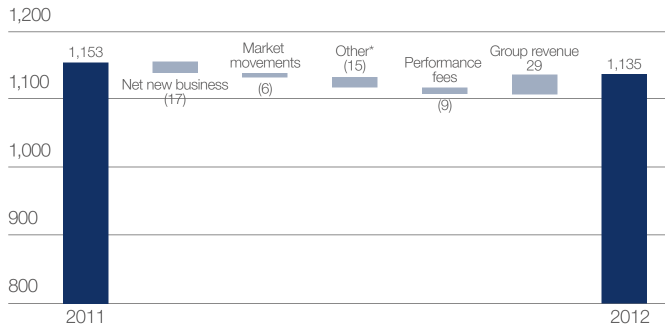
Kevin Parry
Chief Financial Officer
6 March 2013

Building Public Trust Awards 2012
Highly commended
'Excellence in Reporting' in the FTSE 100

Schroders' Annual Report 2011 was highly commended in the Building Public Trust Awards.

Movement in net revenue

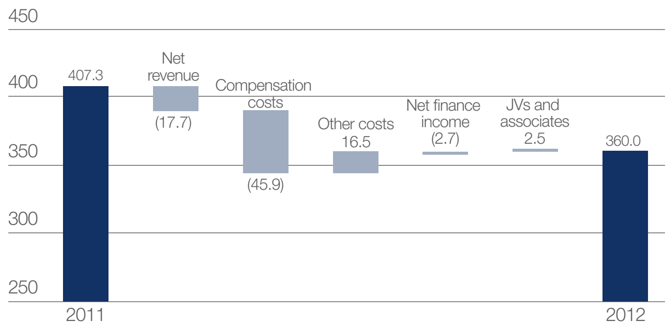
£m



* Comprises loan losses and transactional revenue.

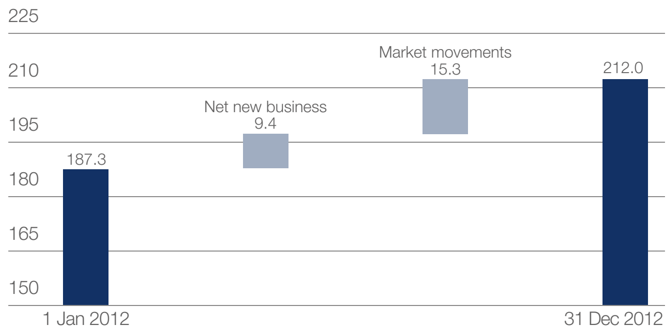
Movement in profit before tax

£m



Movement in assets under management

£bn



Consolidated income statement

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Revenue	2	1,425.4	1,501.9
Cost of sales	3	(329.7)	(363.3)
Net gains on financial instruments and other income	4	39.2	14.0
Net revenue[1]		**1,134.9**	**1,152.6**
Operating expenses	5	(791.2)	(761.8)
Operating profit		**343.7**	**390.8**
Net finance income	6	11.8	14.5
Share of profit of associates and joint ventures	12	4.5	2.0
Profit before tax		**360.0**	**407.3**
Tax	7(a)	(76.8)	(91.5)
Profit after tax		**283.2**	**315.8**
Earnings per share			
Basic	8	**104.7p**	**115.9p**
Diluted	8	**101.3p**	**111.9p**
Dividends per share[2]	9	**39.0p**	**39.0p**

[1] Non-GAAP measure of performance.
[2] Interim and final dividends declared during the year.

Financial review of consolidated income statement

Net revenue was less than 2 per cent. lower than in 2011, benefiting from the strong third and fourth quarter rally in equity markets. Profit before tax decreased 12 per cent. due to a less favourable mix of assets under management and investment in people and systems. Net new business and assets under management were strongly ahead as investors returned to markets as they rallied. We report results quarterly which are summarised below:

2012	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Net revenue £m	282.7	261.3	276.5	314.4	1,134.9
Profit before tax £m	95.5	81.9	88.6	94.0	360.0
Net new business £bn	1.6	1.1	2.6	4.1	9.4
Assets under management £bn	199.6	194.6	202.8	212.0	n/a

2011	Q1	Q2	Q3	Q4	Total
Net revenue £m	290.6	302.6	290.4	269.0	1,152.6
Profit before tax £m	103.8	111.9	101.6	90.0	407.3
Net new business £bn	3.1	2.0	–	(1.9)	3.2
Assets under management £bn	201.4	204.8	182.2	187.3	n/a

Net revenue

Net revenue was lower in each of the first three quarters compared to the same three quarters of 2011, primarily due to lower markets and a less favourable mix of assets under management due to net sales being dominated by lower margin Fixed Income and Multi-asset mandates. The fourth quarter advanced strongly, benefiting from higher markets, net new business and Group segment gains offset by lower Private Banking revenue (partly due to loan losses) and lower performance fees.

The total net revenue margin on average assets under management decreased from 59 basis points to 56 basis points. One basis point of the decrease is due to lower performance fees. Our KPI, which excludes performance fees, reduced from 57 basis points to 55 basis points. One basis point of this decrease is attributable to the proportion of higher margin equities and alternatives products decreasing from 56 per cent. to 54 per cent. of average assets under management as lower margin Fixed Income and Multi-asset mandates increased. This change in mix is consistent with our strategic aim to provide a diverse range of asset classes. The change in channel mix arising from greater institutional sales than intermediary sales in 2011 and 2012 accounts for the remainder of the margin decline.

Net revenue is stated after Private Banking loan losses of £7.9 million (2011: £nil). The losses are attributable to non-recourse commercial property lending; no similar loans have been made since 2009.

Net revenue includes £28.5 million (2011: £37.8 million) of performance fees. The quantum of performance fees varies from year to year and comprises only 2.5 per cent. (2011: 3.3 per cent.) of net revenue.

Net revenue benefited from a £25.7 million gain (2011: £3.2 million loss) in the Group segment due to strong fourth quarter gains and realisations in investment capital.

Financial review continued

Financial review of consolidated income statement continued

Operating expenses
Operating expenses at £791.2 million were £29.4 million higher than in 2011. The cost to net revenue ratio increased to 70 per cent. (2011: 66 per cent.), in line with our long-term KPI target. The increase was principally attributable to continued investment in people and infrastructure to support our growth strategy. Costs in 2011 benefited from a one-off gain of £10.2 million on the closure of the Group's primary defined benefit pension scheme. The underlying increase in operating expenses was therefore 2.5 per cent.

Over the year, we increased our headcount by a net 109 people mainly in Asset Management, particularly new investor talent in Fixed Income and in technologists to upgrade our Investment IT infrastructure. Total compensation costs increased to £545.7 million compared with £499.8 million last year. Just under half of this increase related to the pension scheme which was closed during 2011. Compensation costs were set by reference to a profit share ratio of 42 per cent. (2011: 39 per cent.). This ratio means that variable compensation is not only dependent on revenue but also the effective management of other costs. This is equal to a ratio of total compensation costs to operating revenue of 49 per cent. (2011: 44 per cent.). This is above our long-term cyclical KPI target of 45 per cent., but we believe this investment in people positions us well, particulary given the improvement in investor risk appetite in the second half of 2012.

Profit before tax

Net revenue

Total net revenue margin
(including performance fees) basis points

Total net revenue margin
(excluding performance fees) basis points

Non-compensation costs were lower by £16.5 million at £245.5 million. We have tightly managed costs in areas such as property and marketing during the period of economic uncertainty whilst incurring higher costs arising from our commitment to develop IT systems for future growth.

Profit before tax
Operating profit of £343.7 million was £47.1 million lower than 2011. Profits in both operating segments were lower, but the Group segment improved its result to a near break-even position with strong gains on legacy investments within the Group's investment capital in the second half of the year. Investment capital was cautiously managed throughout the year consistent with volatile market conditions. Net finance income fell by £2.7 million due to a larger amount of fixed income investments being held in short-dated instruments in 2012.

The contribution of associates and joint ventures increased by £2.5 million due to a stronger performance by our private equity associate, Schroder Ventures Investments Limited (SVIL). Our Chinese joint venture, Bank of Communications Schroder Fund Management Co. Ltd, experienced lower profits of £4.1 million as low volumes of business continued into 2012.

Profit before tax decreased by 12 per cent. to £360.0 million (2011: £407.3 million).

Taxation
The effective tax rate reduced from 22.5 per cent. to 21.3 per cent. due principally to a decrease in UK corporation tax rates, but also to changes in the geographic mix of business. Profit after tax was £283.2 million (2011: £315.8 million).

Earnings and dividends per share
The KPI of earnings per share was down 10 per cent. at 104.7 pence due to the lower level of pre-tax profit, partially offset by the lower effective tax rate.

The diluted earnings per share is lower than the basic earnings per share primarily due to the effects of unexercised options, mainly associated with deferred compensation.

The IFRS dividend, comprising the 2011 final dividend and the 2012 interim dividend, is unchanged at 39p per share. The 2012 final dividend is commented on in the Chairman's statement.

Further detail
Further commentary on the results of the three segments that comprise the Group is on the pages referring to note 1 to these financial statements. The notes to the accounts, which provide further detail on each line item, are cross-referenced in the above income statement.

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit for the year		**283.2**	**315.8**
Net exchange differences on translation of foreign operations after hedging		(21.8)	2.1
Actuarial gains/(losses) on defined benefit pension schemes	26	10.4	(0.5)
Net fair value movement arising from available-for-sale financial assets		(9.5)	(16.3)
Net fair value movement arising from available-for-sale financial assets held by joint ventures	12	1.5	(3.5)
Tax on items taken directly to other comprehensive income	7(b)	(4.1)	(1.7)
Other comprehensive losses for the year net of tax		**(23.5)**	**(19.9)**
Total comprehensive income for the year net of tax		**259.7**	**295.9**

Financial review continued

Financial review of consolidated statement of comprehensive income

This primary financial statement records all the income and losses for the year. Its main component is the consolidated income statement set out in full on the previous pages. It also includes income and losses that accounting standards require to be accounted for in the comprehensive income statement.

Total comprehensive income was £259.7 million (2011: £295.9 million) including the profit after tax of £283.2 million (2011: £315.8 million). The other movements are explained below.

Net exchange differences on translation of foreign operations after hedging

This represents exchange differences arising from movements in exchange rates during the year. The differences arise from retranslating net assets of subsidiaries maintained in currencies other than Sterling at year-end rates.

We do not routinely hedge the exchange differences arising on operating subsidiaries as they are planned to be permanent investments. However, we do seek to match income and costs in similar currencies and we finance subsidiaries in local currencies. In contrast, investment capital held in overseas subsidiaries is routinely hedged back to Sterling because we seek to achieve an absolute return measured in Sterling on those assets.

In 2012, there were net exchange losses of £21.8 million as a result of the strength of Sterling against notably the Euro and Swiss franc, two major currencies in which we operate. In 2011, there was a net gain of £2.1 million as the Group's major operating currencies ended the year close to the levels at which they began.

The Group's policy of careful management of our exposure to the Euro in countries where there is speculation around those countries' continued membership of the Euro remained in place throughout 2012.

Defined benefit pension schemes

Actuarial gains and losses arise from changes in assumptions around the valuation of liabilities in defined benefit pension schemes as well as differences between actual and estimated returns on the pension assets and liabilities (known as experience adjustments). Actuaries use many assumptions to estimate the liabilities of pension schemes that are subject to regular revision to arrive at current best estimates.

Revisions in estimates and experience adjustments are reflected in the statement of comprehensive income. We recorded a gain of £10.4 million (2011: loss of £0.5 million). This gain was largely a result of the fall in the expectation of long-term inflation which reduces the estimate of the discounted pension liabilities. Actual returns on pension assets were broadly in line with expectations. We mitigate the impact of movements in interest rates and inflation by owning investments that change in value with such movements.

Fair value movements on available-for-sale financial assets

The Group holds investments at fair value, except for certain investments held by Private Banking which are at amortised cost. Depending on the nature of individual investments and their categorisation, gains and losses on fair value investments are either taken to the income statement or are accounted for in the statement of comprehensive income. Those accounted for in this statement are known as 'available-for-sale' and comprise primarily private equity and property investments. The net movement in these investments in the year was a reduction of £9.5 million (2011: reduction of £16.3 million). Of that amount, £25.5 million (2011: £5.4 million) was due to the transfer to the income statement on realisation of accumulated mark to market gains. The transfer results in a loss in this statement. This was partly offset by £16.0 million of net gains adding to (2011: £10.9 million reducing) the total accumulated gain that has not yet been taken through the income statement (see the fair value reserve in the statement of changes in equity). Private equity and property are subject to year-on-year fluctuations in valuations and have a good long-term record of generating gains on final realisation.

The Chinese joint venture experienced an available-for-sale gain of £1.5 million (2011: loss of £3.5 million) arising from marking to market seed capital investments.

Tax

Tax, including deferred tax, not attributable to the profit in the income statement, is separately identified either in the statement of comprehensive income or directly in equity, dependent on its nature. The former amounted to a net charge of £4.1 million (2011: £1.7 million) arising from gains and losses on available-for-sale financial assets and net actuarial gains (2011: losses) in the defined benefit pension scheme, together with adjustments attributable to lower UK corporation tax rates.

Further detail

The consolidated statement of changes in equity and the associated commentary provides further detail on the exchange differences and fair value movements. The notes to the accounts, which provide further detail on each line item, are cross-referenced in the consolidated statement of comprehensive income.

Consolidated statement of financial position

31 December 2012

	Notes	2012 £m	2011 £m
Assets			
Cash and cash equivalents		2,542.8	2,338.7
Trade and other receivables	10	414.7	411.2
Financial assets	11	2,019.8	2,165.2
Associates and joint ventures	12	79.4	58.4
Property, plant and equipment	13	15.0	16.2
Goodwill and intangible assets	14	142.1	144.1
Deferred tax	15(a)	47.8	50.1
Retirement benefit scheme surplus	26	67.2	55.7
		5,328.8	**5,239.6**
Assets backing unit-linked liabilities			
Cash and cash equivalents		820.5	673.6
Financial assets		8,525.8	7,971.6
	16	**9,346.3**	**8,645.2**
Total assets		**14,675.1**	**13,884.8**
Liabilities			
Trade and other payables	17	559.3	580.9
Financial liabilities	18	2,585.1	2,642.1
Current tax		40.8	51.8
Provisions	19(a)	64.0	52.7
Deferred tax	15(b)	1.9	2.6
Retirement benefit scheme deficits	26	7.8	7.9
		3,258.9	**3,338.0**
Unit-linked liabilities	16	**9,346.3**	**8,645.2**
Total liabilities		**12,605.2**	**11,983.2**
Net assets		**2,069.9**	**1,901.6**
Equity		**2,069.9**	**1,901.6**

The financial statements were approved by the Board of Directors on 6 March 2013 and signed on its behalf by:

Kevin Parry
Director

Bruno Schroder
Director

Financial review continued

Financial review of consolidated statement of financial position

Presentation

The balance sheet is known as the statement of financial position.

Our businesses are conducted in a number of legal forms which dictate the basis of accounting, as summarised below:

	Statement of financial position £bn	Not recorded in the statement of financial position £bn	Total £bn
Life Company	8.4	–	8.4
Other asset management	–	187.3	187.3
Total Asset Management	8.4	187.3	195.7
Private Banking	2.5	13.8	16.3
Total assets under management	**10.9**	**201.1**	**212.0**
Third party investors in the Life Company (see note 16)	0.9		
Total third party assets	11.8		
Other Group assets	2.9		
Total assets	**14.7**		

In our Asset Management business, the assets that are managed are not generally owned by the Group. Consequently, most of these are not included in the statement of financial position. Certain clients, however, invest via life insurance policies managed by our Life Company. The assets backing those policies are owned by the Life Company and are consequently included in the statement of financial position. The policyholder liabilities are matched with assets.

Our Private Banking segment provides both asset management and banking services. Total assets are £16.3 billion (2011: £16.0 billion) of which £13.8 billion (2011: £13.4 billion), as for the Asset Management segment, are not included in the statement of financial position. Banking is, however, a principal business and the banking subsidiaries are legally responsible for the banking assets and liabilities. The gross assets and liabilities relating to banking operations are included in the statement of financial position.

The net assets representing all operating capital and the investment capital managed in the Group segment are included in the statement of financial position.

Consolidated net assets

The total assets, total liabilities and net assets in respect of the activities accounted for in the statement of financial position can be analysed as follows.

	Life Company £m	Other asset management £m	Private Banking £m	Group segment £m	Total £m
Assets	9,346.3	919.3	2,892.9	1,516.6	14,675.1
Liabilities	(9,346.3)	(509.9)	(2,643.0)	(106.0)	(12,605.2)
Net	**–**	**409.4**	**249.9**	**1,410.6**	**2,069.9**

Total assets have increased year-on-year by £790.3 million of which £701.1 million is attributable to products sold through our Life Company and £68.2 million is attributable to Private Banking.

Trade and other receivables changed only marginally, arising from working capital movements and an estimated insurance recovery.

Financial assets other than in the Life Company decreased by £145.4 million, comprising a £86.2 million reduction in Private Banking loans and advances and a £59.2 million reduction in investments and derivatives. The size of Private Banking assets and liabilities varies substantially day-to-day dependent on the quantity and type of transactions that clients wish to execute. Private Banking makes loans and advances to customers and these are secured on customers' assets including property and portfolios of securities.

Associates and joint ventures increased due to the acquisition of a 25 per cent. stake in Axis, our asset management partner in India; other movements relate to retained profits after the payment of dividends and other distributions to the Group. In 2012 distributions exceeded the profit after tax due to a return of excess capital by our private equity associate, SVIL.

The deferred tax asset, which entirely comprises temporary timing differences, reduced due to lower UK corporation tax rates offset by higher remuneration deferrals.

The pension fund surplus increased principally due to the actuarial gains associated with lower expected long-term inflation.

The increase in the gross assets and liabilities of the Life Company resulted from net new UK Institutional business, with gross inflows in QEP and Multi-asset strategies offset by outflows in Fixed Income strategies, that are predominantly sold in life wrappers in order to reduce transactional costs. The Life Company assets match the liabilities.

Trade and other payables decreased due to working capital movements.

Private Banking deposits by customers and banks decreased by £73.5 million to £2,512.0 million. Other items in financial liabilities, comprising movements in derivatives for Group hedging and Private Banking purposes and amounts due to third party investors in funds that are majority owned by the Group as part of seed capital activities, increased by £16.5 million.

Corporation tax payable has declined principally due to lower profits and reduced rates of taxation, notably in the UK.

Provisions have increased by £11.3 million to £64.0 million, but have decreased on an underlying basis because £19.6 million of the provided amount is expected to be recoverable from insurers and is recorded separately as an asset. The majority of new provisions relate to this recoverable asset. The Group was also able to decrease provisions recorded in previous years as a result of favourable settlements.

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Share capital £m	Share premium £m	Own shares £m	Net exchange differences £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2012	282.5	87.8	(172.5)	123.8	25.8	34.9	1,519.3	1,901.6
Profit for the year	**–**	**–**	**–**	**–**	**4.5**	**–**	**278.7**	**283.2**
Net exchange differences on translation of foreign operations	–	–	–	(28.3)	–	–	–	(28.3)
Net exchange differences on hedging of foreign operations	–	–	–	6.5	–	–	–	6.5
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–	10.4	10.4
Net fair value movements on available-for-sale financial assets taken to other comprehensive income	–	–	–	–	1.5	16.3	–	17.8
Transfer to income statement on derecognition or impairment of available-for-sale financial assets	–	–	–	–	–	(25.5)	–	(25.5)
Net exchange differences on available-for-sale financial assets	–	–	–	(0.2)	–	(0.1)	–	(0.3)
Tax on items taken directly to other comprehensive income	–	–	–	–	–	–	(4.1)	(4.1)
Other comprehensive (losses)/income	**–**	**–**	**–**	**(22.0)**	**1.5**	**(9.3)**	**6.3**	**(23.5)**
Shares issued	0.5	2.3	–	–	–	–	–	2.8
Shares cancelled	(0.5)	–	–	–	–	–	0.5	–
Share-based payments	–	–	–	–	–	–	45.3	45.3
Tax in respect of share schemes	–	–	–	–	–	–	6.3	6.3
Dividends attributable to owners of the parent	–	–	–	–	–	–	(104.1)	(104.1)
Own shares purchased	–	–	(41.7)	–	–	–	–	(41.7)
Transactions with owners	**–**	**2.3**	**(41.7)**	**–**	**–**	**–**	**(52.0)**	**(91.4)**
Transfers	**–**	**–**	**49.1**	**–**	**(6.3)**	**–**	**(42.8)**	**–**
At 31 December 2012	**282.5**	**90.1**	**(165.1)**	**101.8**	**25.5**	**25.6**	**1,709.5**	**2,069.9**
Notes	22	22	23					

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital £m	Share premium £m	Own shares £m	Net exchange differences £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2011	290.4	84.7	(199.1)	122.1	35.5	50.8	1,415.3	1,799.7
Profit for the year	**–**	**–**	**–**	**–**	**2.0**	**–**	**313.8**	**315.8**
Net exchange differences on translation of foreign operations	–	–	–	1.1	–	–	0.1	1.2
Net exchange differences on hedging of foreign operations	–	–	–	1.0	–	–	–	1.0
Transfer to the income statement of cumulative exchange on derecognition of foreign operations	–	–	–	(0.1)	–	–	–	(0.1)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(0.5)	(0.5)
Net fair value movements on available-for-sale financial assets taken to other comprehensive income	–	–	–	–	(3.5)	(10.6)	–	(14.1)
Transfer to income statement on derecognition or impairment of available-for-sale financial assets	–	–	–	–	–	(5.4)	–	(5.4)
Net exchange differences on available-for-sale financial assets	–	–	–	(0.3)	–	–	–	(0.3)
Tax on items taken directly to other comprehensive income	–	–	–	–	–	0.1	(1.8)	(1.7)
Other comprehensive income/(losses)	**–**	**–**	**–**	**1.7**	**(3.5)**	**(15.9)**	**(2.2)**	**(19.9)**
Shares issued	0.5	3.1	–	–	–	–	–	3.6
Shares cancelled	(8.4)	–	–	–	–	–	(16.0)	(24.4)
Share-based payments	–	–	–	–	–	–	42.7	42.7
Tax in respect of share schemes	–	–	–	–	–	–	(6.1)	(6.1)
Dividends attributable to owners of the parent	–	–	–	–	–	–	(104.8)	(104.8)
Dividends attributable to non-controlling interests	–	–	–	–	–	–	(3.3)	(3.3)
Own shares purchased	–	–	(101.4)	–	–	–	(0.3)	(101.7)
Transactions with owners	**(7.9)**	**3.1**	**(101.4)**	**–**	**–**	**–**	**(87.8)**	**(194.0)**
Transfers	**–**	**–**	**128.0**	**–**	**(8.2)**	**–**	**(119.8)**	**–**
At 31 December 2011	**282.5**	**87.8**	**(172.5)**	**123.8**	**25.8**	**34.9**	**1,519.3**	**1,901.6**
Notes	22	22	23					

Financial review continued

Financial review of consolidated statement of changes in equity

The consolidated statement of changes in equity is set out on the previous two pages.

The Group is well capitalised. Its operating businesses are regulated by financial service regulators in the UK and 26 other countries. Regulators set minimum capital requirements in line with banking, asset management and insurance laws and regulations. The Group also has to quantify its consolidated regulatory capital. The quantification is subject to periodic review by our lead regulator, the FSA of the United Kingdom.

The total equity of the Group can be analysed as follows:

	2012 £m	2011 £m
Regulatory capital	539	501
Other operational capital	418	383
Total operational capital	**957**	**884**
Investment capital	926	837
Other capital	187	181
Total capital	**2,070**	**1,902**

Regulatory capital is £539 million at 31 December 2012 (2011: £501 million), including amounts for pension obligations in Private Banking and a Capital Planning Buffer. Our own assessment of regulatory capital requirements results in a Pillar 2 requirement of £471 million (2011: £428 million).

Regulatory capital is maintained in individual subsidiaries in accordance with local requirements. In particular, Private Banking is operated separately from Asset Management and the Group segment. Private Banking has a consolidated tier 1 capital ratio of 26 per cent (2011: 23 per cent.).

Total capital increased by £168.3 million to £2,069.9 million. Total comprehensive income of £259.7 million was offset by £91.4 million of transactions with shareholders including the 2011 final and 2012 interim dividends, share buy-backs and payments associated with deferred remuneration.

Total operational capital exceeds regulatory capital. We manage subsidiaries to ensure that they have adequate capital and a buffer in excess of regulatory minimums. Operational capital tends to increase during a year by profit retained in subsidiaries that can frequently only be distributed post year end.

Investment capital is the capital in excess of operational requirements. It includes seed capital that is capital invested in investment strategies that are being developed as Asset Management products; legacy investments in private equity and property; and a portfolio of investments managed to an absolute return target. The approach to its management is set out in the Strategy section of this Annual Report.

Other capital comprises goodwill and intangible assets from acquisitions and the accounting surplus on the UK defined benefit pension scheme.

Share capital and premium

The Company has two classes of equity share capital. The ordinary share capital in issue did not change during the year. The exercise of share options led to 0.5 million non-voting ordinary shares being issued during the year at an aggregate price of £2.8 million. A commensurate number of shares held in treasury were cancelled. As a result, the number of non-voting ordinary shares in issue remained at 56.5 million, amounting to 20 per cent. of the total share capital in issue. 2.7 million (2011: 3.4 million) ordinary shares were purchased during the year at a cost of £41.7 million (2011: £59.0 million) for remuneration hedging.

Own shares

The shares held in the own shares reserve comprise shares held in trusts to cover unvested deferred remuneration (as explained in the Remuneration report), and shares held in treasury to cover 0.1 million (2011: 0.6 million) share options in issue but not yet exercised. The own shares reserve comprises:

	Ordinary shares		**Non-voting ordinary shares**	
	Number millions	**£m**	**Number millions**	**£m**
For remuneration hedging	11.6	162.4	0.2	1.8
For options issuance	–	–	0.1	0.9
Total 2012	**11.6**	**162.4**	**0.3**	**2.7**
Total 2011	**12.3**	**164.4**	**0.7**	**8.1**

The own shares reserve is valued at the cost of the shares. The market value of the shares at 31 December 2012 was £200.6 million (2011: £168.8 million).

In addition, the Group holds 3.0 million (2011: 2.4 million) ordinary shares and 0.6 million (2011: 0.6 million) non-voting ordinary shares for employee awards that have vested. These shares are not included in the own shares reserve and their original value has reduced the profit and loss reserve because of their unconditional availability for recipients of deferred remuneration.

Financial review of consolidated statement of changes in equity continued

Other reserves

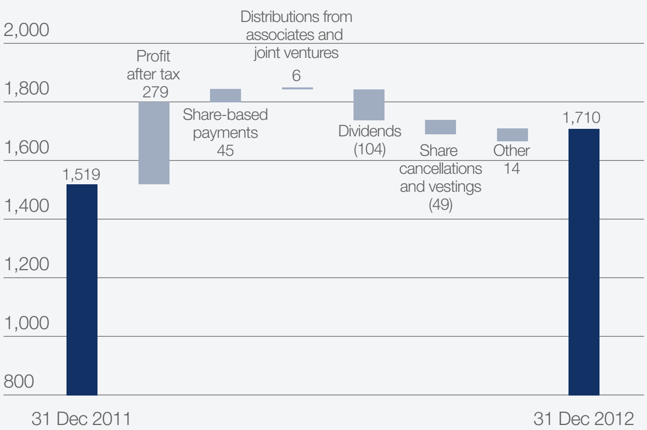
The cumulative reserves associated with exchange differences of £101.8 million decreased by £22.0 million in the year. The associates and joint ventures reserve of £25.5 million decreased by £0.3 million due to profits of £4.5 million and available-for-sale asset market gains of £1.5 million, offset by cash distributions to the Group of £6.3 million.

The fair value reserve represents net mark to market gains on assets that are classified as available-for-sale. Net losses were £9.3 million in the year which included £25.5 million that was recognised as a profit in the income statement and represented the realisation of accumulated gains.

Profit and loss

The profit and loss reserve increased by £190.2 million during 2012. The net increase from 2011 is analysed in the following diagram:

Movement in profit and loss reserve
£m



The profit after tax and comprehensive income movements are explained earlier in this Financial review.

The share-based payment credit offsets the income statement charge because the obligation is settled in the Company's shares.

Dividends paid were the 2011 final dividend amounting to £69.4 million and the 2012 interim dividend of £34.7 million.

Share cancellations and vesting comprises £5.6 million of share cancellations, and the vesting of £43.5 million of remuneration deferred into shares.

The own shares reserve has been increased and the profit and loss reserve decreased by £49.1 million in respect of the vesting of remuneration deferred into shares and shares cancelled.

Other movements comprise net actuarial gains and tax in respect of share schemes.

Further information

The Pillar 3 report at www.schroders.com/ir provides further information on the calculation of regulatory capital. Notes to the accounts which provide further information on the columns are cross-referenced on the statement of changes in equity.

Consolidated cash flow statement

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Net cash from operating activities	24	**489.2**	**426.8**
Cash flows from investing activities			
Acquisition of associates		(23.3)	–
Net acquisition of property, plant and equipment and intangible assets		(12.8)	(12.7)
Net disposal of financial assets		54.1	114.6
Non-banking interest received		12.0	15.0
Distributions received from associates and joint ventures		6.5	9.0
Net cash from investing activities		**36.5**	**125.9**
Cash flows from financing activities			
Proceeds from issue of non-voting ordinary shares		2.8	3.6
Purchase of non-voting ordinary shares for cancellation		–	(24.4)
Acquisition of own shares		(41.7)	(101.7)
Repayments of borrowings		–	(18.6)
Dividends paid		(104.1)	(104.8)
Other flows		(1.9)	(4.8)
Net cash used in financing activities		**(144.9)**	**(250.7)**
Net increase in cash and cash equivalents		**380.8**	**302.0**
Opening cash and cash equivalents		3,012.3	2,711.7
Net increase in cash and cash equivalents		380.8	302.0
Effect of exchange rate changes		(29.8)	(1.4)
Closing cash and cash equivalents		**3,363.3**	**3,012.3**
Closing cash and cash equivalents consists of:			
Cash backing unit-linked liabilities		**820.5**	**673.6**
Other cash and cash equivalents held by the Group:			
Cash		1,718.7	1,396.9
Cash equivalents		824.1	941.8
		2,542.8	**2,338.7**
		3,363.3	**3,012.3**

The cash backing unit-linked liabilities cannot be used by the Group as it is not legally entitled to draw on the assets of the Life Company for its own corporate purposes.

Financial review continued

Financial review of consolidated cash flow statement

The consolidated cash flow statement shows cash flows associated with all segments of the Group.

Operating cash flow

Operating cash flows include those arising from Private Banking and Life Company activities as explained in the commentary on the statement of financial position. It does not include cash flows associated with the agency assets held by Asset Management and Private Banking.

The net cash flow from operating activities arises as follows:

	2012 £m	2011 £m
Life Company	147	(34)
Other asset management	243	355
Total Asset Management	**390**	**321**
Private Banking	50	154
Group segment	49	(48)
Total	**489**	**427**

The operating cash flows in the Life Company (which is part of the Asset Management segment) includes the gross sales and redemptions of life policies of £1.3 billion (2011: £1.7 billion) and £1.4 billion (2011: £0.9 billion) respectively.

The operating cash flows of Private Banking include gross cash inflows of £1.9 billion (2011: £2.4 billion) and gross cash outflows of £1.8 billion (2011: £2.3 billion) associated with banking transactions, typically deposits and loan repayments, and withdrawals and loan advances. The net movement is included in net cash from operating activities.

The remainder of operating cash flows relate to items that are associated with revenue and costs and tax included in the income statement, excluding realised profits and losses on investments.

On a consolidated basis, the cash generated by operating activities is 142 per cent. (2011: 109 per cent.) of operating profit. As detailed in note 24, the cash generation exceeds the operating profits due to:

- £56.5 million (2011: £63.7 million) of depreciation, share-based remuneration, provisions charged to the income statement and gains (net of losses) on financial instruments, all of which have no cash flow associated with the income statement charge;
- £24.0 million (2011: £88.2 million) of net movements on working capital and provisions attributable primarily to faster collection of debtors offset by faster payment of creditors resulting from upgrading the accounting systems; and
- £146.9 million increase (2011: £34.1 million reduction) of cash in the Life Company.

Offsetting these items are:

- £81.6 million (2011: £78.5 million) of corporation tax payments
- £0.3 million (2011: £0.2 million) of interest paid and, in 2011, £3.1 million of payments to the defined benefit pension scheme that was closed to future accruals in that year.

Investing activities

In 2012, £23.3 million was paid to acquire a 25 per cent. stake in Axis Asset Management Company Limited (see note 12). Other cash flows relating to investing activities include routine investment in tangible fixed assets and the proceeds on the sale of securities in the investment capital portfolio, as well as returns on cash and other investments. These transactions amounted to £59.8 million (2011: £125.9 million).

The acquisition of STW, a US fixed income business, completes in 2013 and there is no cash outflow in 2012.

Financing activities

Cash used in financing activities was £144.9 million (2011: £250.7 million). The outflow was principally a result of paying dividends to shareholders of £104.1 million (2011: £104.8 million) and purchasing £41.7 million (2011: £126.1 million) of our own shares, as explained in the commentary on the statement of changes in equity.

Liquidity

The cash balance of £3,363.3 million is analysed below:

	2012 £m	2011 £m
Cash in Life Company operations	820.5	673.6
Cash in other asset management	267.8	277.7
Cash in Private Banking operations	1,745.3	1,531.5
Cash in Group segment	529.7	529.5
Total	**3,363.3**	**3,012.3**

The liquidity position in Private Banking is strong. Across all jurisdictions, the Group's individual Private Banking entities maintain liquidity ratios that are substantially in excess of those required by local regulatory authorities. Cash within the Private Banking business increased by £213.8 million in the year principally due to a reduction in debt security holdings partially offset by dividends paid to the Group segment. Private Banking cash is not made available for general corporate purposes and cash in the Life Company is wholly attributable to investors in the Life Company.

Dividends of approximately £315 million are expected to be paid by subsidiaries to Group holding companies in 2013. These amounts will reduce operational cash and increase the Group segment cash which will be invested in line with the aims set out in the Strategy section of this Annual Report.

In addition to the readily-available cash resources, the Group has access to £250 million of committed banking facilities which expire in September 2013.

Credit quality

The Company has a credit rating of A+ from Fitch and A from Standard and Poor's.

Going concern

Having regard to the liquidity of the Group, the cash and other resources of the Group and the Group's cash requirements, the Directors consider the Group to be a going concern.

Further information

The cross-referenced note to the accounts provides further information on operating cash flows.

Financial review continued

Financial review of segmental results

Asset Management

Net revenue comprises fees based on assets under management, transaction-related fees and performance fees that are dependent on the performance of particular mandates.

Assets under management increased year-on-year from £171.3 billion to £195.7 billion from market-related increases of £14.7 billion and net new business of £9.7 billion.

Net revenues of £489.3 million (2011: £453.5 million) were generated from Institutional clients and £525.5 million (2011: £588.0 million) through our Intermediary sales channel. Net revenue increased from the Institutional sales channels as assets under management were at record levels throughout the year. Intermediary revenue declined due to client demand being concentrated in lower margin products. Institutional clients account for 58 per cent. (2011: 58 per cent.) of total assets under management at the year end.

The net revenue margin including performance fees was 55 basis points (2011: 58 basis points). The margin excluding performance fees was 54 basis points (2011: 56 basis points). The year-on-year decrease of 2 basis points is due to a 1 basis point reduction for the change in mix to a higher proportion of lower margin Fixed Income and Multi-asset mandates, and a further 1 basis point reduction due to a higher proportion of average assets under management being attributable to the lower margin Institutional channel.

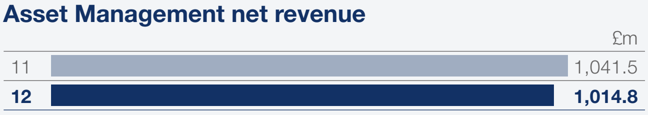
Performance fees were 2.8 per cent. (2011: 3.5 per cent.) of net revenue in 2012. Performance fees were earned on 113 mandates (2011: 121), with fees spread evenly throughout the UK, Europe and Asia Pacific, and principally earned in respect of equity mandates, including QEP. The performance fees in aggregate amounted to 1 basis point (2011: 2 basis points) of assets under management.

Asset Management costs increased to £671.4 million (2011: £658.5 million). Headcount, excluding contractors, increased to 2,442 (2011: 2,413) as we continued to invest in people, selectively recruiting talent across the business to maintain our capacity for growth, including support for the three-year programme to upgrade our Investment IT infrastructure. Non-staff costs decreased by 10 per cent. as we managed our expenditure during the difficult market conditions.

Profit from associates and joint ventures reduced to £5.0 million (2011: £6.7 million) due to lower profits from our China fund management joint venture with Bank of Communications.

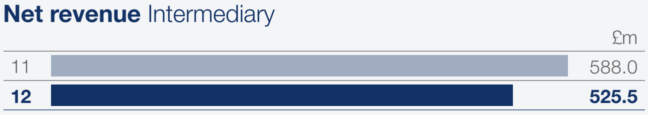
Asset Management pre-tax profit decreased by 11 per cent. to £348.5 million (2011: £389.4 million).

Asset Management net revenue

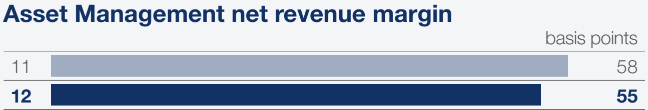


Net revenue Institutional

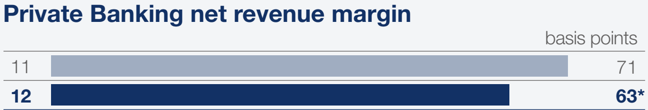
Net revenue Intermediary



Asset Management net revenue margin



Private Banking net revenue margin



* Excluding loan losses

Private Banking

Private Banking net revenue decreased by 17 per cent. to £94.4 million (2011: £114.3 million). Net revenue is shown below:

	2012 £m	2011 £m
Management fees	68.7	75.0
Transaction fees	19.8	24.9
Net banking interest income	13.8	14.4
Loan losses	(7.9)	–
Total net revenue	**94.4**	**114.3**

Assets under management were little changed at £16.3 billion (2011: £16.0 billion) with market-related increases of £0.6 billion partially offset by net outflows of £0.3 billion.

The net revenue margin on assets under management excluding loan losses was 63 basis points (2011: 71 basis points). The year-on-year reduction is 8 basis points. 5 basis points is attributable to lower management fees due to net outflows and asset allocations and 3 basis points is from lower transaction fees due to subdued investment activity and fair value charges.

Financial review of segmental results continued

Fair value losses and impairment of loans have resulted mainly from declines in the value of property collateral. Post year end we have received settlement for one of the loans at the year-end carrying value. We are closely monitoring these loans and taking appropriate action where possible. The value of the loans where we have suffered losses is £37.7 million (2011: £47.3 million).

Private Banking costs decreased to £82.6 million (2011: £90.5 million). Compensation and other operating expenses were reduced. However, a provision of £3.2 million was created to cover potential liabilities arising out of changes in the regulatory environment in Switzerland.

Private Banking profit before tax was £11.8 million (2011: £23.8 million).

Group

The net income and capital returns are shown in the table below. Returns on investment capital are recorded in the Group segment. Depending on the classification of the assets, returns are either recorded in the income statement or, for investments classified as 'available-for-sale', mark to market movements are recorded in the statement of comprehensive income.

Investment capital comprises seed capital, other actively managed investments and legacy investments. Legacy investments are private equity and property.

The total seed capital return was £5.9 million (2011: £6.3 million loss) on an average investment of £137 million (2011: £154 million). We hedge out currency and market exposures where it is practical and cost effective to do so. The gains in the portfolio represent returns that were greater than market returns and changes in unhedged market value. In contrast, in 2011 there was underperformance versus markets and unhedged market losses.

The remainder of the actively managed portfolio returned £14.0 million (2011: £11.1 million) on average assets of £837 million (2011: £821 million). This 1.7 per cent. return (2011: 1.3 per cent.) was better than our LIBOR+ absolute return objective.

The legacy investments recorded gains of £12.1 million (2011: losses of £12.2 million) due to private equity gains mainly from sales of SVG Capital plc shares. The value of legacy investments in aggregate averaged £96 million (2011: £116 million).

In aggregate, the investment capital and net finance income gained £32.0 million (2011: loss of £7.4 million) of which the income statement recorded £41.0 million of profit (2011: £9.6 million) and £9.0 million of charges (2011: charges of £17.0 million) were recorded in reserves. The 2012 charge offsets gains in the income statement arising on the realisation of prior year gains.

Group costs increased to £37.2 million from £12.8 million in 2011. In 2011, there was a £10.2 million gain on the closure of the UK defined benefit scheme. 2012 includes a net charge of £13.1 million pending the anticipated settlement of an insurance claim made by Private Banking offset mainly by a net reduction in existing provisions. Excluding these and other one-off items, underlying costs were £29.7 million compared with £28.3 million in 2011. The underlying costs comprise the governance and general management costs of the Group. The loss from associates of £0.5 million (2011: loss of £4.7 million) is from our private equity associate, SVIL.

Group segment net income and capital returns

	Income statement £m	**Other comprehensive income £m**	**2012 £m**	Income statement £m	Other comprehensive income £m	2011 £m
Seed capital return	5.4	0.5	5.9	(3.7)	(2.6)	(6.3)
Remainder of actively managed portfolio return	13.8	0.2	14.0	11.1	–	11.1
Actively managed portfolio	**19.2**	**0.7**	**19.9**	**7.4**	**(2.6)**	**4.8**
Legacy investment return	21.8	(9.7)	12.1	2.2	(14.4)	(12.2)
Total investment capital return	**41.0**	**(9.0)**	**32.0**	**9.6**	**(17.0)**	**(7.4)**
Other returns	(4.1)	–	(4.1)	(2.7)	0.7	(2.0)
Total	**36.9***	**(9.0)**	**27.9**	**6.9***	**(16.3)**	**(9.4)**

* Comprising net revenue, net finance income and the share of profit/(loss) of associates and joint ventures.

Notes to the accounts

1 Segmental reporting
(a) Operating segments

Year ended 31 December 2012	Asset Management £m	Private Banking £m	Group £m	Total £m
Fee income	1,295.5	96.3	0.5	1,392.3
Banking interest receivable	–	33.1	–	33.1
Revenue	1,295.5	129.4	0.5	1,425.4
Fee expense	(303.1)	(7.2)	(0.1)	(310.4)
Banking interest payable	–	(19.3)	–	(19.3)
Cost of sales	(303.1)	(26.5)	(0.1)	(329.7)
Net gains/(losses) on financial instruments and other income	22.4	(8.5)*	25.3	39.2
Net revenue	1,014.8	94.4	25.7	1,134.9
Operating expenses	(671.4)	(82.6)	(37.2)	(791.2)
Operating profit/(loss)	343.4	11.8	(11.5)	343.7
Net finance income	0.1	–	11.7	11.8
Share of profit/(loss) of associates and joint ventures	5.0	–	(0.5)	4.5
Profit/(loss) before tax	348.5	11.8	(0.3)	360.0
Operating expenses include the following non-cash items:				
Share-based payments	(41.3)	(1.8)	(2.2)	(45.3)
Depreciation and amortisation	(11.5)	(0.5)	–	(12.0)
Provisions reversed/(charged), net of insurance recovery	9.3	(2.0)	(4.9)	2.4

* Includes fair value movements on loans held at fair value and other loan losses.

As at 31 December 2012	Asset Management £m	Private Banking £m	Group £m	Total £m
Segment assets	10,265.6	2,892.9	1,516.6	14,675.1
Segment liabilities	(9,856.2)	(2,643.0)	(106.0)	(12,605.2)
Net assets	409.4	249.9	1,410.6	2,069.9

The Group has three business segments: Asset Management, Private Banking and Group. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset, property and alternative asset classes such as commodities, private equity and funds of hedge funds. Private Banking principally comprises investment management and banking services provided to high net worth individuals and charities. Group principally comprises the Group's investment capital and treasury management activities, insurance arrangements and the management of costs associated with governance and corporate management. Insurance activities comprise acting as an insurer to the Group, including the results of the captive insurer which provides reinsurance for certain activities of the Group. Provisions for actual and potential claims that are within the insurance cover are consequently recorded in the Group segment, net of any recognisable external insurance asset. If it is concluded that there is no insurance cover available or the insurance cover will not cover the charge in full, the actual or estimated cost in excess of the insurance recovery is transferred to the relevant operating segment. The expected insurance recovery may be in excess of the amount that is allowed to be recorded under accounting rules.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision-maker. The chief operating decision-maker is the Chief Executive. One of the key measures used in respect of performance measurement is net revenue.

The allocation of costs to individual business segments is undertaken in order to provide management information on the business performance and to provide managers with a tool to manage and control expenditure. Costs are allocated on a basis that aligns the charge with the resources employed by the Group in a particular area of its business.

Notes to the accounts

1 Segmental reporting continued

Year ended 31 December 2011	Asset Management £m	Private Banking £m	Group £m	Total £m
Fee income	1,359.3	106.3	0.4	1,466.0
Banking interest receivable	–	35.9	–	35.9
Revenue	1,359.3	142.2	0.4	1,501.9
Fee expense	(335.4)	(6.4)	–	(341.8)
Banking interest payable	–	(21.5)	–	(21.5)
Cost of sales	(335.4)	(27.9)	–	(363.3)
Net gains/(losses) on financial instruments and other income	17.6	–	(3.6)	14.0
Net revenue	1,041.5	114.3	(3.2)	1,152.6
Operating expenses	(658.5)	(90.5)	(12.8)	(761.8)
Operating profit/(loss)	383.0	23.8	(16.0)	390.8
Net finance (charge)/income	(0.3)	–	14.8	14.5
Share of profit/(loss) of associates and joint ventures	6.7	–	(4.7)	2.0
Profit/(loss) before tax	389.4	23.8	(5.9)	407.3
Operating expenses include the following non-cash items:				
Share-based payments	(38.1)	(2.3)	(2.3)	(42.7)
Depreciation and amortisation	(13.5)	(0.6)	–	(14.1)
Other provisions (charged)/reversed	(11.3)	(0.1)	0.1	(11.3)

As at 31 December 2011	Asset Management £m	Private Banking £m	Group £m	Total £m
Segment assets	9,573.4	2,961.1	1,350.3	13,884.8
Segment liabilities	(9,186.8)	(2,721.1)	(75.3)	(11,983.2)
Net assets	386.6	240.0	1,275.0	1,901.6

(b) Geographical information

Net revenue is allocated below by country based on the location of clients:

	Net revenue	
Country	**2012 £m**	2011 £m
United Kingdom	408.3	377.8
United States	96.1	90.5
Switzerland	90.6	107.4
Australia	72.3	64.5
Italy	61.7	68.7
Hong Kong	56.5	54.9
Japan	46.2	51.7
Germany	40.5	51.5
Other	262.7	285.6
	1,134.9	1,152.6

Notes to the accounts

1 Segmental reporting continued

The Group's non-current assets are located in the following countries:

	Non-current assets*	
Country	**2012 £m**	2011 £m
United Kingdom	111.9	111.0
China	34.9	33.5
Switzerland	24.6	26.9
Channel Islands	5.4	8.2
Other	60.9	40.8
	237.7	220.4

* Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

2 Revenue

Fee income is the Group's primary source of revenue. This mainly represents income arising from the Group's investment management activities within both Asset Management and Private Banking. The fees are generally based on an agreed percentage of the valuation of the assets under management. Performance fees are earned from some clients when contractually agreed performance levels are exceeded within specified performance measurement periods. Revenue also includes some transaction-based fees which vary based on the volume of transactions. Management fees are the total charge to our clients and include fees that are paid away to intermediaries. Such fee expenses are quantified and explained in note 3. Private Banking entities receive interest as a result of placing loans with other financial institutions, advancing loans and overdrafts to customers and holding debt and other fixed income securities. For Private Banking, earning a net interest margin is a core activity; interest income is therefore recorded separately from interest earned elsewhere in the business.

Fee income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Fees other than performance fees and fees received in advance are accrued over the period for which the service is provided.

Fees received in advance of the service provided are taken to the statement of financial position and amortised on a straight-line basis over the period of the provision of the asset management service. The period of provision of service is estimated based on experience in the separate geographical locations where such fees are earned. Redemptions are reviewed on an annual basis and the amortisation rate adjusted where there has been a significant and lasting change in redemption levels.

Performance fees are recognised at the end of the performance period when the fee amount can be estimated reliably and it is virtually certain that the fee will be received.

Interest receivable is recognised using the effective interest method.

Revenue comprises:

	2012 £m	2011 £m
Management fees	1,223.9	1,267.0
Performance fees	28.5	37.8
Other fees	139.9	161.2
Interest income receivable by Private Banking subsidiaries	33.1	35.9
	1,425.4	1,501.9

Fee income includes £790.3 million (2011: £879.7 million) of fees from collective investment vehicles that are deemed to be related parties by virtue of the investment management agreements in place between the Group and these vehicles.

Notes to the accounts

3 Cost of sales

Fee expense principally comprises commissions and distribution fees payable to financial institutions which distribute our products, investment platform providers and financial advisers. The expense is generally based on an agreed percentage of the value of the investments placed with the Group. Private Banking pays interest on deposits taken. For Private Banking, earning a net interest margin is a core activity; interest payable in respect of these activities is therefore recorded separately from interest payable elsewhere in the business.

Fee expense is recognised over the period for which the service is provided.

Fees paid in advance to the distributor in respect of structured product funds and the reimbursement of any marketing and distribution fees are deferred and charged to the income statement over the life of the fund, as such service is provided. Fees paid to the distributor but not yet charged to the income statement are charged on redemption where they are irrecoverable.

Interest payable is recognised using the effective interest method.

Cost of sales comprises:

	2012 £m	2011 £m
Fee expense	310.4	341.8
Interest expense payable by Private Banking subsidiaries	19.3	21.5
	329.7	363.3

4 Net gains on financial instruments and other income

The Group holds some of its capital, known as seed capital, in investments to support the development of investment strategies. Investments are also held for regulatory capital purposes in certain operating entities and as a stock of units to facilitate purchases and sales by the UK unit trust manager. The majority of the Group's capital is invested in financial instruments such as fixed income debt instruments and equities. Net gains and losses, principally representing market movements on such instruments, including certain loans and deposits in Private Banking that are held at fair value to match the revaluation of interest rate swaps, are recognised in this line of the income statement as are any gains and losses on derivatives (which mainly arise from hedging activities). The investments are referred to as at fair value through profit or loss. Certain other investments are classified as available-for-sale. This classification is typically selected when the investment is expected to be held for the long term but not necessarily to maturity and where short-term volatility does not reflect long-term expected returns. Available-for-sale investments are also marked to market but the gains and losses on those investments are only recorded here if the investment is impaired, sold or otherwise realised – for example, through distribution to investors. Any impairments on loans and receivables are also included in this line of the income statement. The total return on investments also includes interest, which is included in note 6 'Net finance income'. Other income includes trading profits on buying and selling units in funds, gains and losses on foreign exchange and rent receivable from subletting properties.

Gains and losses on financial instruments
Gains or losses on investments held at fair value through profit or loss, together with transaction costs, are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity through other comprehensive income until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is transferred to the income statement. Assets categorised as available-for-sale are reviewed at the end of each reporting period for impairment. Impairments on loans and receivables are recognised in the income statement. Loans and receivables are reviewed at the end of each reporting period for impairment.

Where, in prior years, investments have been reclassified out of the fair value through profit or loss category and into the available-for-sale category, they have been reclassified at their fair value on the date of reclassification. Gains or losses on reclassified investments are recognised and accounted for after reclassification in the same way as other available-for-sale investments.

Net gains and losses on foreign exchange
The Group's accounting policy is included within the 'Presentation of the financial statements' note.

Notes to the accounts

4 Net gains on financial instruments and other income continued

Net gains and losses taken to the income statement in respect of financial assets and liabilities are:

	2012 £m	2011 £m
Net gains/(losses) on financial instruments held at fair value through profit or loss – held for trading	9.3	(8.6)
Net losses on financial instruments designated as being at fair value through profit or loss upon initial recognition	(6.8)	–
Net gains/(losses) on financial instruments held at fair value through profit or loss	2.5	(8.6)
Net gains on disposal of available-for-sale financial assets	25.6	7.8
Impairment of available-for-sale financial assets – equities	(0.1)	(2.4)
Net gains on disposal or impairment of available-for-sale financial assets	25.5	5.4
Impairment of loans and receivables	(6.0)	–
Gains made by the UK unit trust manager from buying and selling units	8.3	10.6
Other income	8.9	6.6
Net gains on financial instruments and other income	39.2	14.0

Net gains on financial instruments and other income includes gains of £12.1 million (2011: £11.0 million) in respect of those collective investment vehicles that are deemed to be related parties by virtue of the investment management agreements in place between the Group and these vehicles.

5 Operating expenses

Operating expenses represents the Group's administrative expenses. The biggest constituent is employee benefits, the charge for which is shown opposite, but other costs such as those for accommodation, IT, electronic information systems and marketing are also included, along with charges for provisioning. Employee compensation is managed to a target long-term ratio of 45% compensation to operating net revenue which may fluctuate dependent on market conditions. Total costs are managed to a target long-term ratio of 70% total costs to net revenue, which may also fluctuate. The compensation to revenue ratio in particular provides some flexibility to manage the overall cost base.

Operating expenses are recognised on an accruals basis as services are provided. Costs under operating leases are charged to the income statement in equal amounts over the periods of the leases. Included within the employee benefits expense are employee share-based payments and deferred cash awards. The accounting policy in respect of employee share-based payments is set out in note 27.

Deferred cash awards take the form of notional investments in funds managed by the Group and the liability is recorded at fair value. These awards are charged to the income statement over their performance and vesting periods. Awards that lapse or are forfeited are credited to the income statement in the year in which they lapse or are forfeited.

Pension costs are explained in note 26.

5 Operating expenses continued

Operating expenses include:

	2012 £m	2011 £m
Salaries and other remuneration	472.4	455.3
Social security costs	45.7	39.4
Pension costs	27.6	5.1
Employee benefits expense	545.7	499.8
Operating lease payments	31.7	33.6
Audit fees payable for the audit of the Company and consolidated financial statements	0.6	0.6
Audit fees payable for the audit of the Company's subsidiaries	2.1	2.3
Audit–related assurance services	0.3	0.4
Other assurance services	0.3	0.2
Tax advisory services	0.6	0.5
Tax compliance services	0.5	0.4
Other non-audit services	1.5	0.3
Audit and non-audit fees	5.9	4.7
Other operating expenses	207.9	223.7
Operating expenses	791.2	761.8

Details relating to emoluments paid to Directors and Directors' rights to deferred cash and share awards are included in the Remuneration report.

Key management personnel compensation

Key management personnel are defined as members of either the Board or the Group Management Committee. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2012 £m	2011 £m
Short-term employee benefits	Salary, cash bonus	20.0	24.0
Post-employment benefits	Pension plans	0.5	0.4
Share-based payments	Deferred share awards	11.8	9.0
Other long-term benefits	Other life assurance plans and deferred cash awards	8.7	4.6
		41.0	38.0

The remuneration of key management personnel is determined having regard to the performance of individuals and market rates. The remuneration policy (which applies to Directors and management) is described in more detail in the Remuneration report.

The average number of employees employed by the Company and its subsidiary undertakings during the year was:

	2012 Number	2011 Number
Full-time employees	2,767	2,688
Contract and temporary staff	202	160
	2,969	2,848
They were employed as follows:		
Asset Management	2,620	2,498
Private Banking	340	342
Group	9	8
	2,969	2,848

Notes to the accounts

6 Net finance income

The Group earns interest on non-banking activities as a result of holding investments in debt and fixed income securities as well as on deposits with banks. Fixed income investments and cash (excluding those of the Private Banking entities) are mainly managed by Group Treasury to earn competitive rates and ensure liquidity throughout the Group. A significant amount of the Group's cash and interest-earning securities are held as part of the Private Banking business. The interest earned on those balances is included in revenue.

7 Tax expense

The Group is headquartered in the UK and pays taxes according to the rates applicable in the countries and states in which it operates. Most taxes are recorded in the income statement (see part (a) of this note below) and relate to taxes payable for the reporting period (current tax) but the charge also includes benefits and charges relating to tax payable for future periods where income or expenses are recognised in a different period for tax and accounting purposes (deferred tax). Some current and deferred taxes are recorded through other comprehensive income, mainly relating to the Group's defined benefit pension schemes (see part (b) below), or directly to equity where the tax arises from changes in the value of remuneration settled as shares (see part (c) below).

(a) Analysis of tax charge reported in the income statement

	2012 £m	2011 £m
UK corporation tax on profits for the year	29.6	31.6
Adjustments in respect of prior years	1.7	–
Foreign tax – current	54.6	67.1
Foreign tax – adjustments in respect of prior years	(8.6)	0.8
Current tax	77.3	99.5
Origination and reversal of temporary differences	(6.5)	(7.9)
Adjustments in respect of prior years	4.6	(1.7)
Effect of changes in corporation tax rates	1.4	1.6
Deferred tax	(0.5)	(8.0)
Tax charge reported in the income statement	76.8	91.5

(b) Analysis of tax charge reported in other comprehensive income

	2012 £m	2011 £m
Current income tax on movements on available-for-sale financial assets	–	(0.1)
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes	2.6	(0.1)
Deferred tax – effect of changes in corporation tax rates	1.5	1.9
Tax charge reported in other comprehensive income	4.1	1.7

(c) Analysis of tax (credit)/charge reported in equity

	2012 £m	2011 £m
Current income tax on Equity Compensation Plan and other share-based remuneration	(3.9)	(3.9)
Deferred tax on Equity Compensation Plan and other share-based remuneration	(3.1)	9.2
Deferred tax – effect of changes in corporation tax rates	0.7	0.8
Tax (credit)/charge reported in equity	(6.3)	6.1

Notes to the accounts

7 Tax expense continued

(d) Factors affecting tax charge for the year

The UK standard rate of corporation tax reduced from 26 per cent. to 24 per cent. on 1 April 2012 resulting in a UK effective tax rate for the year of 24.5 per cent. (2011: effective rate of 26.5 per cent.). The tax charge for the year is lower (2011: lower) than a charge based on the UK effective rate. The reconciliation of the income statement tax charge to the UK rate on profits before tax including the impact of taxes incurred in overseas operations and differences in accounting versus tax profit is set out below:

	2012 £m	2011 £m
Profit before tax	360.0	407.3
Less post-tax profits of associates and joint ventures	(4.5)	(2.0)
Profit before tax of consolidated Group entities	355.5	405.3
Profit before tax of consolidated Group entities multiplied by corporation tax at the UK rate of 24.5 per cent. (2011: 26.5 per cent.)	87.1	107.4
Effects of:		
Different statutory tax rates of overseas jurisdictions	(1.2)	(1.9)
Permanent differences including non-taxable income and non-deductible expenses	(9.0)	(10.5)
Net creation/(utilisation) of tax losses for which no deferred tax asset was recognised	1.1	(3.8)
Foreign exchange movements on tax balances	–	(0.9)
Deferred tax adjustments in respect of changes in corporation tax rates	1.1	1.6
Adjustments to prior year estimates	(2.3)	(0.4)
Tax charge reported in the income statement	76.8	91.5

8 Earnings per share

This key performance indicator shows the portion of the Group's profit after tax that is attributable to each share (excluding shares held by the Group). The calculation is based on the weighted average number of shares in issue during the year. The diluted figure recalculates that number as if all in-the-money share options (i.e. those that would be expected to be exercised as they have value to the option holder) had also been exercised in the period. Shares that may be issued are not taken into account if the impact does not reduce earnings per share.

Reconciliation of the figures used in calculating basic and diluted earnings per share:

	2012 Number Millions	2011 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	270.3	272.3
Effect of dilutive potential shares – share options	8.4	9.2
Effect of dilutive potential shares – contingently issuable shares	0.5	0.5
Weighted average number of shares used in calculation of diluted earnings per share	279.2	282.0

The earnings per share calculations are based on profit after tax excluding non-controlling interests of £0.3 million (2011: £0.2 million).

Notes to the accounts

9 Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-yearly and annual results. The reduction in equity comprises the prior year final dividend and the current year interim dividend.

	2013		2012		2011	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Declared and paid in year:						
Final dividend paid	80.1	30.0	69.4	26.0	70.1	26.0
Interim dividend paid			34.7	13.0	34.7	13.0
			104.1	39.0	104.8	39.0

Dividends of £6.0 million (2011: £6.2 million) on shares held by the employee trusts have been waived; dividends may not be paid on treasury shares. The 2012 final dividend is payable on 9 May 2013 and will be accounted for in 2013.

10 Trade and other receivables

Trade and other receivables include prepayments and deposits with banks in the form of bullion as well as amounts the Group is due to receive from third parties in the normal course of business. These include fees as well as settlement accounts for transactions undertaken. These receivables are normally settled by receipt of cash. Trade and other receivables, other than deposits with banks in the form of bullion which are recorded at fair value, are recorded initially at fair value and subsequently at amortised cost after the deduction of provisions for bad and doubtful debts. Prepayments arise where the Group pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense recognised in the income statement. Other receivables include insurance recoveries.

	2012			2011		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other receivables held at amortised cost:						
Fee debtors	–	23.8	23.8	–	76.8	76.8
Settlement accounts	–	75.4	75.4	–	66.6	66.6
Accrued income	–	203.4	203.4	–	147.0	147.0
Prepayments	1.2	21.6	22.8	1.7	21.2	22.9
Other receivables	4.5	41.9	46.4	4.7	30.5	35.2
Current tax	–	4.8	4.8	–	8.1	8.1
	5.7	370.9	376.6	6.4	350.2	356.6
Trade and other receivables held at fair value:						
Deposits with banks in the form of bullion	–	38.1	38.1	–	54.6	54.6
	5.7	409.0	414.7	6.4	404.8	411.2

11 Financial assets

The Group holds financial assets including Private Banking customer loans, equities, debt securities and derivatives to support its Group capital strategies and as part of its Private Banking book. As part of the latter, the Group enters into derivatives on behalf of clients in order to enable them to participate in the derivatives market – this is referred to as 'customer facilitation' and is explained in note 21.

The Group initially records all financial assets at fair value, which is normally the cost of acquiring the asset or the amount loaned to customers. The Group classifies each financial asset as either being held at fair value ('fair value through profit or loss' and 'available-for-sale') or at cost ('held to maturity' and 'loans and receivables'). The classification is, in part, dependent on accounting rules but with some scope for the Group to select a treatment. The fair value of financial instruments may require some judgement (as explained below) or may be derived from readily available sources. The degree of judgement involved is reflected in the fair value measurements section below, although this does not necessarily indicate that the fair value is more or less likely to be realised. These values are updated at each reporting date based on the most relevant evidence of fair value at that date. The value of investments held at cost changes where there is evidence that the full amount will not be recovered, in which case the cost is adjusted to reflect the recoverable amount; or, if such amounts were acquired at a premium or discount to the expected proceeds, after discounting for the time value of money, the carrying amount is adjusted over time to the amount recoverable on maturity.

Notes to the accounts

11 Financial assets continued

Financial assets are classified as either available-for-sale, at fair value through profit or loss, loans and receivables or held to maturity.

Recognition and measurement

All purchases and sales of financial assets are recognised on the date that the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Where financial assets have been categorised as being *available-for-sale* or at *fair value through profit or loss*, all such investments are recorded at fair value. All financial assets held at fair value through profit or loss, except for those held within the Life Company (see note 16) and certain loans designated as at fair value, are classified as held for trading.

The fair value reserve in the statement of changes in equity represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at date of reclassification or impairment) and the fair value of financial assets that are classified as available-for-sale.

Derivative contracts are recorded at fair value within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction between willing parties.

For investments that are actively traded in organised financial markets, fair value is determined by reference to official quoted market bid prices. For investments that are not actively traded in organised financial markets, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies. For private equity investments where there is no quoted market price, fair value is determined with reference to International Private Equity and Venture Capital Valuation Guidelines or by independent professional valuers. In such circumstances, fair values are derived using the most appropriate technique, examples of which include the use of earnings multiples (applying an appropriate earnings multiple to the earnings of individual businesses being valued in order to derive a value) and the values assigned to recent similar transactions.

Loans and receivables and *held to maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity. All investments are initially recognised at fair value and, unless they are hedged for interest rate risk, in which case they continue to be measured at fair value through profit or loss in order to avoid an accounting mismatch, are subsequently measured at amortised cost, being the measurement on initial recognition less principal repayments, plus or minus the cumulative amortisation. Fair value is determined using discounted cash flow models. Amortisation is calculated using the effective interest method and is derived from the difference between that initial amount and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or irrecoverability. Impairments for specific bad and doubtful debts are made against loans and receivables and held to maturity investments to reflect an assessment of irrecoverability and are deducted from the relevant assets. Such impairments are determined based on revised estimates of future cash flows, discounted at the original effective interest rate and are recorded in the income statement. The fair value of loans and receivables is based on projected cash flows and appropriate discount rates.

The Group's held to maturity financial assets are held within the Group's Private Banking operations as part of their banking book.

Hedge accounting

Where derivatives are held for risk management purposes, the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

In respect of fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting or the instrument is derecognised.

In respect of hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in the income statement. On disposal of the foreign operation, the gain or loss on the hedging instrument recognised directly in other comprehensive income is transferred to the income statement.

Notes to the accounts

11 Financial assets continued

	2012		
	Listed £m	Unlisted £m	Total £m
Non-current			
Held to maturity – debt instruments	16.3	–	16.3
Loans and receivables	–	412.3	412.3
Fair value through profit or loss – derivatives	–	4.9	4.9
Fair value through profit or loss – other investments	–	33.8	33.8
Available-for-sale securities	30.8	15.8	46.6
Total non-current	47.1	466.8	513.9
Current			
Held to maturity – debt instruments	101.4	–	101.4
Loans and receivables	–	486.1	486.1
Fair value through profit or loss – derivatives	–	25.1	25.1
Fair value through profit or loss – other investments	247.7	407.8	655.5
Available-for-sale securities	214.0	23.8	237.8
Total current	563.1	942.8	1,505.9
Total financial assets	610.2	1,409.6	2,019.8

	2011		
	Listed £m	Unlisted £m	Total £m
Non-current			
Loans and receivables	–	518.9	518.9
Fair value through profit or loss – derivatives	–	11.8	11.8
Fair value through profit or loss – other investments	–	4.8	4.8
Available-for-sale securities	31.3	20.6	51.9
Total non-current	31.3	556.1	587.4
Current			
Held to maturity – debt instruments	129.2	–	129.2
Loans and receivables	–	648.9	648.9
Fair value through profit or loss – derivatives	–	33.7	33.7
Fair value through profit or loss – other investments	237.3	407.2	644.5
Available-for-sale securities	89.4	32.1	121.5
Total current	455.9	1,121.9	1,577.8
Total financial assets	487.2	1,678.0	2,165.2

The fair value of financial assets classified as held to maturity and loans and receivables and recorded at amortised cost was £1,017.4 million (2011: £1,298.3 million).

Effective from 1 July 2008, the Group adopted the amendment to IAS 39 issued in October 2008 and reclassified held for trading financial assets out of the fair value through profit or loss category and into the available-for-sale category. The carrying value of the reclassified financial assets at 31 December 2012 is £4.2 million (2011: £31.0 million).

The Group has a total net investment of £105.2 million (2011: £97.3 million) in collective investment vehicles that, by virtue of the investment management agreements in place between the Group and those vehicles, are considered to be related parties.

Provisions of £16.2 million (2011: £18.8 million) are held against gross loans and receivables that are recorded at amortised cost.

Notes to the accounts

11 Financial assets continued

Fair value measurements

The Group holds financial assets that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities, daily priced funds, gilts and exchange-traded derivatives;
– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and principally comprise corporate bonds, foreign exchange contracts and loans and receivables held at fair value; and
– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and principally comprise investments in private equity and hedge funds.

The Group's financial assets (excluding those held in the Life Company – see note 16) at the year-end date are analysed as follows:

	2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-current financial assets:				
Equities	3.4	4.5	40.6	48.5
Debt securities	0.3	2.7	–	3.0
Derivative contracts	–	4.9	–	4.9
Other instruments	–	28.9	–	28.9
	3.7	41.0	40.6	85.3
Current financial assets:				
Equities	269.4	23.3	16.0	308.7
Debt securities	390.0	190.5	–	580.5
Derivative contracts	0.5	21.8	2.8	25.1
Other instruments	–	4.1	–	4.1
	659.9	239.7	18.8	918.4
	663.6	280.7	59.4	1,003.7

	2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-current financial assets:				
Equities	3.7	5.4	44.6	53.7
Debt securities	0.1	2.9	–	3.0
Derivative contracts	–	11.8	–	11.8
	3.8	20.1	44.6	68.5
Current financial assets:				
Equities	289.3	36.3	122.1	447.7
Debt securities	292.7	25.6	–	318.3
Derivative contracts	1.0	32.7	–	33.7
	583.0	94.6	122.1	799.7
	586.8	114.7	166.7	868.2

11 Financial assets continued

Movements in financial assets categorised as Level 3 during the year were:

	2012 £m	2011 £m
At 1 January	166.7	202.2
Exchange translation adjustments	(2.6)	(2.1)
Total (losses)/gains recognised in the income statement	(4.8)	1.1
Total gains/(losses) recognised in other comprehensive income	5.0	(7.4)
Additions	17.9	8.9
Disposals	(122.6)	(26.3)
Transfers out of Level 3	(0.2)	(9.7)
At 31 December	59.4	166.7

Estimates and judgements

Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of financial assets are discussed below.

Valuation of financial assets where there is no quoted price

Such assets principally consist of investments in private equity, hedge funds, funds of hedge funds and certain loans in Private Banking. The determination of fair value requires significant judgement, particularly in determining changes in fair value since the last formal valuation by the fund manager or adviser where this is performed before year end and in estimating future cash flows. In making this judgement the Group evaluates amongst other factors the effect of cash distributions and changes in the business outlook.

Impairment of financial assets categorised as available-for-sale and loans and receivables and held to maturity

Such assets are reviewed at the end of each reporting period for impairment. If the year-end fair value of an asset is less than the cost or deemed cost of that asset, the Group will assess whether there is objective evidence that the asset is impaired.

In respect of equity products, consideration is given to the extent to which the fair value of an instrument is below cost and to the length of time that the fair value of an instrument has been below cost.

12 Associates and joint ventures

Associates are companies the Group partly owns and over which it has some influence, for example, through participation in the financial and operating policy decisions, but not control. Joint ventures are companies in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint venturers. In both cases, the Group's income statement reflects its share of the entity's profit or loss after tax; the statement of financial position records the Group's share of the net assets of the entity plus any goodwill and intangible assets that arose on purchase. As with subsidiaries, intercompany transactions are eliminated.

Investments in associates and joint ventures are accounted for using the equity method. The investments are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate or joint venture.

The income statement includes the Group's post-tax share of associates' and joint ventures' profits or losses for the year. Where a Group company transacts with an associate or joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in that associate or joint venture.

The associates and joint ventures reserve in the statement of changes in equity represents the amount of related profit or loss since the acquisition of an associate or joint venture less dividends received and other distributions of profit less amortisation of intangible assets.

Goodwill and intangible assets arising on the acquisition of associates or joint ventures are included in the amount of the investments and are regularly reviewed for impairment.

Notes to the accounts

12 Associates and joint ventures continued

Investments in associates and joint ventures comprise:

	2012 Associates £m	2012 Joint ventures £m	2012 Total £m	2011 Associates £m	2011 Joint ventures £m	2011 Total £m
At 1 January	22.9	35.5	58.4	29.5	37.5	67.0
Exchange translation adjustments	(0.6)	(1.2)	(1.8)	–	1.9	1.9
Additions	23.3	–	23.3	–	–	–
(Loss)/profit for the year after tax	(0.3)	4.8	4.5	(3.8)	5.8	2.0
Gains/(losses) recognised in other comprehensive income	–	1.5	1.5	–	(3.5)	(3.5)
Capital redemptions and distributions of profit	(2.7)	(3.8)	(6.5)	(2.8)	(6.2)	(9.0)
At 31 December	42.6	36.8	79.4	22.9	35.5	58.4

Information about the principal associates and joint ventures held by the Group at 31 December 2012 is shown below. The companies are unlisted.

Name of associate or joint venture	Status	Nature of its business	Country of incorporation	Percentage owned by the Group
Schroder Ventures Investments Limited (SVIL)	Associate	Private equity investment	Guernsey	50%
RWC Partners Limited (RWC)	Associate	Investment management	England	48%
Bank of Communications Schroder Fund Management Co. Ltd. (China)	Joint venture	Investment management	China	30%
Axis Asset Management Company Limited (Axis)	Associate	Investment management	India	25%

The financial statements of SVIL are prepared to 30 June each year. Accounts are prepared to this date so that the company's year end is coterminous with those of its major investments. For the purposes of applying the equity method of accounting, the interim financial statements of SVIL at 31 December have been used.

(a) Associates

Summarised financial information in respect of the Group's associates is set out below:

	2012 SVIL £m	2012 RWC £m	2012 Axis £m	2012 Total £m	2011 SVIL £m	2011 RWC £m	2011 Total £m
Total assets	12.1	13.2	10.0	35.3	19.9	13.1	33.0
Total liabilities	(1.4)	(4.3)	(3.9)	(9.6)	(3.7)	(4.6)	(8.3)
Total equity	10.7	8.9	6.1	25.7	16.2	8.5	24.7
Group's share of net assets	5.3	4.2	1.5	11.0	8.1	4.0	12.1
Goodwill and intangible assets	–	10.6	21.0	31.6	–	10.8	10.8
Carrying value held by the Group	5.3	14.8	22.5	42.6	8.1	14.8	22.9
Net revenue	(0.7)	12.1	1.6	13.0	(9.2)	13.6	4.4
(Loss)/profit for the year	(1.0)	0.8	(0.4)	(0.6)	(9.4)	1.8	(7.6)
Group's share of (loss)/profit for the year	(0.5)	0.4	(0.2)	(0.3)	(4.7)	0.9	(3.8)

(b) Joint ventures

The Group's share of the assets, liabilities, revenue and expenses of the joint ventures is as follows:

	2012 China £m	2012 Other £m	2012 Total £m	2011 China £m	2011 Other £m	2011 Total £m
Non-current assets	3.3	–	3.3	4.0	–	4.0
Current assets	38.5	2.6	41.1	37.1	2.7	39.8
Non-current liabilities	(0.5)	–	(0.5)	(0.3)	–	(0.3)
Current liabilities	(6.4)	(0.7)	(7.1)	(7.3)	(0.7)	(8.0)
Total equity	34.9	1.9	36.8	33.5	2.0	35.5
Net revenue	14.5	2.2	16.7	15.0	2.4	17.4
Expenses	(8.9)	(1.4)	(10.3)	(7.4)	(2.1)	(9.5)
Tax	(1.5)	(0.1)	(1.6)	(1.9)	(0.2)	(2.1)
Profit for the year	4.1	0.7	4.8	5.7	0.1	5.8

Notes to the accounts

13 Property, plant and equipment

The Group's long-life assets provide the infrastructure to enable the Group to operate. These include leasehold improvements, office equipment, computers and cars. The cost of these assets is recognised in the income statement over time as a depreciation charge. The assets are normally depreciated over three to five years.

Property, plant and equipment is stated at historic cost less accumulated depreciation. Depreciation is provided on a straight-line basis and is recorded in the income statement as an operating expense.

	2012 £m	2011 £m
Cost		
At 1 January	83.3	78.7
Exchange translation adjustments	(1.5)	(0.2)
Additions	6.1	6.1
Disposals	(2.6)	(1.3)
At 31 December	85.3	83.3
Depreciation		
At 1 January	(67.1)	(59.4)
Exchange translation adjustments	0.9	0.3
Depreciation charge for the year	(6.7)	(8.9)
Disposals	2.6	0.9
At 31 December	(70.3)	(67.1)
Net book value at 31 December	15.0	16.2

14 Goodwill and intangible assets

Intangible assets (other than software) arise when the Group acquires a business and the amount of cash paid for that business exceeds the fair value of the net tangible assets acquired. This premium reflects additional value that the Group determines to be attached to the business, but which is not represented by the fair value of net assets acquired. Intangible assets include contractual agreements to manage client funds and gain additional access to new or existing clients, geographies and brand names. Where such assets can be identified, they are recorded by the Group as intangible assets arising from business combinations and charged to the income statement over time. Consideration paid to acquire the business in excess of net tangible and intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. After acquisition, the business is normally integrated fully into the existing Group. The Group therefore assesses whether goodwill has become impaired based on the expected future returns of the relevant business segment as a whole. As a result it is rare that goodwill will be considered to be impaired.

Software purchased for use in the business is also referred to as an intangible asset. The cost of purchasing software is taken to the income statement over time as an amortisation charge. The treatment is similar to property, plant and equipment and the asset is normally amortised evenly over three years.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amount which represented the amortised value at the date of conversion.

The Group's intangible assets comprise software together with an immaterial amount of acquired intangible assets (such as future revenues from investment management contracts and client relationships acquired through a business combination). The costs of purchasing and implementing software are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably.

Software is recorded initially at cost and then amortised over its useful life, on a straight-line basis, as an operating expense.

14 Goodwill and intangible assets continued

	2012			2011		
	Goodwill £m	Other intangible assets £m	Total £m	Goodwill £m	Other intangible assets £m	Total £m
Cost						
At 1 January	120.4	82.4	202.8	120.4	82.1	202.5
Exchange translation adjustments	(3.2)	(1.1)	(4.3)	–	(0.2)	(0.2)
Additions	–	6.7	6.7	–	6.9	6.9
Disposals	–	(0.1)	(0.1)	–	(6.4)	(6.4)
At 31 December	117.2	87.9	205.1	120.4	82.4	202.8
Accumulated amortisation						
At 1 January	–	(58.7)	(58.7)	–	(60.0)	(60.0)
Exchange translation adjustments	–	0.9	0.9	–	0.1	0.1
Amortisation charge for the year	–	(5.3)	(5.3)	–	(5.2)	(5.2)
Disposals	–	0.1	0.1	–	6.4	6.4
At 31 December	–	(63.0)	(63.0)	–	(58.7)	(58.7)
Carrying amount at 31 December	117.2	24.9	142.1	120.4	23.7	144.1

Goodwill of £108.1 million (2011: £111.4 million) is allocated to the Asset Management segment and £9.1 million (2011: £9.0 million) to the Private Banking segment.

Estimates and judgements

At each reporting date, an assessment is made as to whether there is any indication that goodwill or an intangible asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model, details of which are provided below. Any impairment is recognised immediately in the income statement and cannot subsequently be reversed. Goodwill acquired in a business combination is allocated to the cash generating units (CGU) that are expected to benefit from that business combination. For all relevant acquisitions, the lowest level of CGU the Group uses to determine impairment is segment level.

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model. The key assumptions on which management have based their five-year cash flow projections are market growth rates of 2 per cent. (2011: 2 per cent.), the Group's view of anticipated future market movements, a pre-tax discount rate of 13 per cent. (2011: 14 per cent.), expected fund flows (based on the aggregation of expectations of individual countries) and expected changes to margins (based on an analysis of the current fee structure flexed to take into account expected changes in product mix and the proportion of rebates payable to external distributors). The result of the calculations indicates that the goodwill is not impaired.

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in the estimation of the recoverable amounts of the CGUs is small due to the amount of goodwill on the Group's statement of financial position relative to the size of the Group's estimations of future profitability within the business segments to which that goodwill has been allocated. Movements in the growth rate and/or the discount rate of 1 per cent. would not lead to the recognition of any impairment charge. A comparison of actual results to the projected results used to assess goodwill impairment in prior years reveals that the Group would have recognised no changes (2011: nil) to its goodwill asset in the year as a result of inaccuracies in its projections.

Notes to the accounts

15 Deferred tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable respectively in future accounting periods. They generally arise as a result of timing differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded in the accounts. A deferred tax asset represents a tax reduction that is expected to arise in a future period as a result of a transaction in the current or an earlier period. A deferred tax liability, conversely, represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the year-end date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the year-end date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, branches and associates, and interests in joint arrangements, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities represent temporary differences where the accounting profits are recorded prior to taxable profits.

(a) Deferred tax assets

	2012		
	Accelerated capital allowances £m	**Other temporary differences £m**	**Total £m**
At 1 January	3.2	46.9	50.1
Income statement expense	–	(0.2)	(0.2)
Other comprehensive income expense	–	(4.1)	(4.1)
Credit taken to equity	–	2.4	2.4
Other movements	–	(0.4)	(0.4)
At 31 December	3.2	44.6	47.8

	2011			
	Accelerated capital allowances £m	Tax losses carried forward £m	Other temporary differences £m	Total £m
At 1 January	2.3	1.1	50.6	54.0
Income statement credit/(expense)	0.9	(1.1)	8.1	7.9
Other comprehensive income expense	–	–	(1.8)	(1.8)
Charge taken to equity	–	–	(10.0)	(10.0)
At 31 December	3.2	–	46.9	50.1

Included in deferred tax assets relating to other temporary differences is an asset relating to UK tax deductions for share-based remuneration which is dependent on the prices of the Company's ordinary and non-voting ordinary shares at the time the awards are exercised. These have been recognised based on the share prices as at 31 December 2012.

If the asset were recognised at the share price on 1 March 2013, deferred tax assets would be increased by £4.6 million, all of which would be recognised as a credit in the consolidated statement of changes in equity.

Notes to the accounts

15 Deferred tax continued

A deferred tax asset of £21.5 million (2011: £25.8 million) relating to realised and unrealised capital losses has not been recognised as there is insufficient evidence that there will be sufficient taxable gains in the future against which the deferred tax asset could be utilised.

A deferred tax asset of £15.0 million (2011: £18.1 million) relating to losses and other temporary differences has not been recognised as there is insufficient evidence that there will be sufficient taxable profit against which these losses and temporary differences can be utilised.

The aggregate amount of gross temporary differences arising from unremitted profits in subsidiaries is £4.1 million (2011: £8.1 million). Deferred tax has not been provided as the relevant parent company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(b) Deferred tax liabilities

	2012 £m	2011 £m
At 1 January	(2.6)	(2.7)
Income statement credit	0.7	0.1
At 31 December	(1.9)	(2.6)

16 Unit-linked liabilities and assets backing unit-linked liabilities

The Group operates a unit-linked life assurance business through the wholly-owned subsidiary, Schroder Pension Management Limited (referred to as the Life Company). The Life Company provides investment products through a life assurance wrapper. The investment products do not provide cover for any insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities due to Life Company investors (policyholders) within unit-linked liabilities.

The investment product is almost identical to that of a unit trust. The Group earns revenue from managing the investment, but because it is a life assurance product, the Group has to include the assets under management on its statement of financial position together with the liability to investors.

Assets held to cover unit-linked liabilities represent financial assets and include investments in authorised unit trusts, other financial assets and cash. All assets (excluding financial assets not at fair value such as cash and accrued income which are held at amortised cost) are held at fair value through profit or loss, and are held to cover investor obligations.

Where the Life Company has a controlling interest in an authorised unit trust (AUT), the AUT is consolidated. The net assets attributable to third party investors in the authorised unit trust are included in unit-linked liabilities.

The direct investment portfolio and the consolidated authorised unit trusts may include financial liabilities such as derivative contracts. These financial liabilities are included in unit-linked liabilities. Unit-linked liabilities are designated as fair value through profit or loss except for derivative contracts which are held for trading.

Gains and losses from assets and liabilities held to cover investor obligations are attributable to investors in the Life Company or third party investors in the consolidated authorised unit trust. As a result, any gain or loss is offset by a change in the obligation to investors. Fees earned by the Group are included in net revenue.

The Life Company's assets are regarded as current assets as they represent the amount available to unit-linked policyholders (or third party investors in authorised unit trusts) who are able to withdraw their funds on call, subject to certain restrictions in the case of illiquidity.

Notes to the accounts

16 Unit-linked liabilities and assets backing unit-linked liabilities continued

Unit-linked liabilities comprise:

	2012 £m	2011 £m
Financial liabilities due to Life Company investors	8,384.1	7,826.6
Financial liabilities due to third party investors*	962.2	818.6
	9,346.3	8,645.2

* Such liabilities arise in respect of assets controlled by the Group that are beneficially owned by third parties.

The Group has no exposure to market risk, credit risk or liquidity risk in relation to the investments of the Life Company as the risks and rewards associated with its investments are normally borne by the investors in the Life Company's investment products or third party investors in the consolidated authorised unit trusts and not by the Life Company itself.

Fair value measurements of Life Company financial assets and liabilities

The Group holds financial assets and liabilities in respect of the Life Company that are measured at fair value. Other balances include cash and receivables, which are measured at amortised cost. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 11.

The Life Company's financial instruments at the year-end date are analysed as follows:

	2012				
	Level 1 £m	Level 2 £m	Level 3 £m	Financial assets and liabilities not at fair value £m	Total £m
Assets backing unit-linked liabilities	8,038.0	274.7	170.7	862.9	9,346.3
Unit-linked liabilities	9,326.0	16.3	–	4.0	9,346.3

	2011				
	Level 1 £m	Level 2 £m	Level 3 £m	Financial assets and liabilities not at fair value £m	Total £m
Assets backing unit-linked liabilities	7,710.7	144.7	83.1	706.7	8,645.2
Unit-linked liabilities	8,554.7	68.3	–	22.2	8,645.2

The types of instruments found in each of the above levels for the Life Company are the same as those listed for the non-life company instruments in note 11.

Movements in financial assets categorised as Level 3 during the year were:

	2012 £m	2011 £m
At 1 January	83.1	87.3
Exchange translation adjustments	–	0.1
Total gains recognised in the income statement	6.8	3.9
Additions	122.1	6.9
Disposals	(41.3)	(15.1)
At 31 December	170.7	83.1

Notes to the accounts

17 Trade and other payables

Trade and other payables (excluding deferred income) represent amounts the Group is due to pay to third parties in the normal course of business. These include expense accruals as well as settlement accounts (amounts due to be paid for transactions undertaken). Trade creditors are costs that have been billed; accruals represent costs, including remuneration, that are not yet billed or due for payment. Trade and other payables held at fair value comprise deferred cash awards (deferred employee remuneration payable in cash) and bullion deposits by customers.

Trade payables, other than deferred cash awards (see note 5) and bullion deposits by customers, are recorded initially at fair value and subsequently at amortised cost. Deferred cash awards and bullion deposits by customers are recorded at fair value.

	2012			2011		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Trade and other payables at amortised cost:						
Settlement accounts	–	89.6	89.6	–	84.0	84.0
Trade creditors	–	11.5	11.5	–	22.7	22.7
Social security	17.1	30.6	47.7	13.5	31.8	45.3
Accruals and deferred income	9.0	280.0	289.0	11.8	288.3	300.1
Other payables	5.4	15.0	20.4	5.9	16.1	22.0
	31.5	426.7	458.2	31.2	442.9	474.1
Trade and other payables at fair value:						
Deferred cash awards	42.1	20.9	63.0	33.2	19.0	52.2
Bullion deposits by customers	–	38.1	38.1	–	54.6	54.6
	42.1	59.0	101.1	33.2	73.6	106.8
	73.6	485.7	559.3	64.4	516.5	580.9

The Group's trade and other payables contractually mature in the following time periods:

	2012 £m	2011 £m
Less than 1 year*	485.7	516.5
1 – 2 years	36.6	44.4
2 – 5 years	32.7	16.5
More than 5 years	4.3	3.5
	73.6	64.4
	559.3	580.9

* Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 22 (2011: 35) working days.

18 Financial liabilities

The Group's financial liabilities principally comprise deposits by Private Banking customers and banking counterparties. They also include derivatives held for customer facilitation in Private Banking (see note 21), interest rate matching in Private Banking, and the hedging of risk exposures within investment capital. Customer accounts (other than those that are economically hedged for interest rate risk) and deposits by banks are recorded at the amount deposited; other financial liabilities (together with economically hedged customer accounts) are recorded at the fair value of the liability. The fair value measurements section below reflects the level of judgement involved in determining fair value although this does not necessarily indicate that the fair value is more or less likely to equal the actual settlement cost. Liabilities arise from time to time in respect of consolidated funds (consolidation normally occurs when the Group's investment stake in a fund exceeds 50 per cent. and frequently occurs in respect of seed capital investments). When this happens, the Group has to account for the fund in its statement of financial position as if it were wholly-owned by the Group, but record an additional liability representing the fair value of the proportion of the fund owned by third party investors. This can also occur through investment by the Life Company but those third party investors are included in unit-linked liabilities (see note 16).

Customer accounts and deposits by banks are initially recognised at fair value. After initial recognition, where the liabilities are not economically hedged, they are accounted for at amortised cost using the effective interest method; where the liabilities are economically hedged, they are recorded at fair value through profit or loss to avoid an accounting mismatch.

All other financial liabilities are held at fair value through profit or loss and held for trading. Gains and losses on derivative contracts, certain deposits held at fair value and liabilities of consolidated funds are recognised within net gains on financial instruments and other income in the income statement.

Notes to the accounts

18 Financial liabilities continued

	2012			2011		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Customer accounts	319.5	2,166.4	2,485.9	395.9	2,065.8	2,461.7
Deposits by banks	–	26.1	26.1	–	123.8	123.8
Derivative contracts (see note 21)	8.0	18.7	26.7	15.4	28.0	43.4
Financial liabilities held at fair value through profit or loss	22.0	24.4	46.4	–	13.2	13.2
	349.5	2,235.6	2,585.1	411.3	2,230.8	2,642.1

£3.0 million (2011: £5.4 million) was held in customer accounts on behalf of related parties. All amounts were payable to key management personnel.

Maturity profiles of customer accounts and deposits by banks and of derivative contracts can be found in notes 20 and 21 respectively.

Fair value measurements

The Group holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 11.

The Group's financial liabilities carried at fair value (excluding those held in the Life Company – see note 16) at the year-end date are analysed as follows:

	2012		
	Level 1 £m	Level 2 £m	Total £m
Non-current financial liabilities:			
Derivative contracts	–	8.0	8.0
Other financial liabilities held at fair value through profit or loss	–	22.0	22.0
	–	30.0	30.0
Current financial liabilities:			
Derivative contracts	1.0	17.7	18.7
Other financial liabilities held at fair value through profit or loss	16.6	7.8	24.4
	17.6	25.5	43.1
	17.6	55.5	73.1

	2011		
	Level 1 £m	Level 2 £m	Total £m
Non-current financial liabilities:			
Derivative contracts	–	15.4	15.4
Current financial liabilities:			
Derivative contracts	1.3	26.7	28.0
Other financial liabilities held at fair value through profit or loss	13.2	–	13.2
	14.5	26.7	41.2
	14.5	42.1	56.6

Notes to the accounts

19 Provisions and contingent liabilities

Provisions are liabilities where there is uncertainty over the timing of settlement or amount and therefore usually require the use of estimates. Any differences between those estimates and the amounts for which the Group actually becomes liable are taken to the income statement as additional charges where the Group has underestimated and credits where the Group has overestimated. Where the estimated timing and settlement is longer term the amount is discounted using a rate reflecting specific risks associated with the provision.

Contingent liabilities are potential liabilities where there is even greater uncertainty but a reasonable possibility that they will crystallise. Contingent liabilities are only disclosed and not included within the statement of financial position.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the existence of an obligation is possible, dependent on uncertain events not wholly within the control of the Group, or a present obligation cannot be measured reliably, or it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the Group discloses a contingent liability but does not record a provision.

For onerous lease provisions or other longer-term provisions, where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(a) Provisions

	Dilapidations and onerous leases £m	Legal and regulatory £m	Total £m
At 1 January 2012	26.7	26.0	52.7
Exchange translation adjustments	(0.2)	–	(0.2)
Transfer from accruals	0.8	1.8	2.6
Provisions utilised	(3.5)	(4.8)	(8.3)
Additional provisions charged in the year	1.5	33.4	34.9
Unused amounts reversed in the year	(13.2)	(4.5)	(17.7)
At 31 December 2012	12.1	51.9	64.0
Current – 2012	2.1	51.4	53.5
Non-current – 2012	10.0	0.5	10.5
	12.1	51.9	64.0
Current – 2011	2.6	26.0	28.6
Non-current – 2011	24.1	–	24.1
	26.7	26.0	52.7

The Group's provisions are expected to mature in the following time periods:

	2012 £m	2011 £m
Less than 1 year	53.5	28.6
1 – 2 years	3.1	3.5
2 – 3 years	2.4	12.3
3 – 4 years	0.9	6.3
4 – 5 years	0.8	0.9
More than 5 years	3.3	1.1
	10.5	24.1
	64.0	52.7

The provision for dilapidations and onerous leases covers lease commitments with an average maturity of 4.4 years (2011: 4.5 years). Legal and regulatory obligations associated with the Group's business arise from past events that are presumed to crystallise mainly within one year (2011: one year). Provisions in respect of actual and potential claims at 31 December 2012 arise from the application of legal terms in respect of client mandates and other potential obligations. These cases are subject to ongoing discussions. During the year, the Group has also recorded an external insurance asset of £19.6 million which is an estimate of the recognisable recovery and is recorded in trade and other receivables. The insurance recovery is considered to be virtually certain.

19 Provisions and contingent liabilities continued
(b) Contingent liabilities

	2012 £m	2011 £m
Assets pledged as collateral security	38.6	55.7
Guarantees and irrevocable letters of credit	37.0	44.1
	75.6	99.8

Transactions giving rise to contingent liabilities are in Private Banking and are only entered into by the Group once it has received sufficient high-quality collateral from the client. The collateral may be in the form of cash, fiduciary deposits or securities held by Private Banking but may also include charges over property or third party guarantees.

Estimates and uncertainties

The timing and amount of settlement of each legal claim or potential claim and constructive obligation is uncertain. The Group has performed an assessment of the timing and amount and periodically reviews this assessment. For certain provisions, including the provision for onerous leases, there is greater certainty as the cash flows have largely been determined. However, the onerous lease provision also includes an assessment of potential cash inflows (where these are not contractually binding) from sub-letting arrangements. Potential legal claims and regulatory related costs arise as a consequence of normal business activity. They can arise from actual or alleged breaches of obligations and may be covered by the Group's insurance arrangements, but subject to insurance excess. Our risk management and compliance procedures are designed to mitigate, but are not able to eliminate, the risk of losses occurring. Where such claims and costs arise there is often uncertainty over whether a payment will be required and the quantum and timing of that payment. As a result there is also uncertainty over the timing and amount of the insurance recovery although this does not reduce the likelihood of insurance cover being available. In addition, the actual insurance recovery may vary as a proportion of the actual cost of settlement. The Group makes periodic assessment of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. Some matters may be settled through commercial negotiation as well as being covered by the Group's insurance arrangements. The Group has made provisions based on a reasonable expectation of likely outflows. However, the results of negotiations and insurance cover may result in different outcomes.

20 Financial instrument risk management

As a result of its operations, the Group is exposed to multiple forms of risk including: (i) the risk that money owed to the Group will not be received (credit risk); (ii) the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (liquidity risk); and (iii) the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (market risk). The management of such risks is embedded in managerial responsibilities fundamental to the well-being of the Group. This note sets out the nature of the risks and their quantification and management.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined on the basis of a percentage of assets under management and are therefore impacted by financial instrument risk exposure of our clients – the secondary exposure. This note deals with the primary exposure only.

Financial instruments give rise to market, liquidity and credit risk exposures. Settlement of financial instruments (on both a principal and agency basis) gives rise to operational risk. The execution and effectiveness of the Group's risk management process is, therefore, critical to its soundness and profitability and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Group's senior management. The Audit and Risk Committee provide oversight and the Risk and Compliance functions are responsible for monitoring the overall risk environment. The Group has established a control environment that ensures risks are reviewed regularly and that all risk controls operating throughout the Group are in accordance with regulatory requirements. In addition, an independent assessment of the risk management process and the fundamental risk assumptions is provided by Internal Audit.

The Life Company provides investment products through a life assurance wrapper. The financial risks of these products are largely borne by the third party investors, consistent with other investment products managed by the Group. However, since the Life Company provides the investment products, both the investments and the third party obligations are recorded in the statement of financial position. Financial instrument risk management in respect of the Life Company is set out in note 16.

Notes to the accounts

20 Financial instrument risk management continued

(a) Capital

Total capital comprises:

	2012 £m	2011 £m
Regulatory capital	539.0	501.0
Other operational capital	417.9	382.6
Operational capital	956.9	883.6
Investment capital	926.0	837.2
Other capital	187.0	180.8
Total capital	2,069.9	1,901.6

(i) Operational capital

Operational capital is the capital required to meet the Group's regulatory and working capital requirements. The Group holds a surplus of capital over the regulatory capital requirements and, where this is surplus to immediate working capital requirements, it is managed by Group Treasury and in-house fund managers.

Recognised regulatory bodies, such as the FSA in the UK, oversee the activities of many of the Group's operating subsidiaries and impose minimum capital requirements on the subsidiaries. The Group's policy is for subsidiaries to have sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. The Group Capital Committee reviews compliance with this policy.

Schroders plc is regulated by the FSA as a UK consolidated group. Its last submitted capital resources, using the calculation of capital resources required for a Group holding a banking licence, amounted to £1,547 million (2011: £1,373 million) and Pillar 1 minimum capital requirements of £316 million (2011: £293 million).

The Internal Capital Adequacy Assessment Process (ICAAP) carried out in 2012 under Pillar 2, concluded that £471 million (2011: £428 million) capital should be retained in order to be able to meet an unexpected one-year loss with a confidence level of 99.5 per cent.

All regulated entities within the Group complied at all times with all of the externally imposed regulatory capital requirements.

(ii) Investment capital

Investment capital is the capital that is not required for the regulatory and working capital requirements of the business. It is invested in the following principal areas:
– Cash
– Government bonds and bills
– Debt securities
– Currency
– Commodities
– Private equity
– Seed capital

Investment capital is used to seed new investment strategies, co-invest selectively alongside our clients and finance organic and inorganic growth opportunities. Seed capital is deployed principally to support the growth of the Asset Management business. Investment capital is deployed in accordance with limits approved by the Board.

Investment capital is also held to support the organic development of existing and new business strategies that fit with the existing asset management franchise and to respond to other investment and growth opportunities, as they arise, such as acquisitions that will accelerate the development of the business.

(iii) Other capital

Other capital comprises goodwill, other acquired intangible assets (excluding software) and the surplus on the UK defined benefit pension scheme.

Notes to the accounts

20 Financial instrument risk management continued

The categorisation of the Group's assets and liabilities (the difference between which represents Capital) analysed by accounting treatment is summarised below:

2012	Loans and receivables/ liabilities at amortised cost £m	Held to maturity £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated as at fair value through profit or loss £m	Available-for-sale £m	Non-financial instruments and other £m	Total £m
Assets							
Cash and cash equivalents	2,542.8	–	–	–	–	–	2,542.8
Trade and other receivables	349.0	–	–	–	–	65.7	414.7
Financial assets	898.4	117.7	686.3	33.0	284.4	–	2,019.8
Associates and joint ventures	–	–	–	–	–	79.4	79.4
Property, plant and equipment	–	–	–	–	–	15.0	15.0
Goodwill and intangible assets	–	–	–	–	–	142.1	142.1
Deferred tax	–	–	–	–	–	47.8	47.8
Retirement benefit scheme assets	–	–	–	–	–	67.2	67.2
Assets backing unit-linked liabilities	862.9	–	–	8,483.4	–	–	9,346.3
Total assets	**4,653.1**	**117.7**	**686.3**	**8,516.4**	**284.4**	**417.2**	**14,675.1**
Liabilities							
Trade and other payables	458.2	–	–	63.0	–	38.1	559.3
Financial liabilities	2,512.0	–	26.7	46.4	–	–	2,585.1
Current tax	–	–	–	–	–	40.8	40.8
Provisions	64.0	–	–	–	–	–	64.0
Deferred tax	–	–	–	–	–	1.9	1.9
Retirement benefit scheme deficits	–	–	–	–	–	7.8	7.8
Unit-linked liabilities	4.0	–	–	9,342.3	–	–	9,346.3
Total liabilities	**3,038.2**	**–**	**26.7**	**9,451.7**	**–**	**88.6**	**12,605.2**
Capital							**2,069.9**

2011	Loans and receivables/ liabilities at amortised cost £m	Held to maturity £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated as at fair value through profit or loss £m	Available-for-sale £m	Non-financial instruments and other £m	Total £m
Assets							
Cash and cash equivalents	2,338.7	–	–	–	–	–	2,338.7
Trade and other receivables	325.6	–	–	–	–	85.6	411.2
Financial assets	1,167.8	129.2	694.8	–	173.4	–	2,165.2
Associates and joint ventures	–	–	–	–	–	58.4	58.4
Property, plant and equipment	–	–	–	–	–	16.2	16.2
Goodwill and intangible assets	–	–	–	–	–	144.1	144.1
Deferred tax	–	–	–	–	–	50.1	50.1
Retirement benefit scheme assets	–	–	–	–	–	55.7	55.7
Assets backing unit-linked liabilities	706.7	–	–	7,938.5	–	–	8,645.2
Total assets	**4,538.8**	**129.2**	**694.8**	**7,938.5**	**173.4**	**410.1**	**13,884.8**
Liabilities							
Trade and other payables	474.1	–	–	52.2	–	54.6	580.9
Financial liabilities	2,585.5	–	43.4	13.2	–	–	2,642.1
Current tax	–	–	–	–	–	51.8	51.8
Provisions	52.7	–	–	–	–	–	52.7
Deferred tax	–	–	–	–	–	2.6	2.6
Retirement benefit scheme deficits	–	–	–	–	–	7.9	7.9
Unit-linked liabilities	22.2	–	–	8,623.0	–	–	8,645.2
Total liabilities	**3,134.5**	**–**	**43.4**	**8,688.4**	**–**	**116.9**	**11,983.2**
Capital							**1,901.6**

20 Financial instrument risk management continued
(b) Credit risk, liquidity risk and market risk (the main components of which are pricing, interest rate and foreign exchange risks)
(i) Credit risk

Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge an obligation. For this purpose, the impact on fair value of a credit loss arising from credit spread price changes in a portfolio of investments is excluded. This risk is addressed within Pricing Risk below.

The Group has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Group carefully manages its exposure to credit risk by approving lending policies including types of acceptable collateral and minimum lending margins, setting limits for individuals' exposures and sectors and by taking security. The Group's maximum exposure to credit risk is represented by the carrying value of its financial assets. In addition the Group holds collateral on its loans and advances to customers and certain derivative positions.

A breakdown of the Group's relevant financial assets by credit rating is set out below:

	Cash and cash equivalents		Debt securities at amortised cost		Debt securities at fair value	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Credit rating*:						
AAA	848.0	697.8	63.2	120.9	210.1	208.8
AA+	63.0	30.9	–	–	1.9	2.9
AA	64.7	270.3	2.5	26.7	5.9	1.0
AA-	321.0	358.9	39.9	12.9	60.0	1.2
A+	456.5	410.7	19.0	148.8	94.2	0.8
A	567.9	536.5	176.0	142.2	61.3	50.8
A-	205.7	18.5	–	33.5	40.1	2.6
Not rated	16.0	15.1	–	–	110.0	53.2
	2,542.8	2,338.7	300.6	485.0	583.5	321.3

* Provided by rating agencies.

As at 31 December 2012 the Group held £93.3 million of UK government issued bonds. On 22 February 2013, Moody's downgraded the UK government bond rating from Aaa to Aa1 (the equivalent of AA+ in the above table).

Private Banking activities

All individual facility requests are presented to the relevant Private Banking credit committees and counterparty exposures against limits are monitored daily. Loans and advances to customers are secured on a range of assets including property (both residential and commercial), cash, client portfolios and insurance policies. It is the policy of Private Banking not to advance client facilities on an unsecured basis.

Portfolios held as collateral are marked to market daily and positions compared to customer loans. Limits are set for the reduction in market value of each type of collateral, depending on the perceived risk associated with the collateral. Clients are contacted if these limits are breached so that action can be taken before the outstanding loan balances exceed the fair value of the collateral.

The amount of change in the year, and cumulatively, in the fair value of loans and receivables held at fair value through profit or loss that is attributable to changes in credit risk is £5.6 million.

Private Banking takes a conservative approach to its treasury investments placing them with, or purchasing debt securities issued by, UK and overseas banks, central banks, supranational banks and sovereigns.

Debt securities held within the Private Banking treasury book are classified as loans and receivables or as held to maturity financial assets and are unsecured. Policies covering various counterparty and market risk limits are set by the relevant Private Banking asset and liability management and credit committees and monitored daily. All instruments held within Private Banking are rated A- or better investment grade.

Other activities

Fee debtors and other receivables arise as a result of the Group's Asset Management activities and amounts are monitored regularly. Historically, default levels have been insignificant, and, unless a client has withdrawn funds, there is an ongoing relationship between the Group and the client. Although the Group usually manages client funds 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.

Fee debtors past due but not yet impaired as at 31 December 2012 were £12.6 million (2011: £36.2 million).

Notes to the accounts

20 Financial instrument risk management continued

The Group seeks to minimise its exposure to credit risk arising from debt securities and derivatives within the investment portfolio by adopting a conservative approach to investing. Within the cash and government bond portfolios, deposits are placed with well-rated banks that have been approved and which are continuously monitored by Group Risk. Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.

The Group's cash and cash equivalents in the non-Private Banking entities are invested primarily in current accounts and on deposit with well-rated UK and overseas banks.

(ii) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost.

Private Banking activities

The principal liquidity risk the Group faces concerns its Private Banking liabilities. The liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency in the Group's private banks.

The contractual maturity of Private Banking financial assets and liabilities is set out below:

	2012						
	Less than 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Assets							
Cash	1,745.3	–	–	–	–	–	1,745.3
Loans and advances to customers[1]	276.0	88.0	106.4	48.8	167.7	20.3	707.2
Debt securities	329.2	26.3	–	–	–	–	355.5
Other financial assets	17.1	3.2	0.2	0.2	–	1.4	22.1
Total financial assets	2,367.6	117.5	106.6	49.0	167.7	21.7	2,830.1
Liabilities							
Customer accounts	2,166.4	66.2	57.3	26.9	3.1	166.0	2,485.9
Deposits by banks	26.1	–	–	–	–	–	26.1
Other financial liabilities[2]	24.5	9.1	7.6	1.2	–	12.1	54.5
Total financial liabilities	2,217.0	75.3	64.9	28.1	3.1	178.1	2,566.5
Cumulative gap	**150.6**	**192.8**	**234.5**	**255.4**	**420.0**	**263.6**	**263.6**

1 Includes loans and advances to customers held at fair value through profit or loss of £33.0 million.
2 Includes customer accounts held at fair value through profit or loss of £29.8 million.

	2011						
	Less than 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Assets							
Cash	1,531.5	–	–	–	–	–	1,531.5
Loans and advances to customers	280.0	75.9	102.7	88.5	47.5	198.8	793.4
Debt securities	529.9	–	–	–	–	–	529.9
Other financial assets	29.4	5.9	3.2	0.3	0.6	1.7	41.1
Total financial assets	2,370.8	81.8	105.9	88.8	48.1	200.5	2,895.9
Liabilities							
Customer accounts	2,065.8	60.1	55.5	60.9	26.7	192.7	2,461.7
Deposits by banks	123.8	–	–	–	–	–	123.8
Other financial liabilities	24.5	6.1	3.3	4.1	1.6	0.3	39.9
Total financial liabilities	2,214.1	66.2	58.8	65.0	28.3	193.0	2,625.4
Cumulative gap	**156.7**	**172.3**	**219.4**	**243.2**	**263.0**	**270.5**	**270.5**

Other activities

Liquidity risk in the rest of the Group is low. Excluding the Life Company, the Asset Management and Group segment together hold cash of £797.5 million (2011: £807.2 million). The Group's policy is that its subsidiaries should trade solvently and have adequate liquidity for all activities undertaken in the normal course of business. In particular, all companies should maintain sufficient liquid funds to meet peak working capital requirements. Financial liabilities relating to other operating activities are £18.6 million (2011: £16.7 million), all of which are current.

20 Financial instrument risk management continued

The Group has a committed loan facility of £250.0 million (2011: £250.0 million). The facility expires on 23 September 2013.

(iii) Market risk

Pricing risk

Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

In respect of financial instrument risk, the Group's exposure to pricing risk is principally through investments held in investment capital as well as some investments held for regulatory capital. However, the more significant risk is the impact on the Group's fee income as this is principally determined on percentages of the fair value of assets under management. This risk cannot be easily mitigated but is addressed to some extent by ongoing net new business.

The Group does not hedge exposure to price risk except in respect of seed capital and employee compensation awards in the form of fund awards when it is considered that the amount of risk is material and an effective hedge is available.

The sensitivities to market risk are estimated as follows:

		31 December 2012			31 December 2011		
Variable[1]		**A reasonable change in the variable within the next calendar year %**	**Increase/ (decrease) in post-tax profit £m**	**Increase/ (decrease) in other components of equity £m**	A reasonable change in the variable within the next calendar year %	Increase/ (decrease) in post-tax profit £m	Increase/ (decrease) in other components of equity £m
Interest rates[2]	– increase	0.5	4	–	0.5	3	–
	– decrease	–	–	–	–	–	–
US dollar against Sterling	– strengthen	8	3	18	10	2	14
	– weaken	(6)	(2)	(12)	(8)	(2)	(9)
Euro against Sterling	– strengthen	5	5	6	8	10	6
	– weaken	(8)	(7)	(8)	(12)	(12)	(8)
FTSE All Share Index[3]	– increase	20	–	6	20	1	13
	– decrease	(20)	–	(6)	(20)	(1)	(13)

[1] The underlying assumption is that there is one variable increase/decrease with all other variables held constant.
[2] Assumes that the fair values of assets and liabilities will not be affected by a change in interest rates.
[3] Assumes that changes in the FTSE All Share Index correlate to changes in the fair value of the Group's equity funds.

Interest rate risk

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

Private Banking activities

In Private Banking, interest rate risk is monitored against policies and limits set by the relevant risk committee on a daily basis.

Private Banking's treasury policy is to manage its interest rate risk by matching funded asset positions and the use of interest rate swaps.

Within Private Banking, there are sensitivity-based and stress-based models used for monitoring interest rate risk. These involve assessing the impact on the Group's net worth against a prescribed basis point rise in interest rates with extreme scenarios for the stress tests. The impact is calculated regularly for each currency and in aggregate.

Other activities

Cash held by the other operating companies is not normally expected to be placed on deposit for longer than three months.

The Group's capital includes investments in government bonds managed by the Group's fixed income fund managers. These investments are concentrated in UK issues. Government bonds issued by selected AAA-rated countries can also be held. The fund managers may reduce the average duration with the use of futures contracts at their discretion.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

20 Financial instrument risk management continued

Private Banking activities

In Private Banking, some loans and advances to clients, as well as a proportion of the treasury activities, are undertaken in foreign currencies; however, this is managed on a daily basis to reduce currency exposures to low levels. Limits regarding the amount of foreign currency risk are set by the relevant risk committee and monitored daily.

As a result of the low level of currency mismatch, the FSA's 'Basic Methodology' for calculating the Pillar 1 exposure is appropriate and is used.

Other activities

The Group's policy in relation to revenue, expenditure and capital currency exposure relating to Asset Management activities is generally not to hedge, as the Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered part of the business.

The Group also has exposure to foreign currency through investments in a currency other than Sterling. The Group uses forward foreign exchange contracts with third parties to mitigate this exposure to currency movements. The gain or loss on the hedging instruments is included in the statement of other comprehensive income or the income statement as appropriate. The use of such instruments is subject to the approval of the Group Capital Committee.

The Group's gross and net exposures to foreign currencies is set out below:

	2012			2011		
	Gross exposure £m	Hedged £m	Net exposure £m	Gross exposure £m	Hedged £m	Net exposure £m
US dollar	331	(122)	209	354	(230)	124
Euro	158	(59)	99	163	(71)	92
Swiss franc	141	–	141	150	–	150
Australian dollar	37	–	37	22	–	22
Hong Kong dollar	41	–	41	25	–	25
Japanese yen	30	(5)	25	20	(5)	15
Other	147	(13)	134	105	(23)	82
Total currency exposures	885	(199)	686	839	(329)	510
Sterling	1,185	199	1,384	1,063	329	1,392
	2,070	–	2,070	1,902	–	1,902

21 Derivative contracts
(a) The Group's use of derivatives

The Group holds derivatives for risk management, to assist its Private Banking customers who wish to buy or sell derivative instruments (customer facilitation) and, to a limited extent, within its investment portfolios to provide exposure to market returns. The Group most commonly uses forward foreign exchange contracts where it agrees to buy or sell specified amounts of a named currency at a future date, allowing the Group effectively to fix exchange rates so that it can avoid unpredictable gains and losses on receivables and payables in foreign currencies. The Group uses equity contracts to hedge market-related gains and losses on its seed capital investments where the purpose of investing is to establish a new product rather than gain additional market exposure. Equity contracts are also used as a hedge against liabilities relating to remuneration that is deferred and settled in the form of fund awards. Interest rate contracts are used to hedge exposures to fixed or floating rates of interest.

Risk management: the Group actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Group. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By entering into derivative contracts, the Group is able to mitigate or eliminate such exposures. The principal financial instrument risk the Group faces through such use of derivative contracts is credit risk.

Customer facilitation: The Group's Private Banking entities are involved in providing portfolio management, banking and investment advisory services, primarily to private clients. In carrying out this business they transact as agent and as principal in financial assets and liabilities in order to meet customer facilitation requirements. Private Banking's policy is to hedge, as appropriate, exchange rate and interest rate risk on its customer facilitation positions. This hedging of equal and opposite risks seeks to mitigate market risk, but does not eliminate the possibility of credit risk.

For details of how the Group manages its exposure to credit risk, see (b) on the following page and note 20.

21 Derivative contracts continued
(b) The derivatives used by the Group

Currency forwards represent commitments to sell or purchase foreign and domestic currency. Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

Currency and *interest rate swaps* are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

Foreign exchange, equity and *interest rate options* are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser and assumes foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer or market counterparty. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices, foreign exchange rates and other relevant variables relative to their terms. The aggregate contractual amount of derivative financial instruments held, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values are set out below:

	2012		2011	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate contracts	1.9	(5.1)	3.0	(6.6)
Forward foreign exchange contracts	13.8	(9.7)	24.1	(17.9)
Equity contracts	14.3	(11.9)	18.4	(18.9)
	30.0	(26.7)	45.5	(43.4)

	2012		2011	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Net-settled derivative contracts[1] maturing/repricing[2] in:				
Less than 1 year	11.3	(9.0)	9.6	(10.1)
1 – 3 years	3.3	(6.7)	9.2	(9.4)
3 – 5 years	0.2	(1.2)	0.9	(5.7)
More than 5 years	1.4	(0.1)	1.7	(0.3)
	16.2	(17.0)	21.4	(25.5)
Gross-settled derivatives[3] maturing/repricing[2] in:				
Less than 1 year:				
Gross inflows	752.7	605.7	769.3	160.4
Gross outflows	(745.0)	(606.9)	(765.6)	(162.6)
Difference between future contractual cash flows and fair value	6.1	(8.5)	20.4	(15.7)
	13.8	(9.7)	24.1	(17.9)
	30.0	(26.7)	45.5	(43.4)

1 Comprises interest rate and equity contracts.
2 Whichever is earlier.
3 Comprises forward exchange contracts.

Notes to the accounts

22 Share capital and share premium

Share capital represents the number of issued ordinary and non-voting ordinary shares in Schroders plc multiplied by their par value of £1 each. Share premium substantially represents the aggregate of all amounts that have ever been paid above par value to Schroders plc when it has issued ordinary and non-voting ordinary shares. There are certain circumstances in which the share premium can be reduced but these have not arisen in 2012 or 2011. The Company has no authority to issue or cancel the number of ordinary shares in issue (including those held in trust) and has authority limited by shareholder resolution to issue and purchase non-voting ordinary shares, which may either be cancelled or held in treasury.

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2012	282.5	226.0	56.5	282.5	87.8
Shares issued	0.5	–	0.5	0.5	2.3
Shares cancelled	(0.5)	–	(0.5)	(0.5)	–
At 31 December 2012	282.5	226.0	56.5	282.5	90.1

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2011	290.4	226.0	64.4	290.4	84.7
Shares issued	0.5	–	0.5	0.5	3.1
Shares cancelled	(8.4)	–	(8.4)	(8.4)	–
At 31 December 2011	282.5	226.0	56.5	282.5	87.8

	2012 Millions	2011 Millions
Issued and fully paid:		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.5
	282.5	282.5

The difference between the share classes

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 the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

Details of shares held in treasury are included in note 23.

During the year 0.5 million non-voting ordinary shares were cancelled, all of which had previously been held in treasury.

Notes to the accounts

23 Own shares

Own shares are recorded by the Group when the Group itself owns shares in Schroders plc either directly or through employee benefit trusts. There are two main reasons why this may happen. First, it enables the Group to meet share-based remuneration awards to employees in the form of shares (see note 27) in a way that does not dilute the holdings of existing shareholders. Second, the Group may wish to hold some of its shares in treasury to settle option exercises or for other permitted purposes. The purchase of its own shares reduces the Group's net assets by the amount spent.

Own shares include the Group's shares (both ordinary and non-voting ordinary) that are held by employee trusts or in treasury.

Own shares are recorded at cost. When shares vest unconditionally or are cancelled they are transferred from own shares to the profit and loss reserve at their weighted average cost.

Movements during the year were as follows:

	2012 £m	2011 £m
At 1 January	(172.5)	(199.1)
Own shares purchased	(41.7)	(101.4)
Cancellations of own shares held in treasury*	5.6	75.3
Awards vested*	43.5	52.7
At 31 December	(165.1)	(172.5)

* Own shares balances are transferred to the profit and loss reserve insofar as they relate to treasury shares that have been cancelled or share-based payments that have vested.

Own shares held by the Group comprise:

	2012			2011		
	Number of vested shares Millions	**Number of unvested shares Millions**	**Total Millions**	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares held within trusts	3.0	11.6	14.6	2.4	12.3	14.7
Non-voting ordinary shares held within trusts	0.6	0.2	0.8	0.6	0.1	0.7
Non-voting ordinary shares held as treasury shares*	–	0.1	0.1	–	0.6	0.6
	3.6	11.9	15.5	3.0	13.0	16.0

	2012			2011		
	Vested shares £m	**Unvested shares £m**	**Total £m**	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares held within trusts:						
Cost	39.1	162.4	201.5	28.7	164.4	193.1
Fair value	49.8	197.5	247.3	31.8	161.4	193.2
Non-voting ordinary shares held within trusts:						
Cost	6.3	1.8	8.1	6.6	1.6	8.2
Fair value	8.3	2.0	10.3	6.9	1.4	8.3
Non-voting ordinary shares held as treasury shares*:						
Cost	–	0.9	0.9	–	6.5	6.5
Fair value	–	1.1	1.1	–	6.0	6.0
Total:						
Cost	45.4	165.1	210.5	35.3	172.5	207.8
Fair value	58.1	200.6	258.7	38.7	168.8	207.5

* Non-voting ordinary shares held as treasury shares do not vest but are included in unvested shares for presentational purposes only.

During the year 0.5 million non-voting ordinary shares held within treasury were cancelled.

Notes to the accounts

24 Reconciliation of net cash from operating activities

This note should be read in conjunction with the cash flow statement. It provides a reconciliation to show how the Group's operating profit, which is based on accounting rules, translates to cash flows.

	2012 £m	2011 £m
Operating profit	343.7	390.8
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	12.0	14.1
Net (gains)/losses and impairments taken through the income statement on financial instruments	(22.0)	3.2
Share-based payments	45.3	42.7
Charge for provisions net of releases	17.2	11.3
Other non-cash movements	4.0	(7.6)
	56.5	63.7
Adjustments for other income statement cash movements:		
Payments made to defined benefit pension schemes	–	(3.1)
Adjustments for statement of financial position movements:		
Decrease in trade and other receivables	82.5	61.9
(Decrease)/increase in trade and other payables and provisions	(58.5)	26.3
	24.0	88.2
Adjustments for Life Company movements:		
Net purchase of assets backing unit-linked liabilities	(554.2)	(405.9)
Net increase in unit-linked liabilities	701.1	371.8
	146.9	(34.1)
Tax paid	(81.6)	(78.5)
Interest paid	(0.3)	(0.2)
Net cash from operating activities	489.2	426.8

25 Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties. This gives an indication of committed future cash flows. Commitments at the year end do not impact on the Group's financial results for the year.

The Group leases office space and equipment in the jurisdictions in which it operates. Lease agreements can commit the Group to significant future expenditure. The table below discloses the Group's commitments to make such payments. Such commitments are not recorded on the Group's statement of financial position in advance of the period to which they relate.

The Group sublets a small number of its leased properties where such properties, or parts of such properties, are no longer required for use by the Group. The table below discloses the commitments sub-lessors have made to the Group in respect of such arrangements. These commitments are not recorded on the Group's statement of financial position in advance of the period to which they relate. However, they may be used to determine the onerous lease provision if the rental income does not equal or exceed the Group's own rental obligation (see note 19). Rental income for each year is recorded in the income statement as it is earned.

	2012			
	Expiring in less than 1 year £m	Expiring in 1-5 years £m	Expiring in more than 5 years £m	Total £m
Operating leases as lessee	33.5	90.7	79.5	203.7
Undrawn loan facilities	7.5	4.3	–	11.8
Investment call commitments	28.1	–	–	28.1
Total commitments	69.1	95.0	79.5	243.6
Operating leases receivable as lessor	(3.7)	(9.3)	–	(13.0)
Net commitments payable	65.4	85.7	79.5	230.6

Notes to the accounts

25 Commitments continued

	2011			
	Expiring in less than 1 year £m	Expiring in 1-5 years £m	Expiring in more than 5 years £m	Total £m
Operating leases as lessee	32.0	66.2	8.3	106.5
Undrawn loan facilities	20.4	6.6	–	27.0
Investment call commitments	28.0	–	–	28.0
Total commitments	80.4	72.8	8.3	161.5
Operating leases receivable as lessor	(7.8)	(17.7)	(1.3)	(26.8)
Net commitments payable	72.6	55.1	7.0	134.7

Leases in respect of office properties are negotiated for a weighted average term of 8.1 years (2011: 3.0 years) and rentals are fixed for a weighted average term of 4.3 years (2011: 1.7 years). Leases in respect of office equipment are negotiated for a weighted average term of 1.1 years (2011: 1.2 years) and rentals are fixed for a weighted average term of 1.1 years (2011: 1.2 years).

Office property subleases have a weighted average term of 2.6 years (2011: 3.1 years) and rentals are fixed for a weighted average term of 2.5 years (2011: 2.4 years).

26 Retirement benefit obligations

The Group has two types of pension benefit for employees: defined benefit (DB) where the Group has an obligation to provide participating employees with pension payments that represent a specified percentage of their final salary, and defined contribution (DC), where the Group's contribution to an employee's pension is measured as, and limited to, a specified percentage of salary.

Accounting for DB schemes requires an assessment of the likely quantum of future pension payments to be made. If ring-fenced assets are held specifically to meet this cost, the scheme is funded; if not, it is unfunded. The Group periodically reviews, using actuarial specialists, its funded DB scheme to assess whether it is on course to meet the expected pension payments that current and former employees are or will be entitled to. In the case of a projected shortfall, a plan must be formulated to reverse the deficit.

The income statement charge or credit represents the sum of pension entitlements earned by employees in the period, plus an allowance for the time value of money less gains expected to be made on the ring-fenced assets. Experience differences, principally the difference between actual and expected investment returns as well as actuarial changes in estimating the present value of future liabilities, are recorded in other comprehensive income.

Assets or liabilities in the statement of financial position represent the differences between the fair value of plan assets (if any) and the actuarially determined estimates of the present value of future liabilities. The Group closed its largest DB scheme to future accrual on 30 April 2011, although it still operates some small unfunded schemes for overseas businesses. This means that no future service will contribute to the closed scheme member benefits but those members continue to have the benefits determined by the Scheme Rules as at 30 April 2011.

The Group's exposure to funding DC pension schemes is limited to the contributions it has agreed to make. These contributions generally stop when employment ceases. The income statement charge represents the contributions the Group has agreed to make into employees' pension schemes in that period.

The Group operates a number of pension schemes around the world. For DC schemes, pension contributions payable in respect of the accounting period are charged as 'Operating expenses' in the income statement. The cost of providing benefits under DB schemes is determined separately for each plan using the projected unit credit method. The current service cost, any past service cost, the notional interest charge on scheme liabilities less the expected return on scheme assets (if any) and any curtailment of pension obligations are charged to 'Operating expenses' in the income statement.

The difference between the fair value of the plan assets (if any) and the present value of the DB obligations at the year-end date is recognised as an asset or liability, as appropriate, in the statement of financial position. Plan assets are valued on a bid basis.

All actuarial gains and losses are recognised in full in other comprehensive income.

The disclosures are provided mainly in respect of the principal DB scheme in the UK which is the DB section of the funded Schroders Retirement Benefits Scheme (the Scheme). Some disclosures are also provided in respect of the DC section of the Schroders Retirement Benefits Scheme (the DC section).

26 Retirement benefit obligations continued

The income statement charge for retirement benefit costs is as follows:

	2012 £m	2011 £m
Pension costs – defined contribution plans	27.2	22.2
Pension charge/(credit) – defined benefit plans	0.3	(17.3)
Other post-employment benefits	0.1	0.2
	27.6	5.1
Income statement charge/(credit) in respect of defined benefit plans consists of:		
Current service cost	–	2.8
Expected return on scheme assets	(33.3)	(44.7)
Curtailment	–	(10.2)
Interest on scheme liabilities	32.1	33.4
Total income statement credit in respect of the Scheme	(1.2)	(18.7)
Income statement charges in respect of other defined benefit schemes	1.5	1.4
Total defined benefit schemes income statement charge/(credit)	0.3	(17.3)

The amounts recognised in the statement of comprehensive income are set out below:

Other comprehensive (income)/loss consists of:	2012 £m	2011 £m
Actual return less expected return on Scheme assets	1.9	(42.6)
Experience gains and losses arising on Scheme liabilities	1.5	4.1
Changes in assumptions underlying the present value of the Scheme liabilities	(13.7)	39.0
Total other comprehensive (income)/loss in respect of the Scheme	(10.3)	0.5
Other comprehensive income in respect of other defined benefit schemes	(0.1)	–
Total other comprehensive (income)/loss in respect of defined benefit schemes	(10.4)	0.5

The Scheme is administered by the Trustee. The Scheme was closed to new entrants and future accrual on 30 April 2011. As a result, no contributions were made to the Scheme in the year (2011: contributions of £3.1 million). At 31 December 2011 and 2012, there were no active members in the DB section and 1,182 active members in the DC section (2011: 1,238). The last completed triennial valuation of the Scheme was carried out as at 31 December 2011. It disclosed that the market value of the assets of the Scheme represented 101 per cent. of the liabilities at that date, calculated on the funding basis applicable to the Scheme, for the benefits that had accrued to members at that date.

The income statement credit for the Scheme has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2012.

Notes to the accounts

26 Retirement benefit obligations continued

The principal financial assumptions used for the Scheme were as follows:

	2012 %	2011 %
Discount rate	4.6	4.6
RPI inflation rate	3.3	3.4
CPI inflation rate	2.7	2.6
Future pension increases (for benefits earned before 13 August 2007)	3.2	3.3
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.3
Expected return on Scheme assets analysed as:		
Equities	6.7	6.8
Bonds	3.8	3.9
Liability-driven investments	2.7	2.8
Other assets	4.4	3.8
Average number of years a current pensioner is expected to live beyond age 60:		
Men	29	29
Women	31	32
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	31	31
Women	33	34

The amounts recognised in the statement of financial position in respect of the Scheme are:

Fair value of plan assets	**2012 £m**	2011 £m
At 1 January	763.8	692.9
Expected return	33.3	44.7
Actuarial (losses)/gains	(1.9)	42.6
Contributions by employer	–	3.1
Benefits paid	(18.3)	(19.5)
At 31 December	776.9	763.8
Present value of funded obligations		
At 1 January	(708.1)	(658.5)
Current service cost	–	(2.8)
Interest cost	(32.1)	(33.4)
Curtailment	–	10.2
Actuarial gains/(losses)	12.2	(43.1)
Benefits paid	18.3	19.5
At 31 December	(709.7)	(708.1)
Net asset in respect of the Scheme	67.2	55.7

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2012, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

Pension scheme assets do not include any of the Company's shares (2011: nil) or buildings occupied by the Group (2011: nil).

The cumulative amount of actuarial gains and losses recognised in respect of the Scheme through the statement of comprehensive income is a £73.5 million loss (2011: £83.8 million loss).

Notes to the accounts

26 Retirement benefit obligations continued

The expected rates of return on individual categories of Scheme assets (net of investment expenses) are determined by reference to the following:

- Bonds – based on an outperformance of 1.1 per cent. (2011: 1.1 per cent.) per annum above the yield on long-dated government bonds at the year-end date.
- Equities – based on an outperformance of 4.0 per cent. (2011: 4.0 per cent.) per annum above the yield on long-dated government bonds at the year-end date.
- Liability-driven – based on the yield on long-dated government bonds (2011: same) at the year-end date.
- Other – based on the long-term expected return on cash implied by swaps yields, together with an expected return on hedge funds based on outperformance of 2.4 per cent. (2011: 2.9 per cent.) per annum above the yield on long-dated government bonds at the year-end date.

The fair value of the Scheme assets at the year-end date is analysed as follows:

	2012 £m	2011 £m
Equity instruments	290.9	288.5
Debt instruments	156.2	172.6
Liability-driven investments	258.0	245.8
Other assets	71.8	56.9
	776.9	763.8

33 per cent. (2011: 32 per cent.) of the Scheme's assets are in liability-driven investments (including government bonds, interest rate swaps and cash) so as to match the profile of the Scheme's liabilities. The remaining 67 per cent. (2011: 68 per cent.) is invested in a diversified portfolio of growth assets with an allocation of 37 per cent. (2011: 38 per cent.) to equities (including property) and 30 per cent. (2011: 30 per cent) to a range of other asset classes, including debt, private equity, hedge funds, and currency. The combination and the spread across the different asset classes has been designed to reduce risk while still generating return, over the long term, required to meet the Scheme's liabilities.

The history of the Group's defined benefit schemes, including the Scheme, is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of Scheme assets	776.9	763.8	692.9	573.0	547.6
Present value of defined benefit obligation of the Scheme	(709.7)	(708.1)	(658.5)	(614.1)	(525.2)
Surplus/(deficit) in the Scheme	67.2	55.7	34.4	(41.1)	22.4
Deficit of other defined benefit schemes	(7.8)	(7.9)	(7.2)	(5.4)	(7.4)
Total surplus/(deficit) of defined benefit schemes	59.4	47.8	27.2	(46.5)	15.0
Experience adjustments on Scheme liabilities	(1.5)	(4.1)	(1.4)	16.6	2.0
Experience adjustments on Scheme assets	(1.9)	42.6	37.1	0.1	(40.0)
Net experience adjustments	(3.4)	38.5	35.7	16.7	(38.0)

The Scheme, being in surplus (2011: same), is reported separately in the statement of financial position as the other defined benefit schemes are unfunded and represent liabilities of the Group.

Notes to the accounts

26 Retirement benefit obligations continued

Estimates and judgements

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net credit for pension costs include the expected long-term rate of return on the plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality long-dated corporate bonds that are denominated in the currency in which the benefits will be paid.

Assumptions made on expected mortality rates are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.5 per cent. per annum. Mortality tables for female pensioners are scaled back by 5 per cent. to reflect the history of life expectancy of the Group's employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The sensitivity of the Scheme pension liabilities to changes in assumptions is as follows:

		2012		2011	
Assumption	**Assumption change**	**Estimated reduction in pension liabilities £m**	**Estimated reduction in pension liabilities %**	Estimated reduction in pension liabilities £m	Estimated reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	66.3	9.4	68.1	9.6
Expected rate of pension increases in payment	Reduce by 0.5% per annum	45.8	6.5	45.4	6.4
Life expectancy	Reduce by one year	19.7	2.8	18.9	2.7

Membership details of the Scheme as at 31 December are as follows:

	2012	2011
Number of deferred members	1,668	1,708
Total deferred pensions (at date of leaving Scheme)	£14.8m per annum	£15.0m per annum
Average age (deferred)	49	48
Number of pensioners	703	682
Average age (pensioners)	68	68
Total pensions in payment	£15.7m per annum	£15.3m per annum

Notes to the accounts

27 Share-based payments

Share-based payments are remuneration payments to selected employees that take the form of an award of shares in Schroders plc. Such awards constituted 9.6 per cent. (2011: 9.4 per cent.) of salaries and other remuneration. Employees are generally not able to exercise such awards until three years after the award has been made, although conditions vary between different types of award. Accounting for share-based awards differs from accounting for awards made in cash. The charge for equity-settled share-based payments is determined based on the fair value of the award on the grant date. Such awards can include share options or share awards which may or may not have performance criteria. The initial fair value of the award takes into account the current value of shares expected to be issued (i.e. estimates of the likely levels of forfeiture and achievement of performance criteria), the contribution, if required, by the employee and the time value of money. This fair value is charged to the income statement reflecting benefits received from employment in the year preceding grant and period to vesting. The income statement charge is offset by a credit to the statement of changes in equity.

The Group may make share-based payments to key employees through awards over or linked to the value of ordinary and non-voting ordinary shares and by the grant of market value share options over ordinary or non-voting ordinary shares.

It is our practice to hedge all equity-settled awards to eliminate the impact of changes in the market value of shares.

Awards that lapse or are forfeited result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Group recognised total expenses of £47.0 million (2011: £42.5 million) arising from share-based payment transactions during the year of which £45.3 million (2011: £42.7 million) were equity-settled share-based payment transactions.

The Group has the following share-based payment arrangements (further details of the current schemes may be found in the Remuneration Report):

(a) 2000 Equity Compensation Plan and 2011 Equity Compensation Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. For the 2000 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant, discounted for the dividends forgone over the average holding period of the award. For the 2011 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting period of the awards. The award is structured as a nil cost option.

	2012		2011	
	Number of ordinary shares Millions	**Number of non-voting ordinary shares Millions**	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	11.0	0.7	10.8	0.9
Granted	2.7	0.1	3.3	–
Forfeited	(0.4)	–	(0.4)	–
Exercised	(2.6)	(0.1)	(2.7)	(0.2)
Rights outstanding at 31 December	10.7	0.7	11.0	0.7
Vested	2.9	0.6	2.4	0.6
Unvested	7.8	0.1	8.6	0.1
Weighted average fair value of share granted (£)	15.54	12.49	17.29	13.86
Weighted average share price at dates of exercise (£)	15.37	10.64	16.91	13.76

The weighted average exercise price per share is nil.

A charge of £36.7 million (2011: £35.2 million) was recognised during the financial year.

Notes to the accounts

27 Share-based payments continued

The table below shows the estimated charges for awards issued under the Equity Compensation Plans to be expensed in future years:

	£m
2013	14.6
2014	4.8
2015	0.8
	20.2

(b) 2008 Equity Incentive Plan

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value to the income statement over a five-year vesting period. Fair value is determined at the date of grant and is equal to the market value at that time. The award is structured as a nil cost option.

	2012	2011
	Number of ordinary shares Millions	Number of ordinary shares Millions
Rights outstanding at 1 January	2.2	2.1
Granted	0.2	0.3
Forfeited	–	(0.2)
Rights outstanding at 31 December – unvested	2.4	2.2
Weighted average fair value of share granted (£)	15.18	14.66

The weighted average exercise price per share is nil.

A charge of £4.5 million (2011: £4.0 million) was recognised during the financial year.

The table below shows the estimated charges for awards issued under the Equity Incentive Plan to be expensed in future years:

	£m
2013	4.2
2014	2.6
2015	1.4
2016+	0.7
	8.9

27 Share-based payments continued
(c) 2010 Long-Term Incentive Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Long-Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares on the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year-end date of the extent to which the performance conditions are expected to be met.

	2012		2011	
	Number of ordinary shares Millions	**Number of non-voting ordinary shares Millions**	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	1.2	0.1	0.8	0.1
Granted	0.4	–	0.5	–
Forfeited	(0.1)	–	(0.1)	–
Rights outstanding at 31 December – unvested	1.5	0.1	1.2	0.1
Weighted average fair value of share granted (£)	14.13	11.04	17.44	13.86

The weighted average exercise price per share is nil.

A charge of £3.6 million (2011: £3.1 million) was recognised during the financial year.

The table below shows the estimated charges for awards issued under the 2010 Long-Term Incentive Plan to be expensed in future years making reasonable assumptions about the extent to which performance conditions are likely to be met:

	£m
2013	3.9
2014	1.8
2015	0.8
	6.5

(d) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase up to a maximum of £50 per month.

Pursuant to this plan the Group purchased 35,735 ordinary shares in 2012 (2011: 30,183) at a weighted average share price of £14.47 (2011: £15.47). A charge of £0.5 million (2011: £0.4 million) is expensed over a vesting period of one year.

(e) 2000 and 2011 Share Option Plans

Options granted over shares under the Group's Share Option Plans are measured at fair value at the date of grant. The fair value determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of options that will eventually vest. Fair value is measured by use of a stochastic option valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the accounts

27 Share-based payments continued

Movements in the number of share options outstanding and their relative weighted average exercise prices are as follows:

	2012		2011	
	Weighted average exercise price per share	**Options Millions**	Weighted average exercise price per share	Options Millions
At 1 January	607p	0.6	671p	1.0
Exercised	587p	(0.5)	745p	(0.4)
At 31 December (all immediately exercisable)	**727p**	**0.1**	607p	0.6

The weighted average share price, at exercise date, of options exercised during the year was £12.24 (2011: £12.98).

At 31 December 2012 options to subscribe for non-voting ordinary shares under the terms of the 2000 Share Option Plan, with a weighted average contractual life remaining of 1.7 years (2011: 0.9 years), were outstanding as follows:

Exercise periods	Exercise price per share	**2012 Number Millions**	2011 Number Millions
22 April 2005 to 21 April 2012	800p	–	0.2
6 November 2005 to 5 November 2012	541p	–	0.2
10 March 2006 to 9 March 2013	398p	<0.1	0.2
7 March 2008 to 6 March 2015	709p	<0.1	<0.1
6 March 2009 to 5 March 2016	1085p	<0.1	<0.1
		0.1	0.6

There were no options granted during the year (2011: nil).

(f) Cash-settled share-based awards

The fair value of these awards is determined using the same methods and models used to value the equivalent equity-settled awards. The obligation is recorded within trade and other payables. The fair value of the liability is remeasured at each year-end date and at settlement date.

The Group grants to certain employees cash-settled share-based awards that require the Group to pay the intrinsic value of the award to the employee on the date of exercise. At 31 December 2012, the total carrying amount of liabilities arising from cash-settled share-based awards at the year-end date was £4.9 million (2011: £3.5 million). The total intrinsic value at 31 December 2012 of liabilities for which the employee's right to cash or other assets had vested by that date was £2.6 million (2011: £1.7 million).

28 Related party transactions

Transactions between the Group and parties related to the Group are required to be disclosed to the extent that they are necessary for an understanding of the potential effect of the relationship on the financial statements. Other disclosures, such as key management personnel compensation (see note 5), are also required. Details of relevant transactions can be found within the appropriate notes within these financial statements.

The Group is not deemed to be controlled or jointly controlled by a party directly or through intermediaries. As a result the related parties of the Group are members of the Group, including joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties. In addition, the Group manages a number of collective investment vehicles that are deemed to be related parties by virtue of the investment management agreements in place between the Group and these vehicles.

The Group has determined that key management personnel includes the Board of Directors of Schroders plc and members of the Group Management Committee.

Transactions with related parties have been included in the relevant notes or, in the case of cash transactions with associates or joint ventures, in the cash flow statement and in note 12.

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. £3.2 million (2011: £nil) for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

Notes to the accounts

Presentation of the financial statements

Financial information for the year ended 31 December 2012 is presented in accordance with International Accounting Standard (IAS) 1 Presentation of Financial Statements.

The statement of financial position is shown in order of liquidity. The classification between current and non-current is set out in the notes. The Group's Life Company business is reported separately with its own order of liquidity. If the assets and liabilities of the Group's Life Company business were to be included within existing captions on the Group's statement of financial position, the effect would be to gross up a number of individual line items to a material extent. By not doing this, the Group can provide a more transparent presentation that shows the assets of the Life Company and the related unit-linked liabilities as separate and distinct from the remainder of the Group's statement of financial position.

Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are available-for-sale or held at fair value through profit or loss, certain deposits both with banks and by customers and banks (including those that relate to bullion) and the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation.

The Group's principal accounting policies have been consistently applied. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes and identified with background shading in grey, along with the principal accounting policy relevant to that note. A simplified summary of the relevant note is also included in a blue box. This summary should be read in conjunction with the accounting policy and is not intended to set out the full accounting requirements except where the policy is straight forward.

The Group did not implement the requirements of any Standards which were issued during the year and which were not required to be implemented at the year-end date. No Standards and Interpretations endorsed by the EU that had an effect on the Group became effective during the year. Standards and Interpretations relevant to the Group that had been issued but not yet endorsed by the EU or adopted at the year-end were:

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 13	Fair Value Measurement
IAS 19 (Amended)	Employee Benefits

IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39 with two classification categories: amortised cost and fair value. Equity instruments will be recorded at fair value, with gains or losses reported either in the income statement or through equity. However, for fair value assets held through equity there will no longer be a requirement to transfer gains or losses to the income statement on impairment or disposal.

The expected impact of IFRS 10 is that more funds managed by the Group will be required to be consolidated, resulting in a grossing up of the Group's assets and liabilities, but with no net impact on either operating profit, profit before tax or net assets.

It is believed that IFRS 13 is unlikely to have a material impact on the Group's fair value disclosures.

The requirement in the amended IAS 19 to replace the expected return on assets and interest costs on the defined benefit obligation with a single net interest component will not have a material impact on the Group when applied in 2013, and will have no impact on net assets. The removal of the option that allowed a company to defer the recognition of some gains and losses on defined benefit plans will have no impact on the Group's financial statements.

No other Standards or Interpretations issued and not yet effective are expected to have an impact on the Group's financial statements.

Notes to the accounts

Presentation of the financial statements continued

Basis of consolidation

The consolidated financial information includes the total comprehensive income or expense, the financial position and the cash flows of the Company and its subsidiaries, joint ventures and associates. This includes share ownership trusts established for certain share-based awards. In the case of joint ventures and associates, those entities are presented as single line items in the income statement and statement of financial position that represent the Group's share of their financial results and of their net assets (including any capitalised goodwill and intangible assets) respectively. Intercompany transactions and balances are eliminated on consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The entities included in the consolidation may vary year-on-year due to both the restructuring of the Group (including acquisitions and disposals) and changes to the number and net assets of funds managed by the Group where the shareholding in the year results in control, as defined by IFRS. These include funds held by the Life Company. In such cases, the fund is consolidated and the third party interest is recorded as a financial liability. This consolidation has no effect on the income statement. This treatment continues until the Group loses control, as defined by IFRS.

Net gains and losses on foreign exchange

Many subsidiaries are denominated in currencies other than Sterling. The results of these subsidiaries are translated at the average rate. At the year end, the assets and liabilities are translated at the closing rate. Gains or losses on translation are recorded in the statement of comprehensive income and as a separate component of equity together with gains or losses on any hedges of overseas operations. Such gains or losses are transferred to the profit and loss reserve on disposal or liquidation of the relevant subsidiary.

Transactions undertaken in foreign currencies are translated into the functional currency at the exchange rate prevailing on the date of the transaction. Foreign currency assets and liabilities are translated into the functional currency at the rates of exchange ruling at the year-end date. Any exchange differences arising are included within 'Net gains on financial instruments and other income' in the income statement unless they relate to non-monetary items where such gains or losses are recognised directly in other comprehensive income.

Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes:

Note 11	Financial assets
Note 14	Goodwill and intangible assets
Note 19	Provisions and contingent liabilities
Note 26	Retirement benefit obligations

Independent auditors' report to the members of Schroders plc

We have audited the Group financial statements of Schroders plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:
- Give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- The Directors' statement, in the Directors' report, in relation to going concern;
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Schroders plc for the year ended 31 December 2012 and on the information in the Remuneration report that is described as having been audited.

Mark Pugh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2013

Schroders plc
Statement of financial position

31 December 2012

The financial statements of Schroders plc are the Company only, unconsolidated accounts and reflect only the transactions in the ultimate holding company of the Group. The financial statements are required to be prepared in accordance with UK law. See the preceding consolidated financial statements to gain an understanding of the Group as a whole.

	Notes	**2012 £m**	2011 £m
Assets			
Cash and cash equivalents		0.1	0.1
Trade and other receivables	31	817.8	858.8
Financial assets		–	0.1
Retirement benefit scheme surplus	26	67.2	55.7
Investments in subsidiaries	32	2,585.0	2,585.0
Total assets		**3,470.1**	**3,499.7**
Liabilities			
Trade and other payables	33	23.6	42.0
Deferred tax	34	9.6	9.9
Total liabilities		**33.2**	**51.9**
Net assets		**3,436.9**	**3,447.8**
Equity		**3,436.9**	**3,447.8**

The financial statements were approved by the Board of Directors on 6 March 2013 and signed on its behalf by:

Kevin Parry
Director

Bruno Schroder
Director

Schroders plc
Statement of changes in equity

for the year ended 31 December 2012

Year ended 31 December 2012	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2012	282.5	87.8	(146.9)	3,224.4	3,447.8
Profit for the year	**–**	**–**	**–**	**81.8**	**81.8**
Actuarial gains on defined benefit pension schemes	–	–	–	10.3	10.3
Tax on items taken directly to other comprehensive income	–	–	–	(4.0)	(4.0)
Other comprehensive income	**–**	**–**	**–**	**6.3**	**6.3**
Shares issued	0.5	2.3	–	–	2.8
Shares cancelled	(0.5)	–	–	0.5	–
Share-based payments	–	–	–	38.2	38.2
Tax credit in respect of share schemes	–	–	–	0.5	0.5
Dividends	–	–	–	(104.1)	(104.1)
Own shares purchased	–	–	(36.4)	–	(36.4)
Transactions with owners	**–**	**2.3**	**(36.4)**	**(64.9)**	**(99.0)**
Transfers	**–**	**–**	**45.7**	**(45.7)**	**–**
At 31 December 2012	**282.5**	**90.1**	**(137.6)**	**3,201.9**	**3,436.9**

Year ended 31 December 2011	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2011	290.4	84.7	(180.7)	2,675.4	2,869.8
Profit for the year	**–**	**–**	**–**	**760.5**	**760.5**
Actuarial losses on defined benefit pension schemes	–	–	–	(0.5)	(0.5)
Tax on items taken directly to other comprehensive income	–	–	–	(1.8)	(1.8)
Other comprehensive income	**–**	**–**	**–**	**(2.3)**	**(2.3)**
Shares issued	0.5	3.1	–	–	3.6
Shares cancelled	(8.4)	–	–	(16.0)	(24.4)
Share-based payments	–	–	–	36.6	36.6
Tax charge in respect of share schemes	–	–	–	(0.5)	(0.5)
Dividends	–	–	–	(104.8)	(104.8)
Own shares purchased	–	–	(90.4)	(0.3)	(90.7)
Transactions with owners	**(7.9)**	**3.1**	**(90.4)**	**(85.0)**	**(180.2)**
Transfers	**–**	**–**	**124.2**	**(124.2)**	**–**
At 31 December 2011	**282.5**	**87.8**	**(146.9)**	**3,224.4**	**3,447.8**
Notes	22	22	36		

Schroders plc
Cash flow statement

for the year ended 31 December 2012

	2012 £m	2011 £m
Operating profit	69.5	755.5
Adjustments for:		
Decrease/(increase) in trade and other receivables	40.9	(351.2)
Decrease in trade and other payables	(18.4)	(205.1)
Net disposal of financial assets	0.1	1.1
Net credit taken in respect of defined benefit pension schemes	(1.2)	(21.8)
Share-based payments expensed	38.2	36.6
Amounts received in respect of Group tax relief	4.9	8.5
Interest paid	(2.8)	(4.7)
Interest received	6.5	7.5
Net cash from operating activities	**137.7**	**226.4**
Cash flows from financing activities		
Proceeds from issue of non-voting ordinary shares	2.8	3.6
Purchase of non-voting ordinary shares for cancellation	–	(24.4)
Acquisition of own shares	(36.4)	(90.7)
Repayments of borrowings	–	(10.0)
Dividends paid	(104.1)	(104.8)
Net cash used in financing activities	**(137.7)**	**(226.3)**
Net increase in cash and cash equivalents	–	**0.1**
Opening cash and cash equivalents	0.1	–
Net increase in cash and cash equivalents	–	0.1
Closing cash and cash equivalents	**0.1**	**0.1**

Schroders plc
Notes to the accounts

29 Significant accounting policies

The separate financial statements of Schroders plc (the Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 applicable to companies reporting under IFRS, and accounting policies have been applied consistently. As permitted by that act, the separate financial statements have been prepared in accordance with IFRS which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union (EU) as at 31 December 2012. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis, except for the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures. In addition, note 32 sets out the accounting policy in respect of investments in subsidiary undertakings.

30 Expenses and other disclosures

The auditors' remuneration for audit services to the Company was £0.6 million (2011: £0.6 million). There were no fees relating to further assurance services in the year (2011: nil).

Key management personnel compensation

The remuneration policy is described in more detail in the Remuneration report. The typical composition of each type of remuneration is the same as that given in note 5. The remuneration of key management personnel during the year was as follows:

	2012 £m	2011 £m
Short-term employee benefits	8.2	10.4
Post-employment benefits	0.1	0.1
Share-based payments	3.8	4.0
Other long-term benefits	4.8	2.1
	16.9	16.6

31 Trade and other receivables

	2012 £m	2011 £m
Amounts due from subsidiaries	816.4	856.7
Prepayments and accrued income	0.7	1.5
Other receivables	0.7	0.6
	817.8	858.8

Trade and other receivables are initially recorded at fair value and subsequently at amortised cost. All trade and other receivables are due within one year.

Amounts due from subsidiaries include £775.1 million (2011: £813.4 million) of interest-bearing loans and deposits.

Schroders plc
Notes to the accounts

32 Subsidiary undertakings

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The following information is given in respect of those subsidiary undertakings which, in the opinion of the Directors, principally affect the consolidated profits or assets of the Company or are regulated. They are all wholly-owned subsidiary undertakings of the Company unless otherwise stated.

All undertakings operate in the countries where they are registered or incorporated. Their financial year ends are coterminous with the Company except where shown. The primary business of each company is as stated below.

England
Leadenhall Securities Corporation Limited[3]
Schroders NewFinance Capital LLP[1]
Schroder & Co. Limited[2]
Schroder Administration Limited**[4]
Schroder Financial Services Limited[3]
Schroder International Holdings Limited[4]
Schroder Investment Company Limited[3]
Schroder Investment Management Limited[1]
Schroder Investment Management North America Limited[1]
Schroder Investments Limited[1]
Schroder Middle East Limited[1]
Schroder Pension Management Limited[1]
Schroder Property Investment Management Limited[1]
Schroder Unit Trusts Limited[1]

Argentina
Schroder Investment Management S.A.[1]

Australia
Schroder Investment Management Australia Limited*[1]

Brazil
Schroder Investment Management Brasil DTVM S.A.[1]

Bermuda
Schroder Finance (Bermuda) Limited[3]
Schroder International Holdings (Bermuda) Limited[4]
Schroders (Bermuda) Limited[4]
Schroder Holdings (Bermuda) Limited[4]

Cayman Islands
NewFinance (Cayman) Limited[1]

Channel Islands
Burnaby Insurance (Guernsey) Limited[5]
Schroder Investments (Guernsey) Limited*[3]
Schroder Venture Managers (Guernsey) Limited*[3]
Schroders (C.I.) Limited[2]
Schroder Property Managers (Jersey) Limited[1]
Schroder Investment Company (Guernsey) Limited[3]

Germany
Schroder Investment Management GmbH[1]
Schroder Property Investment Management GmbH[1]
Schroder Property Kapitalanlagegesellschaft GmbH[1]
Real Neunzehnte Verwaltungsgesellschaft mbH[1]

Hong Kong SAR
Schroder Investment Management (Hong Kong) Limited[1]

Indonesia
PT Schroder Investment Management Indonesia – 99 per cent.[1]

Ireland
Schroder Investment Management (Ireland) Limited[1]

Italy
Schroders Italy SIM S.p.A.[1]

Japan
Schroder Investment Management (Japan) Limited[1] (financial year ending 31 March)

Korea
Schroders Korea Limited[1] (financial year ending 31 March)

Luxembourg
Schroder Investment Management (Luxembourg) S.A.[1]
Schroder Property Investment Management (Luxembourg) S.à.r.l.[1]

Mexico
Schroders S.A. de CV Distribuidora de Acciones de Sociedades de Inversión[1]

Netherlands
Schroder International Finance B.V.[4]
Schroder Nederland Finance B.V.[4]
Schroder Investment Company (Netherlands) B.V.[3]

Singapore
Schroder & Co. (Asia) Limited[2]
Schroder Investment Management (Singapore) Limited[1]
Schroder Investment Capital (Singapore) Pte Limited[3]

Switzerland
Schroder & Co Bank AG[2]
Schroder Investment Management (Switzerland) AG[1]

Taiwan
Schroder Investment Consulting Co. Limited[1]
Schroder Investment Management (Taiwan) Limited[1]

United States of America
Schroder Investment Management North America Inc.[1]
Schroder US Holdings Inc.[3]
Schroder Fund Advisors LLC.[1]

* The Company also holds preference shares in respect of this company.
** Held directly by the Company.
1 Asset Management
2 Private Banking
3 Management of Group investment capital
4 Holding company
5 Captive insurer for the Group

The principal associates and joint ventures are set out in note 12.

A full list of subsidiary undertakings, joint ventures and associates will be annexed to the next annual return of Schroders plc to be filed with the Registrar of Companies.

The Company has utilised the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 to not append copies of qualifying partnership accounts to the accounts of any UK subsidiary.

Schroders plc
Notes to the accounts

33 Trade and other payables

	2012			2011		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Trade and other payables amortised at cost:						
Social security	2.1	2.1	4.2	1.5	1.6	3.1
Accruals	5.3	12.2	17.5	3.6	11.7	15.3
Amounts owed to subsidiaries	–	1.9	1.9	–	23.6	23.6
	7.4	16.2	23.6	5.1	36.9	42.0

The Company's trade and other payables mature in the following time periods:

	2012 £m	2011 £m
Less than one year	16.2	36.9
1 – 2 years	4.1	2.0
2 – 3 years	3.1	2.8
3 – 4 years	0.2	0.3
	7.4	5.1
	23.6	42.0

34 Deferred tax liabilities

All movements in deferred tax arise from temporary differences including deferred remuneration and pension costs.

	2012 £m	2011 £m
At 1 January	9.9	5.4
Income statement (credit)/expense	(3.8)	2.0
Changes in timing differences – other comprehensive income expense/(credit)	2.5	(0.1)
Effect of changes in tax rates – other comprehensive income expense	1.5	1.9
(Credit)/expense taken to equity	(0.5)	0.7
At 31 December	**9.6**	**9.9**

Schroders plc
Notes to the accounts

35 Financial instrument risk management

The Company's policy is to have adequate capital for all activities undertaken in the normal course of business. In particular, it should have sufficient capital to maintain sufficient liquid funds to meet peak working capital requirements. Generally, surplus capital is loaned back to the Group's investment capital management entities.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in 'Risk management and internal controls' within the Governance section of this document as well as in note 20. The Company's specific risk exposures are explained below.

Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Company's counterparties are predominantly its subsidiaries and therefore there is minimal external credit risk exposure.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. 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 solvency. The Company holds sufficient liquid funds to cover its normal course of business. The Company can request to borrow through intragroup loans and the Group loan facility (see below) to maintain sufficient liquidity.

The Group has a committed loan facility of £250 million, which was undrawn by the Company at the year end date (2011: undrawn). The facility expires on 23 September 2013.

Interest rate risk

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

At 31 December 2012, if interest rates had been 50 basis points higher/nil lower (2011: 50 basis points higher/nil lower) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased/decreased by £3 million/£nil (2011: increased/decreased by £3 million/£nil) respectively, mainly as a result of higher net interest income on the Company's interest-bearing intercompany receivables and payables and cash; other components of equity would have been unaffected.

The model used to calculate the effect on post-tax profits assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

Foreign exchange and pricing risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The Company is not directly exposed to foreign exchange or pricing risk. The Company's investment in its directly held subsidiary is in Sterling and is held at historic cost. It has indirect exposure to foreign exchange and pricing risk in the Group which could result in the impairment of this subsidiary. There are currently sufficient resources in subsidiaries to absorb any normal market events.

36 Own shares

Movements during the year were as follows:

	2012 £m	2011 £m
At 1 January	(146.9)	(180.7)
Own shares purchased	(36.4)	(90.4)
Cancellations of own shares held in treasury	5.6	75.3
Awards vested	40.1	48.9
At 31 December	**(137.6)**	**(146.9)**

Schroders plc
Notes to the accounts

36 Own shares continued

Own shares held by the Company comprise:

	2012			2011		
	Vested shares Number Millions	Unvested shares Number Millions	Total Number Millions	Vested shares Number Millions	Unvested shares Number Millions	Total Number Millions
Ordinary shares held within trusts	3.0	9.7	12.7	2.4	10.5	12.9
Non-voting ordinary shares held within trusts	0.6	0.2	0.8	0.6	0.1	0.7
Non-voting ordinary shares held as treasury shares*	–	0.1	0.1	–	0.6	0.6
	3.6	10.0	13.6	3.0	11.2	14.2

	2012			2011		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares held within trusts:						
Cost	39.1	134.9	174.0	28.6	138.8	167.4
Fair value	49.8	164.9	214.7	31.6	138.2	169.8
Non-voting ordinary shares held within trusts:						
Cost	6.3	1.8	8.1	6.6	1.6	8.2
Fair value	8.3	2.0	10.3	6.9	1.4	8.3
Non-voting ordinary shares held as treasury shares:*						
Cost	–	0.9	0.9	–	6.5	6.5
Fair value	–	1.1	1.1	–	6.0	6.0
Total:						
Cost	45.4	137.6	183.0	35.2	146.9	182.1
Fair value	58.1	168.0	226.1	38.5	145.6	184.1

* Non-voting ordinary shares held as treasury shares do not vest but are included in unvested shares for presentational purposes only.

37 Related party transactions

The Company is not deemed to be controlled or jointly controlled by a party directly or through intermediaries. As a result, the related parties of the Company are members of the Company, including joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties. For regulatory purposes, the Company has issued a guarantee in respect of one of its subsidiaries to provide any funds which might be required for that subsidiary to meet its obligations. No payments have been made in 2012 or any prior year in respect of this guarantee.

The Company has determined that key management personnel includes only the Board of Directors.

Transactions between related parties

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, and transactions between the Company and other related parties, excluding compensation (which is set out in note 30), are disclosed below:

	2012				
	Revenue £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	97.4	7.4	(0.4)	816.4	(1.9)
Key management personnel	0.1	–	–	–	(2.6)

	2011				
	Revenue £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	780.1	7.5	(2.1)	856.7	(23.6)
Key management personnel	0.1	–	(0.3)	0.9	(4.3)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

Independent auditors' report to the members of Schroders plc

We have audited the parent company financial statements of Schroders plc for the year ended 31 December 2012 which comprise the Schroders plc statement of financial position, the Schroders plc statement of changes in equity, the Schroders plc cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:
 Give a true and fair view of the state of the Company's affairs as at 31 December 2012 and its cash flows for the year then ended;
– Have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions
of the Companies Act 2006; and
– Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
– The part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
– The information given in the Directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
– Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
– The parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
– Certain disclosures of Directors' remuneration specified by law are not made; or
– We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Schroders plc for the year ended 31 December 2012.

Mark Pugh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2013

Five-year consolidated financial summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Profit before tax	360.0	407.3	406.9	137.5	123.1
Tax	(76.8)	(91.5)	(95.7)	(41.8)	(51.8)
Profit after tax	283.2	315.8	311.2	95.7	71.3

Earnings per share:	2012 Pence	2011 Pence	2010 Pence	2009 Pence	2008 Pence
Basic earnings per share[1]	104.7	115.9	111.8	34.3	27.5
Diluted earnings per share[1]	101.3	111.9	108.3	34.2	27.3

Dividends:	2012	2011	2010	2009	2008
Cost (£m)	104.1	104.8	87.6	84.9	86.7
Pence per share[2]	39.0	39.0	32.0	31.0	31.0
Total equity (£m)	2,069.9	1,901.6	1,799.7	1,649.0	1,632.2
Net assets per share (pence)[3]	733	673	620	571	569

Group employees at year end 31 December	2012 Number	2011 Number	2010 Number	2009 Number	2008 Number
Europe	2,032	1,966	1,836	1,725	1,858
Americas	251	236	224	240	264
Asia Pacific	728	700	662	644	712
	3,011	2,902	2,722	2,609	2,834

1 See note 8 for the basis of this calculation.
2 Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates.
3 Net assets per share are calculated by using the actual number of shares in issue at the year-end date (see note 22).

Five-year consolidated financial summary

Exchange rates – closing 31 December	**2012**	2011	2010	2009	2008
Sterling:					
Euro	1.23	1.20	1.17	1.13	1.03
US dollar	1.63	1.55	1.57	1.61	1.44
Swiss franc	1.49	1.45	1.46	1.67	1.53
Australian dollar	1.57	1.52	1.53	1.80	2.06
Hong Kong dollar	12.60	12.07	12.17	12.52	11.14
Japanese yen	140.55	119.57	126.98	150.33	130.33
Singaporean dollar	1.99	2.02	2.01	2.27	2.07

Exchange rates – average	**2012**	2011	2010	2009	2008
Sterling:					
Euro	1.23	1.15	1.17	1.12	1.26
US dollar	1.59	1.61	1.55	1.56	1.85
Swiss franc	1.48	1.42	1.60	1.68	2.00
Australian dollar	1.53	1.54	1.69	1.99	2.18
Hong Kong dollar	12.33	12.50	12.03	12.09	14.42
Japanese yen	126.93	127.84	135.68	145.58	192.45
Singaporean dollar	1.98	2.02	2.11	2.26	2.61

Strength
Investing in long-term growth opportunities

Maintaining a strong financial position in excess of regulatory requirements; and investment in organic growth opportunities throughout the market cycle.

£926m

Investment capital above our regulatory and operational requirements

Shareholder information

Shareholder information

Contact information

Schroders plc
Registered in England and Wales
Company No. 3909886

Registered office
31 Gresham Street
London EC2V 7QA
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 3977
Email: companysecretary@schroders.com
www.schroders.com

Share Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

UK shareholder helpline:
Freephone (UK callers only) 0800 923 1530
International shareholder helpline: Tel: +44 117 378 8170
Fax: +44 (0) 870 703 6101
www.investorcentre.co.uk

Financial calendar

Ex-dividend date	27 March 2013
Record date	2 April 2013
Interim Management Statement	2 May 2013
Annual General Meeting	2 May 2013
Final dividend payment date	9 May 2013
Half-yearly results announcement	8 August 2013
Interim dividend paid*	September 2013
Interim Management Statement	7 November 2013

* date to be confirmed

Annual General Meeting

Our Annual General Meeting will be held at 11.30 a.m. on 2 May 2013 at 31 Gresham Street, London EC2V 7QA.

Shareholders can register the appointment of their proxy for the Annual General Meeting electronically via the internet at www.eproxyappointment.com where full instructions are given. The Control Number, Shareholder Reference Number and PIN printed on the proxy form will be required when registering online.

Investor Centre

Computershare are the Company's share registrar. Investor Centre is Computershare's free, secure, self-service website, where shareholders can manage their holdings online.

The website enables shareholders to:
– View share balances
– Change address details
– View payment and tax information
– Update payment instructions

In addition, shareholders can register their email address at www.investorcentre.co.uk to be notified electronically of events such as annual general meetings, and can receive shareholder communications such as the annual report or notice of meeting online.

Enquiries and notifications concerning dividends, share certificates or transfers and address changes should be sent to the Registrar.

Share information

The Company's ordinary shares and non-voting ordinary shares are listed on the London Stock Exchange.

	ISIN Number	SEDOL Number	EPIC Code
Ordinary shares	GB0002405495	0240549	SDR
Non-voting ordinary shares	GB0002395811	0239581	SDRC

Share price information can be found on our website at www.schroders.com/ir, in newspapers or through your broker.

Dealing services

There is a share dealing service offered by the Registrar to buy or sell shares via the internet or telephone. For further information visit www.computershare.com/dealing/uk or for telephone purchases call +44 (0) 870 702 0000 (UK only) between 8.00 a.m. and 4.30 p.m., Monday to Friday (excluding bank holidays).

Dividends

Dividend mandates

Paying dividend payments into a bank or building society account helps reduce the risk of fraud and will provide you with immediate access to your funds. To apply for a dividend mandate please contact the Registrar.

If your dividend is paid directly into your bank or building society account, you will receive an annual consolidated tax voucher which will be sent to you in September each year at the time the interim dividend is paid.

Dividend tax vouchers are also available electronically at www.investorcentre.co.uk to those shareholders who have both their dividends mandated to their bank or building society accounts and who have expressed a preference for e-communications. If you would like a tax voucher with each dividend or you prefer to continue to receive paper tax vouchers, please contact the Registrar.

Dividend reinvestment plan

The Company operates a dividend reinvestment plan (DRIP) which provides shareholders with a cost-efficient way of increasing their shareholding in the Company by reinvesting their dividends. If you have not already signed up for this service and wish to do so you should send your DRIP application to the Registrar. For a copy of the DRIP information pack and application form please contact the Registrar.

Dividend payments

	Pence per share				
	2012	2011	2010	2009	2008
Interim	13.0	13.0	11.0	10.0	10.0
Interim	–	–	–	21.0	–
Final	30.0[1]	26.0	26.0	–	21.0
Total	43.0	39.0	37.0	31.0	31.0

1 Subject to approval by shareholders at the 2013 Annual General Meeting.

Foreign currency dividend payments

Schroders offers a service to our overseas shareholders in participating countries which enables shareholders to receive their dividends in local currencies. To check your eligibility and/or request a mandate form if applicable, please contact the Registrar.

Overseas branch register

An overseas branch register is operated in Bermuda for the benefit of shareholders with registered addresses in Bermuda. Enquiries should be directed to our Registrar.

Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:
- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/;
- Report the matter to the FSA by calling 0845 606 1234 or visiting www.fsa.gov.uk/scams; and
- Do not deal with any firm who you are unsure about.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA provides a list of unauthorised firms of which it is aware, which can be accessed at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml. More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/scams.

Identity theft – protecting your investments

There is a growing trend for criminals to target personal information which may put your shareholding at risk. In order to protect yourself, you should consider the following precautions:
- Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee company;
- Keep any correspondence from the Registrar containing your shareholder reference number in a safe place, or destroy this information by shredding it. Shareholders who have their dividends mandated to their bank accounts should take particular care with the tax vouchers as these contain details of their bank account number and sort code;
- If you move house, please inform the Registrar. If you receive a letter from the Registrar regarding a change of address and you have not moved house, please contact the Registrar immediately. You may be a victim of identity theft; and
- Ensure that you know when your dividends are being paid. If you have not already arranged to do this, you should consider having your dividends paid directly into your bank account to reduce the risk of your dividend cheque being intercepted or lost in the post.

Capital gains tax

Capital gains tax values at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found on the Company's website.

ShareGift

If you only have a small number of shares whose value makes them uneconomic to sell, you may wish to consider donating them to charity through ShareGift. ShareGift is operated by The Orr Mackintosh Foundation, a registered charity (no. 1052686) which collects and sells unwanted shares and uses the proceeds to support a wide range of UK charities. For further information, please contact either the Registrar or ShareGift on +44 (0) 20 7930 3737, or visit the website at www.sharegift.org.

Glossary

Actively managed
The management of assets based on active decision-making as opposed to the direct replication of an index

AIFMD
Alternative Investment Fund Managers Directive, approved in November 2010

Alpha
Excess return over beta relative to a market benchmark

Assets under management (AUM)
The aggregate value of assets managed on behalf of clients. In Private Banking this also includes assets held in custody where execution-only services are provided

Basel III
A global regulatory standard on bank capital adequacy, market liquidity risk and stress testing, agreed by the Basel Committee on Banking Supervision in 2010/11

Basis point (bps)
One one-hundredth of a percentage point (0.01%)

Benchmark-unaware
An investment product or strategy that is not measured against a defined standard such as a broad market or specific asset index

Beta
Market returns

BIS recommendations
A UK Government report on 'The future of narrative reporting – a new structure for narrative report in the UK', issued by the Department of Business Innovation and Skills, in October 2012

Compensation cost
Total employee benefits expense

Compensation cost to operating revenue ratio
Compensation cost divided by operating revenue

Costs to net revenue ratio
Total Group costs divided by net revenue

Decumulation
The use of an individual's assets to finance retirement

Dodd-Frank
The Dodd-Frank Wall Street Reform and Consumer Protection Act, a federal statute in the United States, effective since July 2010

EMIR (cleared OTC derivatives)
The European Market Infrastructure Regulation (adopted September 2010) which will create an EU legislative framework for central counterparties with a view to strengthening over-the-counter (OTC) derivative markets' infrastructure and standards

ETFs
Exchange traded funds

Employee benefit trust
An employee benefit trust is a type of discretionary trust established to provide employee benefits such as affording employees the opportunity to hold vested or unvested share awards in their employing company, with a view to facilitating the recruitment, retention and motivation of employees

Family offices
These manage the financial and investment side of an affluent individual or family

FATCA
Foreign Account Tax Compliance Act in the US

Fitch M1 Asset Management Rating
Asset manager ratings reflect an assessment of an asset management organisation's vulnerability to operational and investment management failures, as reflected by the quality of the organisation's experience, staffing resources, investment processes, internal control environment, investment administration capabilities and related technology resources. Asset manager ratings are assigned on a scale from M1 to M5, with M1 being the highest rating and denoting the lowest vulnerability to operational and investment management failures

FSA
Financial Services Authority or its successor organisations

ICAAP
Internal Capital Adequacy Assessment Process

IFRS
International Financial Reporting Standards

Institutional sales channel
Institutional clients, such as pension funds, insurance companies and government funds, come to Schroders through their own adviser or consultant. Assignments are typically highly specific and may dovetail with their other investments in a range of asset classes and with other managers they employ

Intermediary sales channel
Schroders works with intermediaries such as banks, insurance companies and independent financial advisers, who advise the end retail client

Investment capacity
The extent to which easily accessible investments are available, which are capable of delivering the required return of a particular product or investment strategy

Investment performance
This is calculated by Schroders, using published benchmarks for products, where available. If no benchmark is published but it is listed in competitor rankings, the relative position of the fund to its peer group is used. As at 31 December 2012, such comparator data existed for 64 per cent. of AUM over three years and 81 per cent. over one year

Investment returns
The increase in AUM attributable to investment performance, market movements and foreign exchange

Lab report
The report issued by the Financial Reporting Lab that obtained views from the investment community on how a single figure for director remuneration might be measured and presented. The Financial Report Lab was set up by the UK's Financial Reporting Council to improve the effectiveness of corporate reporting in the UK

Liability-driven investment (LDI)
A form of investing where the main goal is to gain sufficient assets to meet all known liabilities, both current and future. This form of investment is most prominent for defined benefit pension schemes

LIBOR
London Interbank Offered Rate, being the average interest rate that leading banks in London charge when lending to other banks

Life Company
Schroder Pension Management Limited, a wholly-owned subsidiary, which provides investment products through a life assurance wrapper

MiFID
Markets in Financial Instruments Directive

Multi-asset
A combination of asset classes (such as cash, equity and bonds) used as an investment that creates a group or portfolio of assets

Net new business
Funds from clients less funds withdrawn by clients excluding market and currency changes

Net revenue
Net fee income, net banking interest income and net gains/(losses) on financial instruments and other income. Net revenue excludes net finance income from non-banking operations

Net revenue margins
Asset Management plus Private Banking net revenue excluding exceptional items divided by total average assets under management

Official institutions
These are central governments of countries, including all departments and agencies of national governments; central banks, exchange authorities, and all fiscal agents of national governments that undertake activities similar to those of a treasury or central bank

Operating revenue
Net revenue for the Asset Management and Private Banking operating segments

Outcome-orientated products
Customised investment solutions designed specifically to meet clients' investment needs, for example, providing an income stream post-retirement

Glossary

Pillar 1
The minimum capital requirements in relation to credit risk, operational risk and market risk taken by the Group as principal

Pillar 2
The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1

Pillar 3
This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. Schroders' Pillar 3 disclosures are available at www.schroders.com/ir

Platforms
Platforms in the UK savings market offer a range of investment products such as Individual Saving Accounts (ISAs), unit-linked Life and Pension bonds and Self-Invested Personal Pensions (SIPPs) to facilitate investment in a multitude of funds from different managers through one portal

PRIPs
Packaged Retail Investment Products

Profit share ratio
Bonus charge divided by pre-bonus Asset Management and Private Banking operating profit. This is also described as pre-bonus operating profit

RDR
The UK Retail Distribution Review

Regulatory capital
Regulatory capital is the amount of risk capital set by legislation or local regulators, which companies must hold to allow them to survive any difficulties such as market or credit risks

Remuneration hedging
The purchase of own shares to hold against share-based awards made to employees as part of the Group's remuneration strategy

Rights to shares
The entitlements of employees, including executive Directors, to Company shares until vesting conditions have been satisfied and the awards exercised

Tier 1 capital ratio
This is the measure used by regulators to assess a bank's financial strength and is the ratio of a bank's core equity capital to its total risk-weighted assets. Risk-weighted assets are the total of all assets held by the bank weighted by credit risk, as determined by local regulators

UCITS
Undertakings for Collective Investments in Transferable Securities

UCITS IV aims to make cross-border distribution easier by harmonising regulatory frameworks across the single European market

UK Bribery Act
The Bribery Act 2010 that came into force on 1 July 2011, which covers UK criminal law relating to bribery

Vickers Report
The report of the Independent Commission on Banking, chaired by Sir John Vickers, published in September 2011

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