

Schroders Personal Wealth Pillar 3 Disclosures

Based on Financial Data
As at 31st December 2020

spw.com

Schroders
personalwealth

Contents

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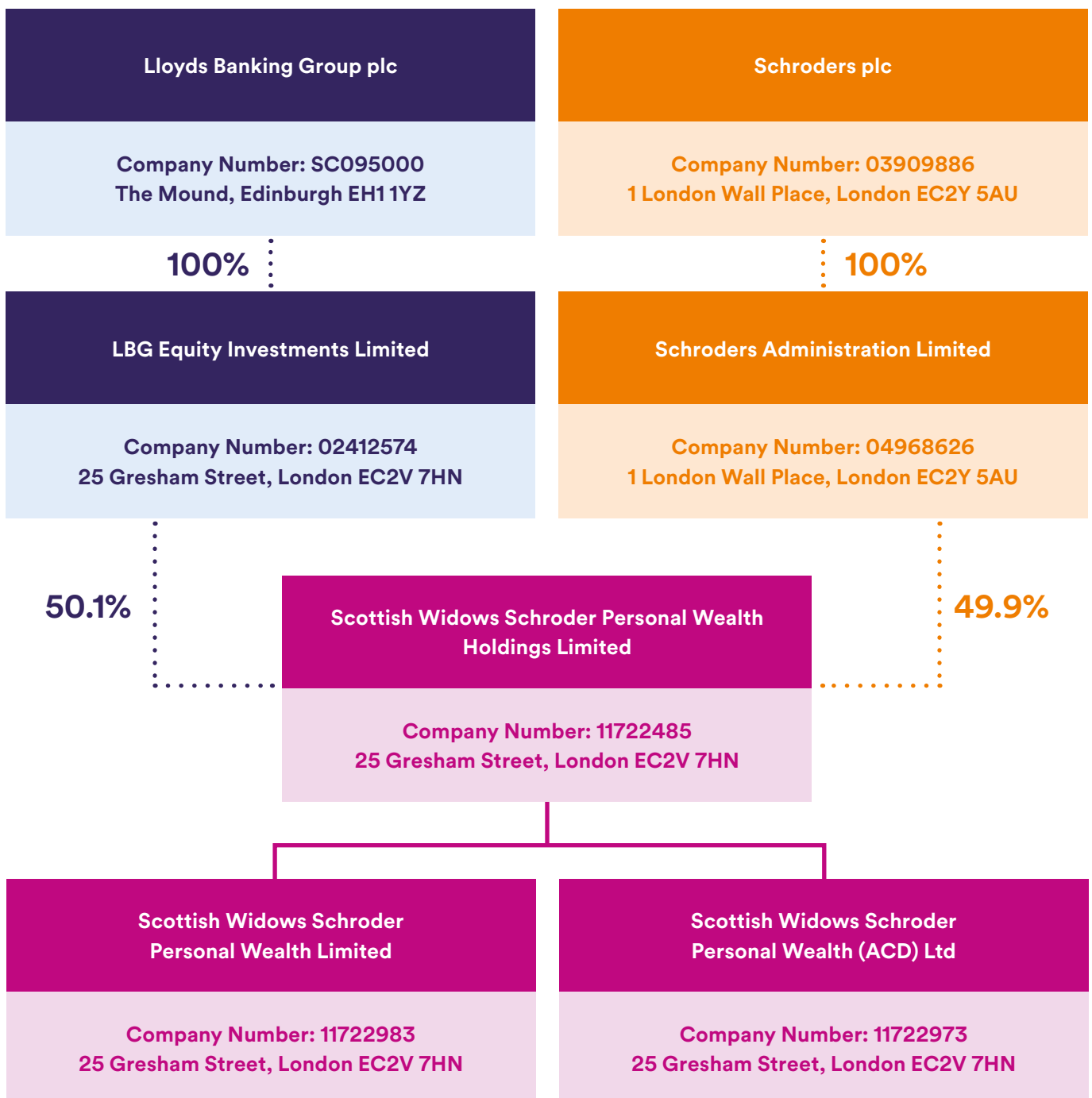


1. Overview

1.1 Group Structure

Schroders Personal Wealth (“SPW”) is a wealth management joint venture between Lloyds Banking Group plc (“LBG”) and Schroders plc (“Schroders”). The corporate structure is shown in Figure 1.

Figure 1. SPW Corporate Structure



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1.2 Prudential classification

The prudential classification of SPW entities is detailed below.

Figure 2. Prudential classification of SPW entities

Schroders Personal Wealth	Prudential classification
Scottish Widows Schroder Wealth Holdings Limited (firm 11722486)	UK parent financial holding company
Scottish Widows Schroder Personal Wealth Limited (firm 11722983)	BIPRU 50k firm
Scottish Widows Schroder Personal Wealth (ACD) Limited (firm 11722973)	Collective Portfolio Management (“CPM”) subject to IPRU-INV chapter 11



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1.3 Name and Contact Details of the Supervisory Authority

Financial Conduct Authority (“FCA”)

12 Endeavour Square
London
E20 1JN

1.4 Name and Contact Details of the External Auditor

PricewaterhouseCoopers LLP

2 Glass Wharf
Bristol
BS2 0FR

1.5 Regulatory Framework

The Capital Requirements Directive (“CRD”), implemented in the UK by the FCA through the Prudential Sourcebook for Banks, Building Societies and Investment Firms, details the regulatory capital requirements that must be adhered to. The framework consists of three pillars:

- **Pillar 1** – a prescribed calculation to determine the minimum capital requirements for credit, market, and operational risk
- **Pillar 2** – an internal assessment of the adequacy of corporate governance, risk management and capital resources
- **Pillar 3** – disclosure requirements including information on the capital position of the business, risk management procedures and risks.

1.6 Frequency of disclosure

The Pillar 3 disclosures are updated on an annual basis, or more frequently if required, and should be read in conjunction with the SPW Annual Report & Accounts dated 31st December 2020. These include Scottish Widows Schroder Wealth Holdings Limited (“Holdco”), Scottish Widows Schroder Personal Wealth Limited (“Opco”) and Scottish Widows Schroder Personal Wealth (ACD) Limited (“ACD”).

1.7 Approval and Verification

The disclosures are not subject to an external audit. However, they have been reviewed internally by the HoldCo Board. The disclosures provide an overview of the capital structure of the SPW group, risk management, and remuneration. They do not constitute financial statements and should not be relied upon for any other purpose other than that intended.

1.8 Location

The Pillar 3 disclosures are available on the SPW website (www.spw.com).

1.9 Reporting Period

The report covers the financial position at 31st December 2020.

1.10 Covid-19

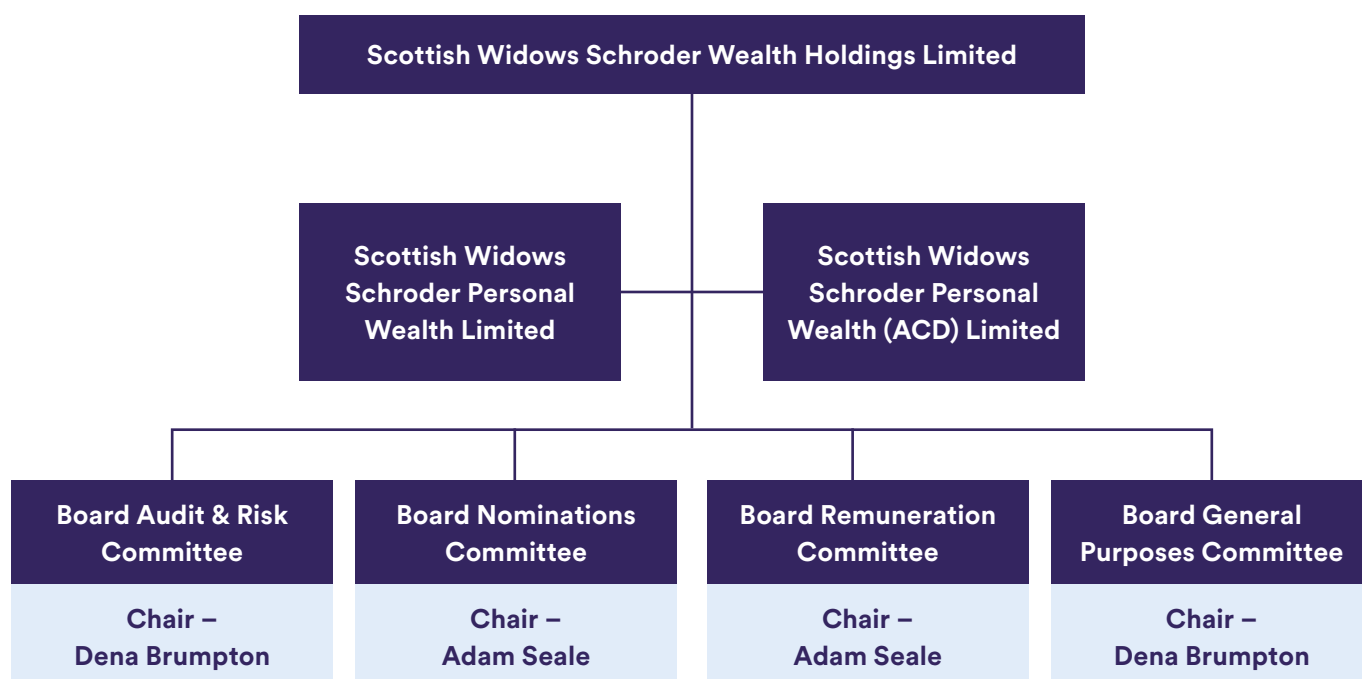
The business plan has been adversely impacted during 2020 due to the impact of COVID-19 and the government-imposed lockdown. However, management and shareholders do not expect COVID-19 to adversely impact the medium- and long-term demand for financial advice in the UK.

2. Governance Framework

The Board and Executive operate the following Board and Committee structure to oversee the SPW business.

2.1 Board Committee Structure

Figure 3. SPW Board and Committee Structure



Each Committee has its own Terms of Reference which are held centrally by the Company Secretariat. In summary, the functions of these committees are as follows:

- **Audit & Risk Committee (“BARC”):** Responsible for the integrity of financial report, controls and internal/external audit functions, and for oversight of the effectiveness of risk management.
- **Nominations Committee:** Responsible for the suitability of independent non-executive Board members and the approval of new independent non-executive Board members.
- **Remuneration Committee:** Responsible for the remuneration policy for senior management.
- **General Purposes Committee:** an ad hoc Board Committee which can be convened at any time to conduct Board Committee business without the regular meeting schedule

The BARC met four times in 2020: March, June, September, and December.

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2.2 Executive Committee Structure

Figure 4. SPW Executive Committee Structure



The following committees form executive level governance forums as shown above:

- **Executive Committee** (chaired by the Chief Executive Officer (“CEO”)): implementing the strategy and day to day management of SPW.
- **Risk Committee** (chaired by the CEO): oversight of the risk and compliance culture of SPW.
- **Investment Committee** (chaired by the Chief Investment Officer (“CIO”)): monitoring and informing the investment strategy of SPW.
- **Operations Committee** (chaired by the Chief Operating Officer (“COO”)): oversight of business operations, including services provided by external suppliers.

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2.3 Board of Directors

Figure 5 shows the members of the Board during 2020, and the number of directorships held by these members as at 31 December 2020.

Figure 5. Board of Directors

Scottish Widows Schroder Wealth Holdings Limited				
Name	Role	Date of joining/leaving	No. of directorships held within the SPW Group	No. of directorships held external to the SPW Group
Antonio Lorenzo	Chairman & Non-Executive Director	Joined 30/05/2019	1	8
Peter Harrison	Non-Executive Director	Joined 04/10/2019	1	3
Donald Mackechnie	Non-Executive Director	Joined 30/05/2019	1	0
Stuart Sinclair	Non-Executive Director	Joined 24/09/2019	1	6
Peter Hall	Non-Executive Director	Joined 03/10/2019	1	2
Dena Brumpton	Independent Non-Executive Director	Joined 24/06/2019	2	3
Adam Seale	Independent Non-Executive Director	Joined 04/10/2019	2	2
Joel Ripley	Executive Director	Joined 11/12/2018	3	0
James Rainbow	Executive Director	Joined 11/12/2018 Left 29/11/2019 Re-joined 25/06/2020 Left 02/11/2020	N/A	N/A
Peter Hetherington	Executive Director	Joined 29/11/2019 Left 17/06/2020	N/A	N/A
Mark Duckworth	Executive Director	Joined 02/11/2020	3	3

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Scottish Widows Schroder Personal Wealth Limited				
Name	Role	Date of joining/leaving	No. of directorships held within the SPW Group	No. of directorships held external to the SPW Group
Joel Ripley	Executive Director	Joined 11/12/2018	3	0
James Rainbow	Executive Director	Joined 11/12/2018 Left 29/11/2019 Re-joined 25/06/2020 Left 02/11/2020	N/A	N/A
Peter Hetherington	Executive Director	Joined 29/11/2019 Left 17/06/2020	N/A	N/A
Mark Duckworth	Executive Director	Joined 02/11/2020	3	3
Marcus Brookes	Executive Director	Joined 14/04/21	2	0
Rupert Dickinson	Independent Non-Executive Director	Joined 22/06/21	1	4

Scottish Widows Schroder Personal Wealth (ACD) Limited				
Name	Role	Date of joining/leaving	No. of directorships held within the SPW Group	No. of directorships held external to the SPW Group
Dena Brumpton	Independent Non-Executive Director	Joined 04/10/2019	2	3
Adam Seale	Independent Non-Executive Director	Joined 04/10/2019	2	2
Joel Ripley	Executive Director	Joined 11/12/2018	3	0
James Rainbow	Executive Director	Joined 11/12/2018 Left 29/11/2019 Re-joined 25/06/2020 Left 25/09/2020	3	2
Peter Hetherington	Executive Director	Joined 29/11/2019 Left 17/06/2020	N/A	N/A
Mark Duckworth	Executive Director	Joined 02/11/2020	3	3
Marcus Brookes	Executive Director	Joined 04/10/2019	2	0
Julian Walker-Hazell	Executive Director	Joined 05/12/2019	1	0
James Black	Chairman & Non-Executive Director	Joined 02/04/2020	1	1

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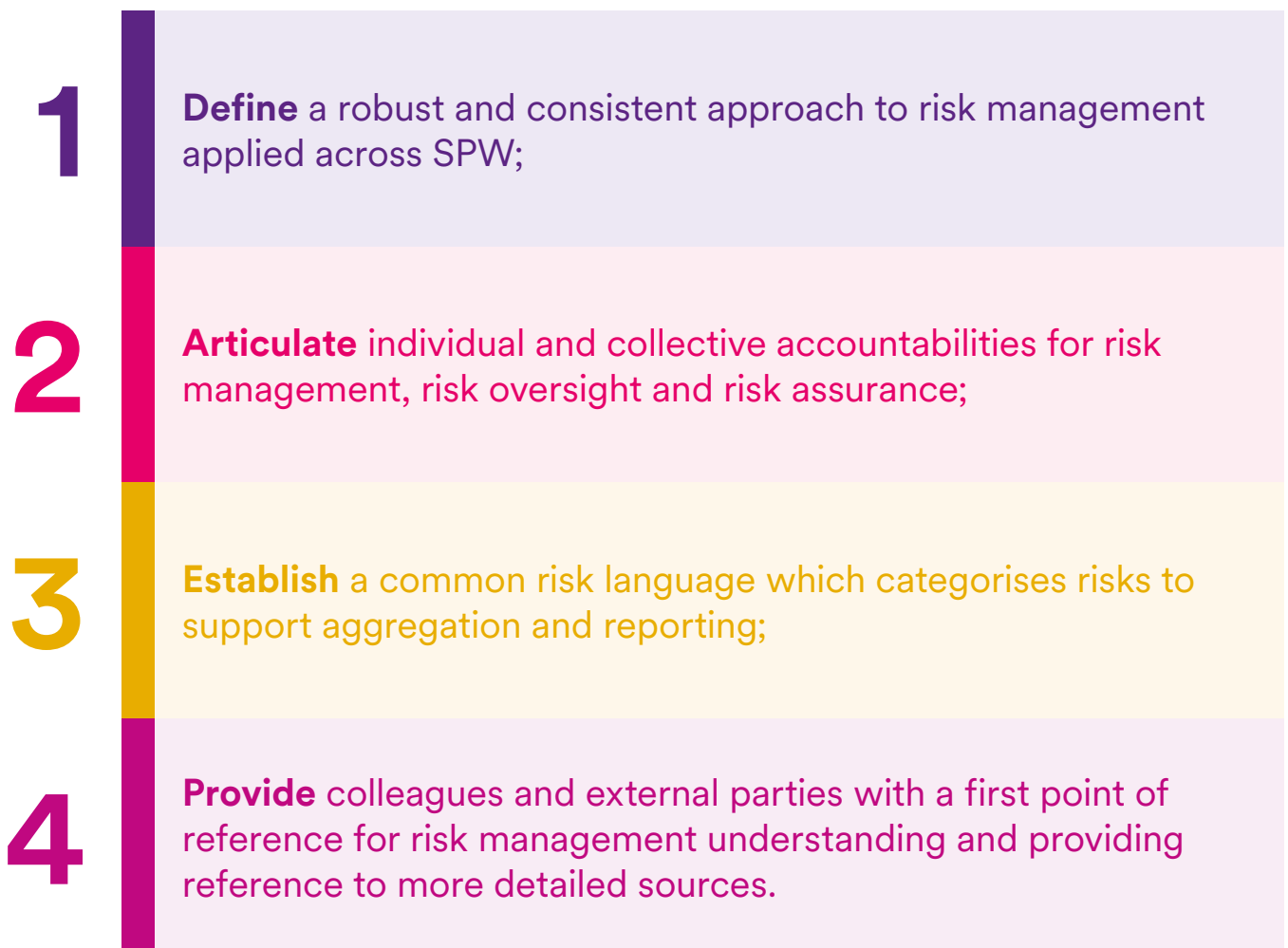
3. Risk Management Objectives and Framework

3.1 Risk Management Framework

This section outlines SPW's approach to risk management including its Risk Management Framework ("RMF"), which is used to identify, manage and monitor the risks the business is exposed to. It applies to all entities in the SPW Group. The RMF is approved by BARC at least annually.

Managing risk is central to the delivery of SPW's strategic objectives and whilst we accept the risks inherent in our core business model and strategy including advice risk, investment management risk and other operational and financial risk, the RMF is designed to ensure a robust and consistent approach to controlling risk across the group.

Figure 6. Risk Management Framework Objectives



The following diagram sets out how risk management operates throughout SPW. The Risk Management Framework consists of the components that set out the arrangements for designing, implementing, monitoring, reviewing and continuously improving risk management throughout our business. These components are vital to ensure we manage risks effectively in our day to day roles.

Figure 7. Risk Management Framework

Business Strategy & Objectives

- Company Vision and Strategy (including Change Portfolio and Product Strategy and Distribution)
- Risk Appetite Setting
- Personal Objectives

Accountabilities & Organisational Infrastructure

- Board Authorities and Delegated Executive Authorities
- Executive Decision Making
- Approved Persons
- Fit & Proper Requirements

- Makes risk management a core element of our culture by considering actions and behaviours

- Managing risk means making the right decision and doing the right thing for clients

- Expresses the level and type of risk the company is willing to accept in delivering the business plan; Policy Framework

- Define company Risk Appetite Statements, sub limits, stress metrics and management limits
- Define policies and procedures

- Identify risks; measure and monitor exposure v appetite; stress testing; capital & liquidity; scenario analysis; risks & controls assessment

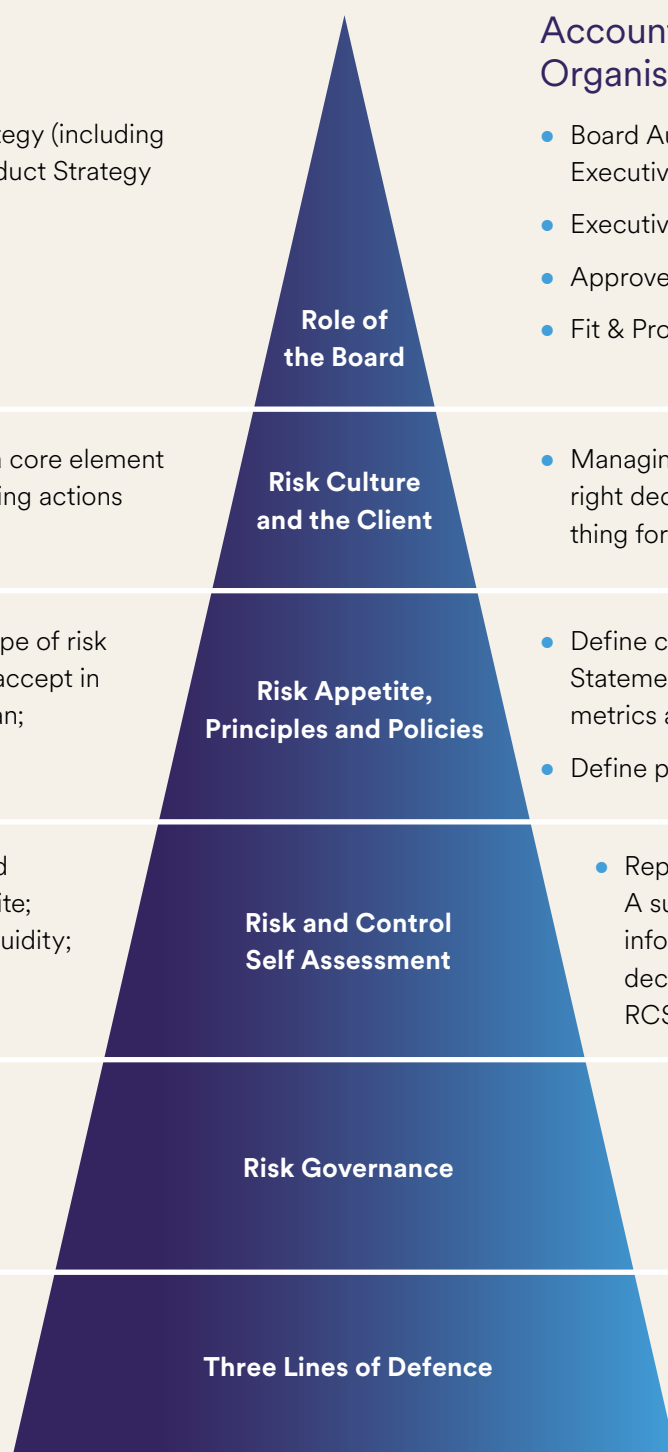
- Reporting of risk metrics. A suite of risk metrics and information to support effective decision making at all levels; RCSA processes

- Committee Structure and ToRs: Legal & Regulated Entity Structure

- Resources, capability & capacity; RMF effectiveness

- Ensure Lines 1, 2 & 3 are aware of their risk responsibilities to the company

- Independence of Risk & Compliance Function and Internal Audit



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3.2 Risk Culture

SPW's responsible, inclusive, open and transparent culture ensures colleagues consistently do the right thing for clients and feel empowered to challenge decisions or behaviours that are not in line with the way SPW wants to do business and manage risk. Senior leaders set a clear tone from the top and lead by example reflecting our values:

- encouraging a culture of intellectual curiosity and proactive risk management amongst all colleagues,
- welcoming and encouraging challenge throughout the business.

Risk colleagues work in collaboration with the business to support effective risk management, understand root causes when things go wrong, share lessons learned, and provide constructive challenge. Remuneration, performance management and succession planning support our core values and our client advice needs.

3.3 Risk Appetite

Risk appetite is a core component of the RMF. It is defined as the amount and type of risk that our company is prepared to seek, accept or tolerate. The risk appetite for SPW was developed to provide a link between the strategic aims of the business and risk taking within the business to achieve these aims. Risk appetites have been set for each of the following risk types:

- Conduct Risk
- Investment Management Risk
- Regulatory and Legal Risk
- Operational Risk
- People Risk
- Financial Risk
- Business and Reputational Risk



3.4 Identification, Measurement and Management of Risk

To ensure it has a comprehensive risk profile, SPW employs a continuous risk management approach to review its risks and to identify any new threats to its objectives. Additionally, these risk assessments consider the impact of change, such as the launch of new products. It is the responsibility of first-line risk owners to ensure that all risks for their business area are identified as part of this process. Risks are captured and monitored centrally.

Identified risks must also be assigned impact scores, enabling the prioritisation of risks and actions. The evaluation of controls effectiveness must also be reported in the risk profile register including remedial action plans where these are required to address control weaknesses. All action plans are monitored by the risk function to ensure progress in moving risks within appetite. This is reported to the Executive Risk Committee on a regular basis.

Within SPW, risk oversight is conducted on an on-going basis. This is led by the Risk team, with input from subject matter experts and provides senior management and the Board with a more independent second-line view of all material risks the firm is exposed to.

3.5 Risk Monitoring

SPW's risk management framework has been structured to allow visibility of risks across all classes, with appetite statements providing limits for each material risk, and management information clearly identifying any threats to breaching these thresholds.

Timely monitoring of the firm's risks is facilitated through a comprehensive suite of MI provided to the Executive Risk and Board Risk Committees, with management level monitoring conducted through working groups and forums.

SPW ensures that key risks are identified, assessed and actioned upon appropriately. The approach to the management, monitoring and reporting of key risks is as follows:

- 1 The risk function conducts a detailed review of key risks in the risk register at least annually. In this process the risks identified/updated by different stakeholders are combined with key risks identified/updated from secondary sources such as regulatory announcements and external reports.
- 2 Key risks are subject to ongoing monthly monitoring through Key Risk Indicators ("KRIs"), emerging risk reports and other intelligence produced by the finance, risk and compliance teams. This management information is evidenced via the key risk dashboard and presented in the monthly Executive Risk Committee and is held centrally by SPW risk.

SPW Risk completes horizon-scanning of regulators' and industry bodies' publications to continually be forward looking on the identification of emerging risks.

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3.6 Risk Governance

The SPW Board is the ultimate authority in the oversight of risk management and control. It is supported by the board-level committees. Below Board level all authority and accountability for risk decision-making is delegated to individuals in full compliance with the FCA's Senior Managers Regime. The CEO and Senior Management are supported in their decision-making responsibilities by the Executive Committee and the executive-level committees.

3.7 Three Lines of Defence

The SPW three lines of defence model distinguishes between risk management, risk oversight and assurance, enabling clear ownership and accountability for managing risk and ensuring we have the right risk resource and capabilities across the business.

Figure 8. Three Lines of Defence



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4. Capital Management

4.1 Capital Resources

Capital resources for the SPW Group are detailed below:

Figure 9. Capital Resources

As at 31st December 2020	Holdco	OpCo	ACD
	£000's	£000's	£000's
Ordinary Share Capital	1	67,600	1
Share Premium	4,999		
Retained Earnings	264,104	(7,099)	208,580
Total Equity	269,104	60,501	208,581
Intangible Assets	(190,009)	(4,781)	(185,228)
Capital Resources	79,095	55,720	23,353

4.2 Pillar 1

The Pillar 1 prescribed regulatory minimum requirement is shown below.

Figure 10. Pillar 1

Pillar 1 Calculations	Holdco	OpCo	ACD
	£m's	£m's	£m's
(1) Credit Risk	6.22	4.95	–
(2) Market Risk	0.00	0.00	–
Sum of Credit and Market Risk	6.22	4.95	0.00
(3) Fixed Overhead Requirement	33.9	27.68	6.22
Pillar 1 BIPRU requirement ((higher of sum of (1) plus (2)), or (3))	33.9	27.7	6.2
(4) Funds Under Management Requirement	–	–	2.03
(5) Professional Indemnity Insurance Requirement	–	–	0.98
Pillar 1 CPM Requirement. Sum of ((higher of (3) or (4)), plus (5))	–	–	7.2
Total Pillar 1 Requirement	33.9	27.7	7.2

4.3 Credit Risk

Credit risk arises from a counterparty failing to meet its obligations in line with the agreed terms, for example the default of a key banking institution.

Credit risk is limited to on-balance sheet items for the SPW entities. The most significant components of this include cash held at bank, prepayments, lease assets and leasehold improvements.

Given the relatively stable and simple structure of the balance sheet, and therefore credit risk exposures, SPW has adopted the simplified approach for credit risk.

4.4 Market Risk

Market risk is the risk of fluctuations in values of, or income from, assets or in interest or exchange rates. Under the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") rules, Pillar 1 market risk must be calculated for any foreign currency exposures. As SPW does not have any direct foreign currency exposures on or off-balance sheet (i.e., assets or liabilities denominated in a foreign currency), there is no Pillar 1 market risk requirement on either a consolidated or solo basis.

Figure 11. Credit risk

Credit Risk Exposure	Risk Weighted Assets	Credit Risk
	£m's	£m's
Cash & equivalents	21.1	1.7
Accrued income	12.9	1.0
Trade & other receivables	32.4	2.6
Fixed assets	11.3	0.9
Total	77.7	6.2

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4.5 Liquidity Risk

Liquidity risk is the risk that although solvent, the business does not have either sufficient financial resources to meet its financial obligations as they fall due, as a result of the inability to liquidate assets or obtain short-term funding or can only secure such financial resources at an excessive cost.

While the business is exposed to liquidity risk through the normal course of business, this risk has been considered as part of the liquidity stress scenarios in the Liquidity Risk Management Framework (“LRMF”). The LRMF reflects the application of the BIPRU 12 rules and has resulted in the identification of a minimum amount of liquid assets to maintain in each entity based on specific liquidity stress scenarios

SPW manages its liquidity through maintaining high quality liquid assets and banking facilities and continuously monitoring forecast and actual cash flows.

4.6 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk can lead to adverse customer impacts, reputational damage, and/or financial loss; and result in the business being unable to achieve its business objectives.

The core activities of the business are to provide financial advice and portfolio management to clients to service their financial needs. As a result, operational risk is the most material risk to which SPW is exposed as failures in processes, people or systems can potentially lead to operational losses across the business.

The operational risk management process within SPW includes the management of all non-financial primary risk types under the RMF. These risks are as follows:

- Conduct Risk
- Investment Management Risk
- Regulatory & Legal Risk
- Operational Risk
- People Risk
- Financial Risk
- Business & Reputational Risk

Given that management of all of these risks across the business follows a consistent approach in the RMF, the operational risk assessment performed as part of the Internal Capital Adequacy Assessment Process (“ICAAP”) includes an assessment of all of these primary risk types.

4.7 Fixed Overhead Requirement

In accordance with GENPRU 2.1.54, the Fixed Overhead Requirement (“FOR”) has been calculated on total adjusted expenditure, less deductions for discretionary expenditure, per the latest audited financial statements for year ended 31st December 2020.

4.8 Pillar 2

In accordance with the overall Pillar 2 rule, SPW has completed an internal assessment of risks through the ICAAP to determine if additional capital should be held against those risks not fully captured in Pillar 1. The process examines key risk categories to identify exposures that could result in detriment to the Groups capital.

4.9 Stress Testing

Stress testing is completed as part of the ICAAP and supports the identification, analysis and management of risks within the business. It is performed on the business plan and considers the impact of a number of key risks crystallising over the assessment period.

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5. Securitisation Disclosure

Securitisation risk is the risk that the capital resources held by SPW in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.

SPW does not undertake securitisation activities and therefore does not have any exposure to securitisation risk. As a result, no capital is held for securitisation risk.

6. Remuneration Disclosure

6.1 Remuneration Policy

The SPW Remuneration Policy (“the Policy”) and the associated Reward Governance Framework define the remuneration policies, procedures and practices which apply in full to all colleagues. The Policy supports the long-term business strategy and recognises the interests of all relevant stakeholders. It supports consistent and effective risk management that accepts risk-taking in line with the risk appetite of SPW.

In accordance with the Shareholder Agreement, SPW continues to seek the views of shareholders with regard to Remuneration Policy, which seeks to motivate, incentivise and retain talent. The SPW remuneration approach has a particular focus to recognise and reward high-performing colleagues who enable great client outcomes. The Committee reviews the policy at least annually.

An essential component of SPW’s approach to remuneration is the governance process that underpins it. The Remuneration Committee is made up of independent non-executive directors, as well as non-executive directors of both LBG and Schroders. The Committee review all compensation decisions for Executive Directors, senior management, high earners and any other Material Risk Takers (“MRTs”).

For the purpose of remuneration regulation, SPW is treated as a proportionality level III firm and subject to the BIPRU, Undertakings for Collective Investment in Transferable Securities (“UCITS”) and Alternative Investment Fund Managers Directive (“AIFMD”) FCA Remuneration Codes.

6.2 Remuneration and performance

SPW’s reward package is made up of base salaries, benefits and variable reward. Base salaries reflect the role, responsibility and experience of a colleague. In order to attract and retain talent, our aim is to pay base salaries in line with UK Wealth Market medians. SPW provides a market-aligned benefits package including pension, flexible benefits and private medical cover to encourage and enable saving for retirement, and to support health and wellbeing. SPW maintains a strong belief that variable reward should be driven by individual, regional and business performance. The approach to variable reward is intended to provide a clear link between remuneration and delivery of key strategic objectives. Performance measures are embedded throughout the reward structure which are challenging and reflect overall business performance in addition to personal contribution.

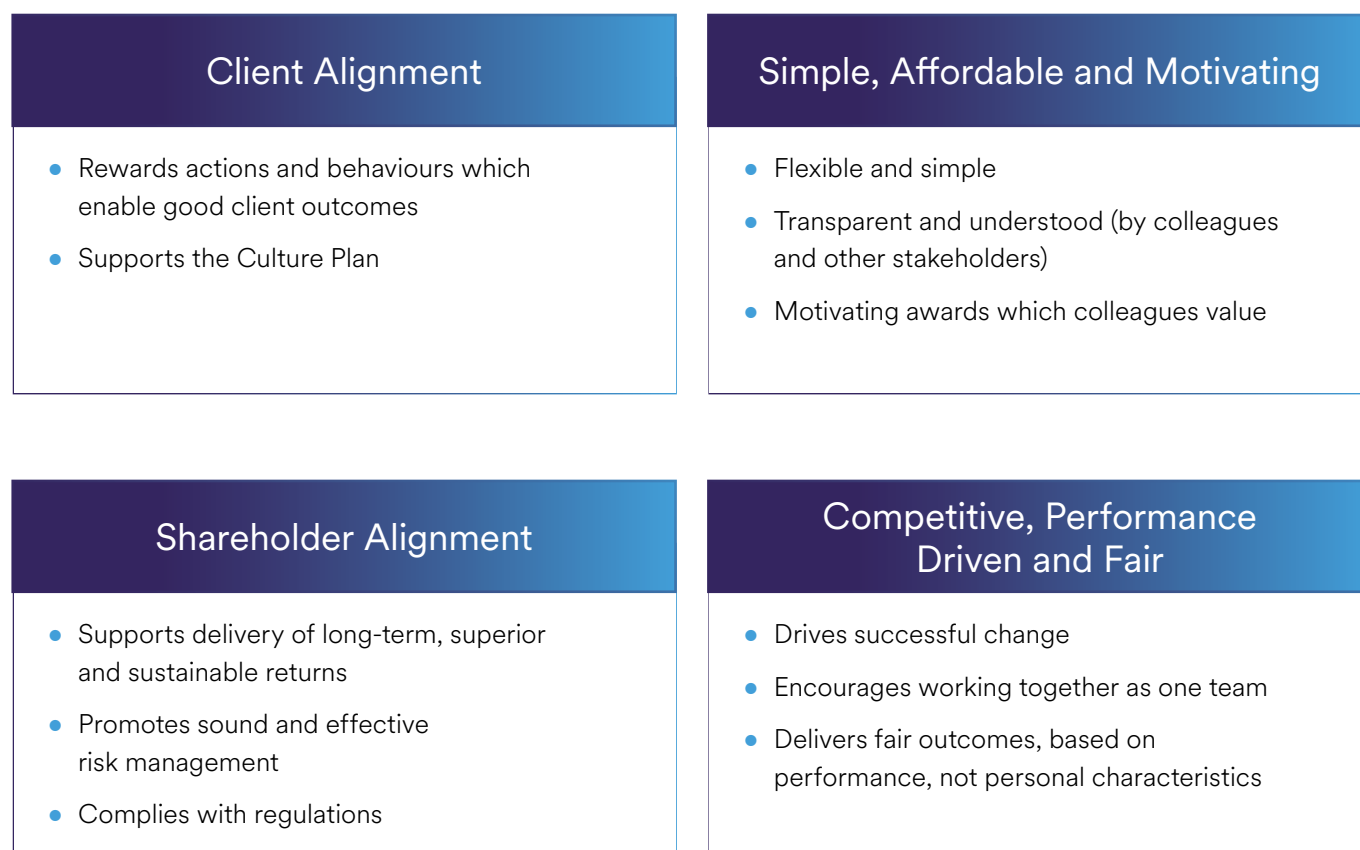
The mix of variable and fixed remuneration is driven by seniority and role. The performance-related elements of pay make up a considerable proportion of the total remuneration package for all colleagues including MRTs.

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6.3 Performance measurement

The Remuneration Policy has four principles which underpin the remuneration approach and strategy:

Figure 12. Remuneration Policy Principles



The use of a balanced scorecard approach at business, regional and individual level allows the Remuneration Committee to assess the performance in a consistent and performance-driven way, with appropriate attention on risk performance.

All variable remuneration is performance-dependent, subject to performance against strategic balanced scorecard objectives. All variable remuneration is subject to deferral in line with our regulatory requirements. Awards for MRTs typically include an element of deferral in phantom SPW fund units, to align interests to those of our clients, and to aid retention. All variable

remuneration is also subject to malus and clawback in line with the SPW Malus and Clawback Policy. The Policy includes a non-exhaustive list of triggers under which the Remuneration Committee may consider the application of malus and/or clawback to be necessary.

6.4 Long term remuneration

SPW's long-term incentive plan for executives is dependent on the extent to which several measures from the business plan are achieved, including a mixture of strategic, financial and conduct metrics. The first year of the performance period was more highly weighted to the delivery of strategic or 'input' measures to reflect the need to transform our business. The second and third years of the performance period have a higher weighting towards financial performance or 'output'. Risk and conduct performance is considered throughout the three-year performance period.

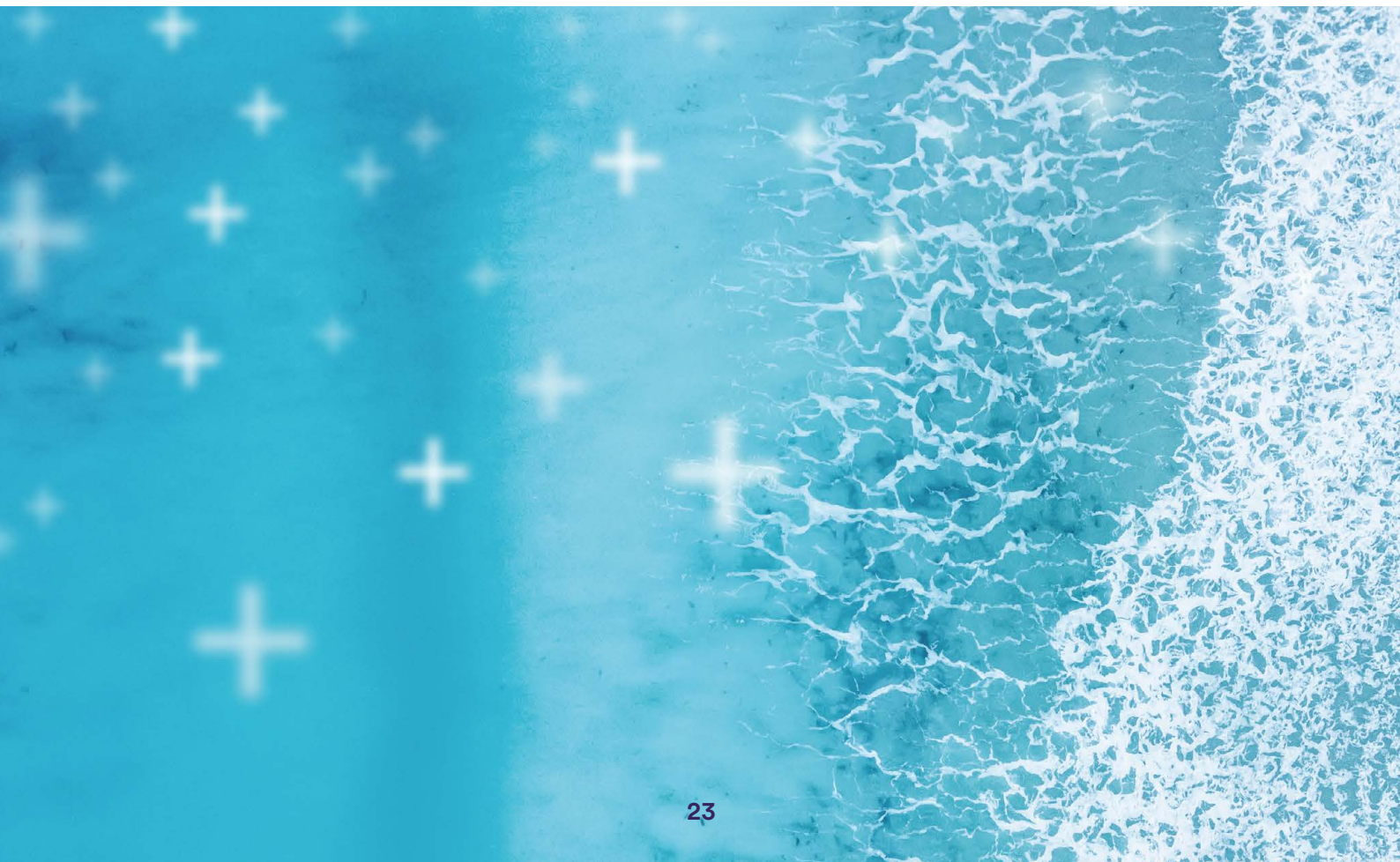
6.5 Variable remuneration

The Remuneration Committee determines whether the proposed bonus pool and proposed long-term incentive plan awards adequately reflect profit and business performance, including:

- the capital adequacy of the business
- risk appetite
- current and future risks

The Remuneration Committee has the discretion to adjust the overall bonus or long-term incentive plan pools (upwards or downwards, potentially to nil) to take into account other factors.

The Remuneration Committee ensures that the aggregate of the variable remuneration for all colleagues is appropriate and balanced with the interests of shareholders and all other stakeholders. Guaranteed variable remuneration is paid only in exceptional circumstances.



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6.6 Quantitative disclosures

21 MRTs were identified for 2020. The aggregate quantitative information on remuneration shown below relates to MRTs only for performance year ending 31 December 2020.

Figure 13. Quantitative Disclosures

	#	Total Fixed (£)	2020 Variable (£)	Of which yet to vest (£)
Senior Managers	6	2,273,198	597,464	222,988
Other MRTs	15	2,914,377	679,807	291,388
Total	21	5,187,575	1,277,271	514,376

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Schroders

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Compensation Scheme. We are covered by the Financial Ombudsman Service.

SPW00223 (09/21)