Version April 2020

CHARLES SCHWAB., UK LIMITED

PILLAR III DISCLOSURES

BASED ON FINANCIAL DATA AS AT 31 December 2019

CONTENTS

1 Overview

1.1 Regulatory Framework

A revised framework governing the amount and nature of capital that credit institutions and investment firms must maintain was published as part of a package of measures known as Capital Requirements Directive IV ("**CRD IV**"), on 1st January 2014. In the United Kingdom, CRD IV is implemented by way of:

- The Capital Requirements Regulation (the "**CRR**"); and

- The Prudential Sourcebook for Investment Firms ("**IFPRU**")

The Financial Conduct Authority ("**FCA**") Framework consists of three Pillars:

Pillar I: Sets out the minimum capital requirements to hold for credit, market and operational risk;

Pillar II: is a capital adequacy assessment and complements the existing Pillar I requirements by assessing the need to hold additional capital under a risk based assessment; and

Pillar III: is targeted at the disclosure that investment firms must make available to the market to include a firm's risks, capital and risk management procedures.

The Board of Directors is ultimately responsible for the risk management framework of the Firm. The risk management framework is the sum of systems, policies, processes and people within the Firm and the wider Group (as defined below), that identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Firm's operations.

The Board of Directors approves in full the adequacy of Firm's risk management arrangements and is satisfied that these are appropriate with regards to the Firm's profile and strategy.

1.2 Scope

This document has been prepared to discharge the obligations placed on Charles Schwab UK., Limited (the "**Firm**") pursuant to Pillar III.

Pillar III requirements as they apply to investment firms authorised pursuant to the requirements of the Markets in Financial Instruments Directive II[1], are contained in Articles 431 – 455 of the Capital Requirements Regulation (the "**CRR**")[2]. The purpose of these disclosures is to provide information on the basis for calculating Basel III capital requirements and on the management of risks faced the Firm.

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[1] The package of EU legislative measure comprising Directive 2014/65/EU, Regulation No 6000/2014 and any related implementing and regulatory technical standards aimed at creating a harmonized single market for investment services and activities in the European Union.

[2] Regulation No 575/2013

The CRR rules governing Pillar III disclosures provide that the Firm may choose not to disclose information which is not material pursuant to Article 432(1) of the CRR. The Firm may also choose not to disclose information if it is proprietary and confidential, though it must state if any such items have been omitted pursuant to Article 432(2) of the CRR except in relation to Risk Management Objectives and Policy (Article 435(2)(C)), Own Funds (Article 437) and Remuneration Policy (Article 450).

1.3 Frequency

Pillar III disclosures will be published on an annual basis following the publication of the Firm's annual report. Given the scale, complexity and range of its activities, the Board assess that there is no current need to publish some or all of its disclosures more frequently than annually.

1.4 Location

The Pillar III disclosure report will be published in the Legal section of the Firm's public website and will also be available on request by writing to the Firm.

1.5 Verification

Disclosures will only be subject to external verification to the extent that information or statistics are taken from the Firm's audited financial statements. These disclosures explain how the board of directors of the Firm (the "**Board**") has calculated certain capital requirements and information about risk management generally. They do not constitute financial statements and should not be relied upon generally when you are making judgements about the Firm or its activities.

2 Group Structure and Governance

2.1 Ownership Structure

The Firm is a wholly owned subsidiary of Schwab International Holdings, Inc. ("**SIH**"). SIH is a subsidiary of The Charles Schwab Corporation ("**Schwab**"), a U.S. publicly traded financial services company, listed on the NYSE under ticker symbol "SCHW" and supervised by the Federal Reserve Bank. As a U.S.-listed company, Schwab must adhere to the Sarbanes Oxley legislation. Schwab and its subsidiaries are referred to, where relevant, as "**the Group**" in the remainder of this disclosure document.

The Firm has entered into an Inter-Company Services Agreement with Charles Schwab & Co., Inc. ("**CS&Co**") a U.S. broker dealer registered with the Securities and Exchange Commission ("**SEC**") and member of the self-regulatory organization the Financial Industry Regulatory Authority ("**FINRA**"). CS&Co is part of the Group. The Firm's material identified risks are derived primarily from the ability of CS&Co, to continue to discharge its duties and obligations under the Inter-Company Services Agreement. All risks identified are within the Firm's risk appetite.

Although part of the Group, the Firm is managed "stand alone" for liquidity purposes and management do not foresee any impediments to the prompt transfer of capital between affiliates within the Group should the need arise.

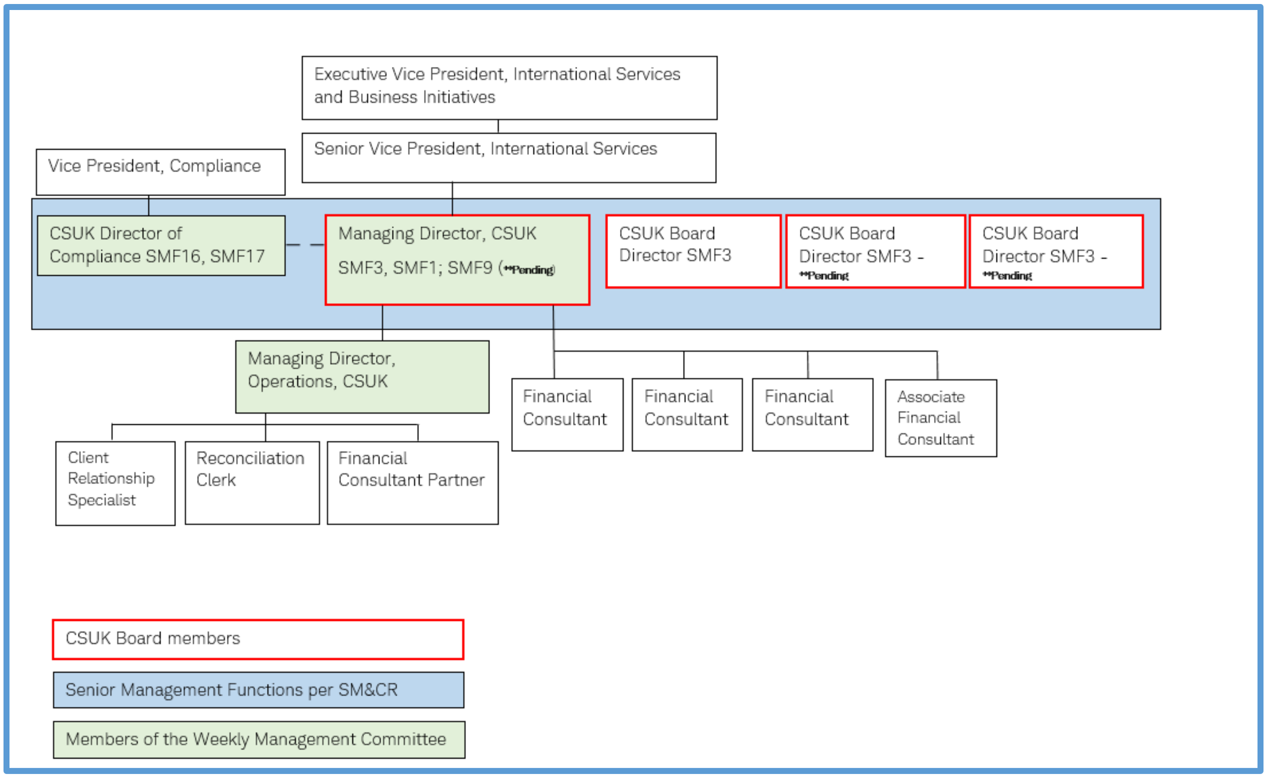
2.2 Firm – Regulatory Status

The Firm is authorized and regulated as a broker-dealer by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorized as an "IFPRU 125k Limited License Firm" by the FCA for capital purposes. The Firm operates on an execution only basis and accordingly has no trading book exposures.

More details of the Firm's regulatory status is available here:

https://register.fca.org.uk/ShPo_FirmDetailsPage?id=001b000000MfSgXAAV

2.3 Board and Group Committee Structure



The Firm's leadership consists of a business lead for the Firm (Managing Director) as shown within the chart above. At Board level, the CSUK Managing Director (who is a sitting member of the CSUK Board) is supported by additional Board level Directors. The Board is further supported by the CSUK Director of Compliance, who supports the CSUK Managing Director with all matters relating to regulatory compliance as well as Anti-Money Laundering.

Additionally, the CSUK Managing Director is supported in respect of day-today operational activities by the Operations Managing Director and the CSUK Operations team. CSUK Management meet on a weekly basis and any relevant matters are discussed and raised with the UK Board on at least a quarterly basis.

2.4 Governance

The Board has the ultimate responsibility for the Firm's risk management, risk strategy and determining an appropriate risk appetite as well as setting the tolerance levels within which the Firm must operate.

Executive ownership of the Internal Capital Adequacy Assessment Process ("**ICAAP**") rests with the Board with day-to-day accountability owned by the Firm's Compliance Director.

The persons responsible for managing the Firm's business on a day-to-day basis ("**Senior Management"),** meet on a regular basis. These internal meetings are convened to ensure that Senior Management have appropriate oversight and accountability for the day-to-day management of the Firm's activities and with a view to ensuring the ongoing effective and prudent management of the Firm.

Periodic and ongoing assessment of the competence of staff are conducted. All members of Senior Management and other FCA approved persons are required to attest to their ongoing compliance with the fitness and properness obligations of the FCA approved persons' process. On an ongoing basis all staff including Senior Management, undergo training on a variety of regulatory topics on a rolling/annual (as appropriate) basis.

2.5 The Board

As at 31 December 2019, the Board was comprised of the individuals listed below. Also included (as required by Article 435 of CRR), are the number of directorships held by members of the Board.

Name	**Position**	**Directorships Held ***
William Quinn	Director	[1]
Richard Flynn	Director	[1]

** Directorships within the Group are counted as a single directorship. Directorships held outside of the Group are counted individually.*

The Board intend to hold a minimum of four meetings each financial year, with additional Board meetings convened as required. Meetings are minuted and the Board receives agenda items as well as a board pack in advance to review.

The Firm is committed to providing equal opportunities and fair remuneration based on the role and performance for all staff, irrespective of gender or ethnicity, including at Board level. To support the objectives of equal opportunities, the Firm applies diversity standards as applied at CSC. The Firm recognizes the value of a diverse and skilled workforce and management body, which includes and makes use of differences in the age, skills, experience, background, race and gender between them. A balance of these differences will be considered when determining the optimum composition.

The Firm is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the Firm into the future. The Firm is in the process of establishing a dedicated diversity policy in relation to the Board. The Firm has policies in place for recruitment, equal opportunities, disciplinary and grievance and remuneration.

2.6 Risk Management – Three Lines of Defense

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business.

Risk management is delivered at the Firm through the **Three Lines of Defense** model which prevails across the Group.

Business-Line Management (1st Line of Defense)

Business-line management is responsible for identifying, assessing, and managing risks within their span of control, in accordance with the Firm's risk appetite, corporate policies and standards. Line of business management is required to establish, maintain, and enforce policies, procedures, and controls designed to manage risk and achieve and/or monitor compliance with applicable regulatory requirements, to train their employees and workers on such policies and procedures, and to supervise accordingly. This includes documenting internally, the risks inherent in their area of responsibility, associated key rules and regulations, and a description and assessment of the key control activities.

Independent Risk Management (2nd Line of Defense)

Independent risk management functions contribute to the effective risk management practices across the Group and at the Firm by developing policies consistent with risk appetite, setting standards, monitoring risk management practices, executing controls, testing, and reporting on risk activities and emerging risks. The second line, at a Group level, is comprised of Corporate Risk Management, Corporate Compliance Services, and Global Data Management.

Internal Audit (3rd Line of Defense)

The primary role of Internal Audit is to help the Board and Senior Management protect the assets, reputation, and sustainability of the Firm. The Internal Audit Department of the Group provides independent and objective assessments to determine whether all significant risks are identified and appropriately reported by management and risk functions to the Board and Senior Management, to evaluate whether risks are adequately controlled, and to challenge Senior Management to improve the effectiveness of governance processes, risk management, and internal controls.

The Firm's Compliance Director has responsibility for the implementation and enforcement of the Firms' risk principles with ultimate responsibility resting with the Board.

2.7 Operational Risk Management Framework

The Operational Risk Management ("**ORM**") framework is designed to oversee operational risk management across the Group, including at the Firm. The objective of the ORM framework is to maximize value while remaining within risk appetite. This includes helping the Firm meet its objectives through more informed decision making. The primary objective of the ORM framework is a repeatable operational risk lifecycle in order to identify, prevent and mitigate operational risk.

Group Level - ORM framework components

Lines of Responsibility and Accountability: The Group Corporate Operational Risk Management Policy (which applies at the Firm), documents the lines of responsibility and accountability for management and the Corporate Operational Risk ("**COR**") function. Ultimate responsibility and accountability for the Firm rests with the Board.

Policies and Procedures: Maintained policies and procedures for the overall ORM program and individual framework elements. These policies and procedures document the guidelines which instruct workforce actions and the methods of executing operational risk processes.

ORM Training: On an annual basis, COR develops ORM specific modules within the overall Enterprise Risk Management ("**ERM**") Training which is an annual requirement for all applicable Firm employees to take and comply with.

Committee Structure: The Operational Risk Oversight Committee ("**OROC**"), reporting to the Global Risk Committee ("**GRC**"), coordinates the oversight and approval of operational risk at Group level. Together with the International Rick and Compliance Committee ("**ICRC**"), these committees represent an additional layer of oversight on the risk management processes imbedded at the Firm.

Risk Escalation and Oversight: The risk oversight process provides the basis for appropriate review and challenge to business unit decision making. Residual risks and adverse events are classified as Level 4 and Level 5 and are subject to additional Business Unit Risk Forums, Senior Management Committees, and applicable Risk Management Subcommittees. These Business Units, Committees and Subcommittees interact with the Firm Compliance Director and the Board, as required.

2.8 Group Level - Risk Identification and Assessment

The Firm, leveraging Group level resources where appropriate, identifies, assesses and categorizes risk across the Group, including at the Firm through an ongoing evaluation of Internal and external changes to current risk exposures.

Key Risk Profiles: A COR-lead process using facilitated sessions to identify, monitor and document operational risk exposures that originate outside the Group or at the Firm. This process is the initial building block for key risk indicators and management reporting.

Risk and Control Self-Assessment (RCSA): The RCSA is used to identify and document, along with other risk categories, operational risks and related controls. The RCSA is a framework utilized across the Group and at the Firm, that management uses to document its risks, express its opinion about current risk exposures, and the current strength of the control activities in place to mitigate those risks.

Operational Risk Oversight Coordination: COR uses information generated by departments, committees and working groups, each of whom is tasked with specific oversight and control responsibilities to assess the operational risk exposures.

2.9 Group Level – Risk Monitoring and Reporting

Risk Appetite: The Operational Risk Appetite Statement, the Board's approved expression of the level and type of risk the Firm is willing to accept in pursuit of its strategic objectives is reviewed and approved annually by the Board or Board Committee. This Operational Risk Appetite is discussed within the Strategic Business Board Plan and is discussed annually.

Emerging Risk: COR monitors newly developing or changing risk which may have an impact on the Firm. Sources of emerging risk may be external (industry news) or derived from internal data (example, Key Risk Indicators) and may be driven by new economic, technological, socio-political, business environment, or environmental changes.

Key Risk Indicators (KRIs): Metrics provide information to aid Senior Management in detecting when the frequency or severity of known key risks has changed. KRIs should align (where appropriate) to the Risk Appetite Monitoring Metrics ("**RAMM**") and Key Risk Appetite Metrics ("**KRAM**") reported to the OROC and the Board.

Risk Event & Loss Reporting: This information is used in conjunction with scenario and external loss data as an input into the Firm's capital calculation data set, aid in the analysis of operational risk trends, and support reporting to Senior Management and the Board.

2.10 Risk Measurement

The Firm, leveraging Group level resources where appropriate, utilizes techniques and processes to measure, analyze, and consolidate operational risks.

Capital Modeling: Capital modeling is used within the Group to understand its exposure to Operational Risk for both expected and unexpected loss at the corporate level. This is accomplished by utilizing the Financial Risk Management ("**FRM**") Expected Ops Loss and similar models, as applicable.

Scenario Analysis: Scenario Analysis is the exercise of using the informed opinion of business, subject matter and risk management experts, in combination with available 'Business Environment and Internal Control Factors' ("**BEICF**") information, to identify the frequency and impact of plausible scenarios not previously included within the operational risk input to the capital calculation data set. Scenario analysis is also an effective tool to consider potential sources of significant operational risk and the need for additional risk management controls or mitigation solutions.

2.11 Risk Mitigation and Control Optimization

The Firm, leveraging Group level resources where appropriate, applies techniques and processes for using risk and control information to improve effectiveness. This includes the oversight of remediation for any issues and action plans.

Operational Risk Testing: Through collaboration with stakeholders, provides objective and thematic evaluations of risk management activities within the Firm through validation programs, standards, and controls to drive continuous improvement and minimize operational risk impacts. This process is performed by the Group level Operational Risk Testing ("**ORT**") Team.

Issue and Action Plan Management: The identification, capturing, classifying, and monitoring of operational risk issues across the Group (including at the Firm) irrespective of the source of identification (Business Self-Identified, Audit, Regulatory Exam, etc.).

Risk Acceptance: A process that provides the minimum requirements to consider, and appropriate level of management approval required, when making a determination to accept risk.

2.12 Board Declaration - Adequacy of the Risk Management arrangements

The Board considers that it has in place adequate systems and controls with regard to the Firm's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

3 Own Funds

3.1 Capital Management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital as at 31 December 2019, was £5.09 million.

Regulatory capital is determined in accordance with the requirements of the CRR and the Firm's regulatory capital is divided into two tiers:

- Tier 1 capital - the total of issued share capital, retained earnings and reserves created by appropriations of retained earnings, adjusted for the net of the book value of goodwill, intangible assets and deferred tax assets that rely on future profitability if they represent greater than 10% of own funds; and

- Tier 2 capital – is designed on supplementary capital and is composed of items such as revaluation reserves, hybrid instruments and subordinated debt.

The entire base of capital resources can be regarded as Tier 1 capital i.e. the most robust category of financial resources against which all requirements can be measured.

The Firm's objectives when managing capital are i) to comply with the regulatory capital requirements set by the FCA ii) to safeguard the Firm's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and iii) to maintain a strong capital base to support the development of its business.

3.2 Capital Resources Calculation

The Firm has complied with the capital requirements set out by the FCA. See Table 1 below.

Table 1

As at 31 December 2019	**Actual 2019 £000**	**Forecast 2020 £000**	**Forecast 2021 £000**	**Forecast 2022 £000**
Capital resources	5,091	5,361	5,584	5,813
Capital requirement – regulatory pillar 1 (100%)	1,638	697	697	642
Capital requirement – incl. buffer pillar 2 (130%)	2,129	906	906	835
Surplus – regulatory pillar 1 (100%)	3,453	4,664	4,887	5,171
Surplus – incl. buffer pillar 2 (130%)	2,962	4,455	4,678	4,978
*Solvency ratio (%) regulatory pillar 1 (100%)	311%	769%	801%	905%
*Solvency ratio (%) incl. buffer pillar 2 (130%)	239%	592%	616%	696%

** Solvency ratio is capital resources divided by capital requirement expressed as a percentage for both the regulatory requirement under pillar 1 and with an internal capital guideline minimum of 130%.*

No estimates of appropriations of profit have been included in the budgeted figures; the Firm intends to retain a healthy surplus of capital resources in line with current levels.

3.3 Capital Adequacy

The Pillar I capital requirement under CRD IV is the higher of i) the fixed overhead requirement and ii) the sum of the credit risk capital requirement, market risk capital requirement and settlement risk capital requirement (the sum of points a) to d) and f) of Article 92 (3)).

The Firm is required to meet further requirements of the Directive under Pillar II and assess the cost of following a plan that allows an orderly run-off following the decision to wind up the business.

The FCA takes into account the above assessments during their Supervisory Review & Evaluation Process (SREP) before issuing any Individual Capital Guidance (ICG). Overall, the Firm must therefore hold capital based on the higher of the Pillar I and Pillar II calculations in accordance with guidance from the FCA. Pillar II capital requirements are outside the scope of this disclosure document

As a result of its ICAAP review, it is considered that the Firm holds adequate Pillar 1 and Pillar 2 capital taking into account the size and complexity of the Firm's business. As at 31 December 2019, the Firm held £5.09 million in capital.

The Firm maintains capital resources in excess of its capital resources requirement. This is considered to provide more than sufficient working capital for the purposes of meeting the needs of the business. The Firm's ICAAP will be made available to the FCA on demand in accordance with Article 438 (2)(b) of the CRR.

4 Specific Risks to the Firm

4.1 Market Risk

Market risk is the risk of loss that arises from fluctuations in the values of, or income from, assets and liabilities as a result of movement in market rates of prices.

For further information on how Market risk may affect the Firm and the Firm's approach to mitigating it, please contact us.

4.2 Credit Risk

Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

The Firm has no history of bad debts. Accordingly, the amount that the Firm is required to hold to hedge counterparty risk in respect of monthly income due, is considered to be more than adequate. Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the standardized approach detailed in IFPRU 4.2 when calculating risk weighted exposures.

For the Firm, credit risk amounts to 8% of the total risk weighted exposure. All balances are weighted according to their category and credit rating.

For further information on how Credit risk may affect the Firm and the Firm's approach to mitigating it, please contact us.

4.3 Operational Risk

Operational risk is defined by the FCA as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. As a Limited License Firm, the Firm is not required to hold capital at Pillar I under the FCA's standardized approach to operational risk (IFPRU 5.1.1) and has not done so.

For further information on how Operational risk may affect the Firm and the Firm's approach to mitigating it, please contact us.

4.4 Liquidity Risk

Liquidity Risk is the risk a firm (although solvent) either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or that it can secure such resources only at excessive cost. The Firm maintains adequate liquidity to cover its needs on a daily basis, and is self-sufficient in terms of its liquidity requirements.

For further information on how Liquidity risk may affect the Firm and the Firm's approach to mitigating it, please contact us.

4.5 Other Risks

Other risks considered as part of the Pillar 2 process include Concentration Risk, Reputational Risk, Liquidity Risk and Business Risk. It has been determined that the controls that are in place, through existing business policies and frameworks, negated these risks, or that there is no inherent risk to the business from them.

4.6 Unencumbered assets

In accordance with Article 443 of the CRR, Table 2 below provides details of encumbered and unencumbered assets. As asset is considered encumbered if it has been pledged, or is subject to any form of arrangement to secure, collateralize or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

Table 2

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	211,500	211,500	5,851,872	5,851,872
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other assets	211,500	211,500	5,851,872	5,851,872

5 Remuneration

Remuneration Oversight

Oversight of remuneration at the Firm is a key priority and relevant discussions take place as part of the CSUK Management Committee forum, which then escalates any matters to the Board of Directors. The CSUK Management Committee's responsibility includes ensuring alignment with regulatory requirements in the United Kingdom relating to remuneration. To support this topic, CSUK has in place appropriate remuneration Governance and Policies and operates in line with group approach adopted at CSC.

To support the above work, due consideration is given to following topics:

- **Code Staff**: identify all employees that could have a material impact on the Firm's risk profile.
- **Remuneration and Performance**: Remuneration consists of fixed pay (i.e. salary), variable incentive pay and benefits. Fixed pay is aligned with the market for similar roles at similar sized companies. All variable incentive pay is dependent on the achievement of financial and non-financial measures at the Firm, and performance at an individual level. All variable incentive pay includes consideration of adherence to effective risk management at both the plan and individual level.
- **Performance Measures**: Both financial and non-financial measures are considered.
- **Risk assessment**:
  - As part of the risk assessment the following factors are included;
    - The Risk Management Framework, the risk profile, risk events and issues arising over the period;
    - Operational and fraud losses arising in the period;
    - Compliance with existing policy and guidance and regulatory breaches arising;
    - Outputs from Compliance Monitoring and Anti-Money Laundering Review activity; and
    - Financial Performance

The CSUK Managing Director will engage with all relevant stakeholders to ensure a fair and balanced approach takes place in respect of remuneration. Where appropriate, this may require escalations to UK Board for approval.

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