HARGREAVES LANSDOWN PLC
PILLAR 3 DISCLOSURES

BASED ON FINANCIAL DATA AS AT 30 JUNE 2015

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Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row

1 Overview

1.1 Regulatory Framework

On 1st January 2014, the European Union established a revised framework governing the amount and nature of capital that credit institutions and investment firms must maintain. The Directive is commonly known as CRD IV and is directly binding on firms in the UK. The applicable resulting regulations are:

- The Capital Requirements Regulation – ("CRR")
- Prudential sourcebook for investment firms – ("IFPRU")

The framework consists of three pillars:

Pillar 1	The minimum capital requirements of firms to cover credit, market and operational risk;
Pillar 2	Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk based assessment; and
Pillar 3	A set of disclosure requirements which enable the market to assess information on firm's risks, capital and risk management procedures.

The detailed assessment of the requirements under Pillars 1 and 2 are carried out within the Internal Capital Adequacy Assessment Process ("ICAAP").

The disclosure of this document meets Hargreaves Lansdown Plc (the "Company") obligation with respect to Pillar 3. The Pillar 3 disclosure requirements are contained in Articles 431-455 of the Capital Requirements Regulation ("CRR"). The purpose of these disclosures is to provide information on the basis of calculating Basel III capital requirements and on the management of risks faced by the Company and its subsidiaries (together the "Group").

The CRR rules, governing Pillar 3 disclosures, provide that the Group may choose not to disclose information which is not material (Article 432) (1). The Group may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted (Article 432) (2) with the exception of Risk Management Objectives and Policy (Article 435 (2) (C)), Own funds (Article 437) and Remuneration Policy (Article 450).

1.2 Group structure & composition

The accounting consolidation for the annual financial statements includes all entities controlled by Hargreaves Lansdown Plc. The prudential consolidation ("UK Consolidation Group") includes all entities with the exception of some Dormant and Trustee companies including the Employee Benefit Trust ("EBT") - see table 1. The reserves of the EBT are not distributable by the Group, as the assets and liabilities of the EBT are subject to management by the Trustees in accordance with the EBT trust deeds.

All trading subsidiaries are wholly owned with the exception of Library Information Services Ltd (78% owned). Apart from the requirements of the UK regulator, the Financial Conduct Authority ("FCA"), to hold regulatory capital in individual regulated entities and corporate law restrictions on the reduction, redemption and purchase of share capital, there are no practical or legal impediments to the prompt transfer of capital between the Company and its subsidiaries.

Company name Prudential UK Consolidation Group:	Principal activity	Regulation CRD IV
Hargreaves Lansdown Plc	Non-regulated holding company.	CRD IV
Hargreaves Lansdown Asset Management Ltd	Providing FCA regulated products and services. A SIPP, ISA and platform operator, providing regulated advice and associated services.	Limited Licence IFPRU €125k firm
Hargreaves Lansdown Fund Managers Ltd	Providing FCA regulated products and services, specifically Alternative Investment Fund management and Collective Portfolio Management services.	Collective Portfolio Manager (CPM)
Hargreaves Lansdown Advisory Services Ltd	Provision of FCA regulated Advisory Services to retail and corporate clients.	Personal Investment Firm (PIF)
Hargreaves Lansdown Stockbrokers Ltd	Provision of FCA regulated products and services, principally execution only stock broking services.	Limited Licence IFPRU €125k firm
Hargreaves Lansdown Savings Ltd	Provision of digital deposit services. A start-up company that is not currently FCA regulated and not currently trading.	CRD IV
Library Information Services Ltd	Provision of funds library services to HL and third parties.	CRD IV
Hargreaves Lansdown Investment Management Ltd	Dormant	CRD IV
Hargreaves Lansdown Pensions Ltd	Dormant	CRD IV
Trustee & Dormant Co's excluded from Prudential UK Consolidation Group:		
Hargreaves Lansdown (Nominees) Ltd	Non-regulated nominee company into whose name securities or other properties are transferred in order to facilitate transactions, while leaving the customer as the actual owner.	
Hargreaves Lansdown EBT Trustees Ltd	Corporate trustee for the Hargreaves Lansdown Employee Benefit Trust	
Hargreaves Lansdown Pensions Trustees Ltd	Corporate trustee for the Hargreaves Lansdown SIPP	
Hargreaves Lansdown Trustee Company Ltd	Corporate trustee for the Share Incentive Plan	
Hargreaves Lansdown Insurance Brokers Ltd	Dormant	

Table 1: Entities included/excluded within the prudential consolidation (UK Consolidation Group)

1.3 Frequency

Pillar 3 disclosures will be made on an annual basis following publication of the Group's annual report.

1.4 Location

The Pillar 3 disclosure report will be published in the Investor Relations section of the Group's website (www.hl.co.uk), and will also be available on request by writing to Investor Relations.

1.5 Verification

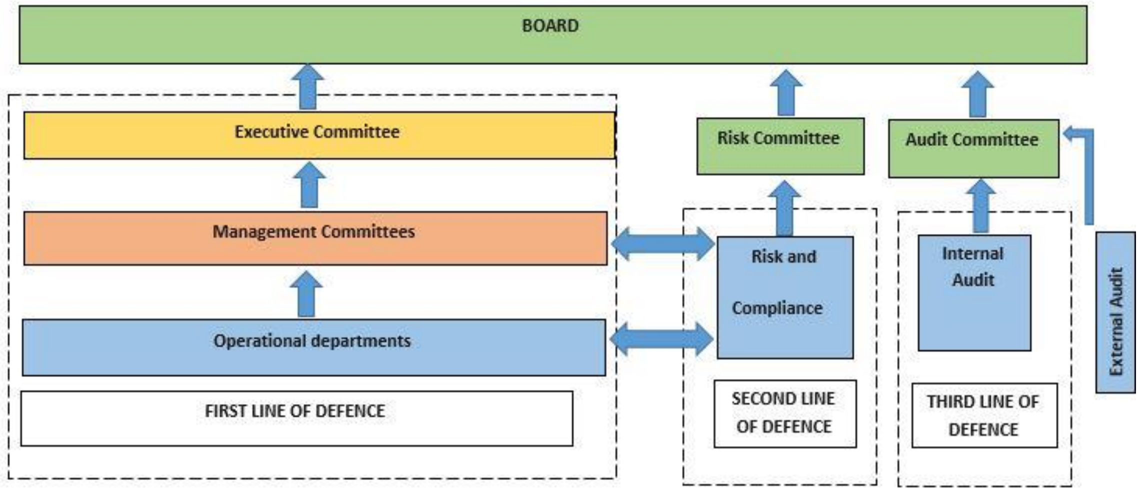
Disclosures will only be subject to external verification to the extent they are equivalent to those taken from the audited annual financial statements. These disclosures explain how the Hargreaves Lansdown Plc Board (the "Board") has calculated certain capital requirements and information about risk management generally. They do not constitute financial statements and should not be relied upon in making judgements about the Group.

2 Governance

2.1 Governance Structure

The Board is responsible for ensuring proper governance structures are in place and, where appropriate, committees have delegated powers to facilitate the efficient and effective operation of the business.

Key Features of the Controls & Governance Framework



The Group maintains governance arrangements, organisational structures with clear lines of responsibility, effective risk reporting and internal control mechanisms, including sound administrative and accounting procedures. The key features of the Governance Framework are shown above.

The Board, comprising Non-Executive and Plc Directors, is the senior statutory board and retains overall responsibility for the strategic direction, management and business performance and risk management of the Group.

Certain matters not reserved are delegated to:

- Board committees: Risk, Remuneration, Nomination and Audit, with clearly defined terms of reference; and
- The Executive Committee (Exco). Directors of each regulated subsidiary and appropriate senior managers who are responsible for the operations, performance, compliance and risk management of the respective entity.

Note: The Plc Directors and other Directors are Executive positions and shall together be referred to as “Directors” henceforth.

Board Diversity, other Directorships and recruitment policy

Details on our Board members, including other Directorships, are on pages 34 and 35 of the 2015 Report and Financial statements.

When assessing new appointments to our Board, we review carefully the combined skills and experience of the existing Board members to determine what characteristics we are looking for from a new Director. Each member of the Board must have the skills, experience and character that will enable each Board member to contribute both individually, and as part of the team, to the effectiveness of the Board and the success of the Group. We believe that diversity amongst Board members is of great value but that diversity is a far wider subject than just gender. We will give careful consideration to issues of overall Board balance and diversity in making new appointments to the Board.

As at 30 June 2015, the Board numbers six in total, of which one is executive and five independent (including the Chairman). Female Board members constitute 17% of the Board and 10% of the Exco. Subject to the requirements set out above, the Group will aim to maintain female representation on the Board at least at the current level and give due consideration to increasing the level if appropriate candidates are available when Board vacancies arise.

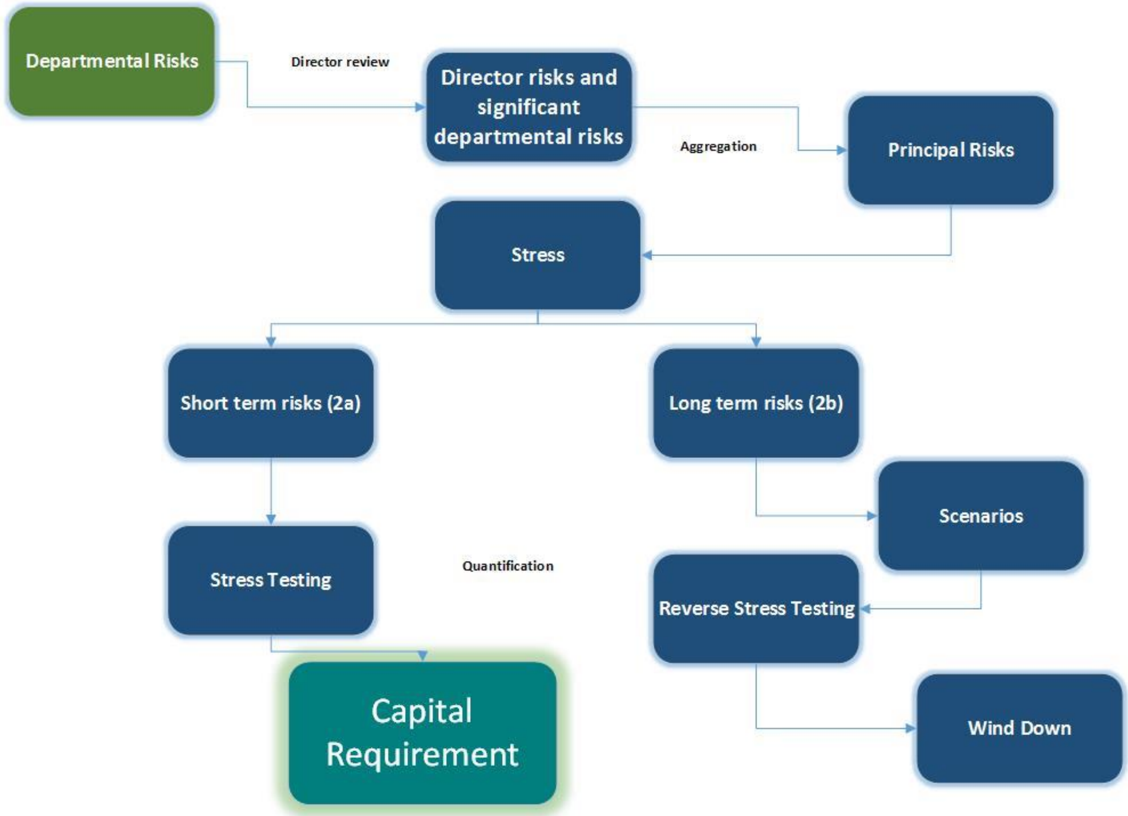
A copy of our full statement on Board diversity can be found on www.hl.co.uk.

2.2 ICAAP

The Group is required, as part of CRD IV, to prepare an internal assessment of the amount and nature of capital it holds in relation to the risks faced, known as the ICAAP. This is a forward looking exercise undertaken at least once a year and reviewed throughout the year.

The output of the Risk Management Framework, described in section 3, provides the Principal Risks that are used within the ICAAP. Each risk is discussed with the relevant member of the Executive Committee as part of the ICAAP process to identify the parameters for the stress tests to identify how much capital the Group needs to hold to cover materialisation of any of them.

The diagram below shows the path from the Risk Management Framework into the ICAAP, resulting in the valuation of the capital requirement. This shows how the Pillar 2 values are calculated from the Principal Risks list. Each risk is stressed and split into Pillar 2a (short term, one year time horizon) costs and Pillar 2b (long term, 3-5 year time horizon) revenue costs. The long-term (2b) risks are then combined to undertake Pillar 2b scenarios which feed into the reverse stress testing. The most severe stress test is used as the entry point into the wind down plan.



2.3 Risk Appetite

Risk appetite is defined as the amount of risk the Group is willing to take in the pursuit of achieving its strategic objectives. The appetites are set by the Board. The Group defines an approved risk appetite for each category of risk which shows the maximum amount we are prepared to lose over a period. The Board has developed a Risk Appetite Statement which helps to guide management actions and ability to accept and manage risks. Through the Risk Management Framework and its Risk Appetite Statement, the Group has formally established and communicated its risk appetite.

To avoid these appetites being breached, there are inner and outer limits in place. These are trigger points where actions should be taken to avoid further losses. Inner limits are the point at which risks are raised to the Executive or Treasury Committee (as applicable) to investigate and take appropriate action. Outer levels are the point at which risks are raised with the Board for further action. All risk appetites and limits are well within our risk capacity.

3 Risk Identification, Assessment & Management

3.1 Overview of the Group's risk management identification and management methodology and processes

The Group adopts a "*three lines of defence"* model. The first line is the operational Directors, managers and staff within the business. The second line comprises the Compliance Department, the Risk, AML and Compliance Monitoring teams and the Information Security department. The third line is Internal Audit.

Risks and controls are owned by managers in the first line, although some detective controls sit in the second line. The Internal Audit team does not own any risks or controls and is independent from the day-to-day running of the business.

Directors have oversight of the risks for the areas for which they are responsible. Risks for their areas are identified and managed by the appropriate risk owners, with the Director reviewing the identified risks and adding any additional strategic-level risks.

The Risk Committee is made up of Non-executive Directors, although other members of the Board and the Executive Committee are invited to attend along with the Head of Risk and the Head of Internal Audit. The Committee meets at least four times a year.

3.2 Roles and Responsibilities within the Risk Framework

Risk owners are responsible for identifying, assessing and managing the risks within their area of responsibility. They must identify key controls in place to mitigate their risks, produce relevant management information, take actions to mitigate risk and ensure the key controls for their risks are working effectively – through management information ("MI") from and discussions with control owners.

The Risk Team is responsible for the Risk Management Framework and co-ordinating risk management within the Group. They challenge the completeness of the Group's risk register, report on risk matters to the Risk Committee and Exco, and co-ordinate updates to the Risk Appetite Statement, including providing guidance and challenge to Directors to identify their appetites and limits.

Internal Audit is responsible for providing opinion on the suitability and effectiveness of the second line, including the Risk Management Framework, testing and providing assurance or opinions on the effectiveness of internal controls.

The Risk Committee is responsible for advising the Board on the Group's overall risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment. The Committee oversees the risk framework, risk activity and resources; it oversees the effectiveness of the risk management procedures, including the Principal Risks and uncertainties relating to the Group and the steps being taken to mitigate them.

3.3 Risk identification and assessment

Risk identification
The Risk Team meet with Risk Owners to identify their main risks, which are then recorded on their risk register. Each Risk Owner owns their risk register and they are responsible for the accuracy of the information contained on it.

Risk evaluation
Each risk identified is evaluated and given a score based on the likelihood of the risk materialising and the impact if it was to occur. The gross score is an assessment of the likelihood and impact before any controls are taken into consideration.

Risk mitigation
As well as identification of risks, the Risk Owners provide details of any mitigating factors/controls in place against each risk. Some controls are considered to be key controls – i.e. direct and precise controls that individually address a risk. Risk Owners should identify which are the key controls and ensure they have sufficient and suitable management information to assure themselves that these key controls are working effectively

Risk response

Actions are added to risks on registers where existing controls are not sufficient to mitigate the risk or are not effective. All red and amber risks on the underlying registers have either an action to mitigate the risk or a moderator note to explain why no further action is currently planned. This could be because we choose to accept the risk.

Current scores are then applied to each risk, to show the score once controls/mitigation has been applied.

Risk monitoring and reporting

Principal risks
The most significant risks faced by the Group – as identified by Risk Owners and Directors – are reported to the Risk Committee and Executive Committee in the form of a list of the Group's Principal Risks. These are also reported annually in the financial statements.

Committee updates
The Risk Team provides an update on risk matters to each Risk Committee and each Executive Committee. The areas covered include the Principal Risks, emerging risks, updates on significant projects, and a summary of losses and incidents.

Control Effectiveness and Control Self-Assessment attestations
The Group's Audit Committee is required to review the effectiveness of its risk management and internal control systems. The results of this review are included in the annual report. In order to support the Audit Committee, Risk Owners are required to assess the effectiveness of the controls for their risks and periodically sign off on the effectiveness of these controls. This will either provide assurance that controls are working effectively or highlight areas where the Risk Owner is unable to confirm that the controls are working as expected and allow for discussion about what can be done to resolve this.

Periodic Risk Reviews
A member of the Risk Team will periodically sit down with each Risk Owner to discuss any changes in their area to ensure the information recorded on the risk registers is accurate, up-to-date and complete

3.4 Summary of risks

The Group considers that its exposure to high level risks can be classified into the following FCA prescribed risk classes:

Pillar 1

Credit risk (see section 6)
Market risk (see section 7)
*Operational risk (see section 8)

Pillar 2

Concentration risk (see section 6.5)
Interest rate risk (see section 7)
Operational risk (see section 8)
Business risk (see section 10)
Liquidity risk (see section 11)

* As a Limited Licence Group, the Group is not required to hold capital at Pillar 1 under the FCA's standardised approach to operational risk (IFPRU 5.1.1). The Pillar I requirement as at 30 June 2015 was the fixed overhead requirement.

These risks are defined and discussed in detail in sections 6 to 11 of this document.

4 Own Funds

4.1 Capital Management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital as at 30 June 2015, as shown in the consolidated financial statements on page 74, was £236.6 million and this capital is managed via the net assets to which it relates. The capital position shown in the audited financial statements reconciles to the regulatory capital of the UK Consolidation Group as shown in table 2 (Article 437 (1) (a))

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

Tier 1 capital, which is 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(see table below).

Tier 2 capital is unrealised gains arising on the fair valuation of equity instruments held as available for sale. The Group has had no Tier 2 capital since 30 June 2007.

The Group currently has no innovative Tier 1 capital instruments. The entire base of capital resources can be regarded as Tier 1 capital. In other words the most robust category of financial resources against which all requirements can be measured.

The Group's objectives when managing capital are i) to comply with the regulatory capital requirements set by the FCA and European Banking Authority ("EBA"); ii) to safeguard the Group'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.

4.2 Own Funds – Capital Resources calculation

The Group has complied with the capital requirements set out by the EBA/FCA. Table 2 shows the breakdown of the total available regulatory capital for the UK Consolidation Group reconciled to the capital shown in the audited consolidated financial statements as at 30 June 2015.

Reconciliation of Own Funds as per audited financial statements and UK Consolidation Group regulatory Own Funds	**30-Jun 2015 £'000**
Own funds as per audited Balance Sheet	236,566
Adjustments to audited Balance Sheet Own Funds:	
Trustee and Dormant companies (Note 1)	(8,104)
Foreseeable dividend (Note 2)	(121,365)
Intangible assets (Note 3)	(4,632)
Goodwill	(1,333)
Total adjustments to audited Balance sheet own funds	**(135,434)**
Regulatory own funds	**101,132**

Table 2: Reconciliation of Own Funds as per audited financial statements and UK Consolidation Group Own funds

Note: (1) Trustee and Dormant companies are excluded from the regulatory definition of the UK Consolidation Group.

Note: (2) Foreseeable dividend is the final and special dividend payable on 30 September 2015 relating to the financial statements for the year ended 30 June 2015. The total ordinary dividend pay-out ratio for the year was 65% plus a special dividend of 34%.

Note: (3) Intangible assets represent software costs and software assets under construction.

For accounting purposes, software and development costs are capitalised as intangible fixed assets where they meet certain criteria. Intangibles do not qualify as capital for Tier 1 purposes and are therefore deducted.

5 Capital Adequacy

5.1 Regulatory Capital Requirement

The Pillar 1 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 UK Consolidation Group and each of the qualifying regulated entities within the Group are required to meet the relevant Pillar 1 regulatory Capital Resources Requirements set out in the Capital Requirements Directive.

The Group is required to meet further requirements of the Directive under Pillar 2 (see section 2.2) 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 Group must therefore hold capital based on the higher of the Pillar 1 and Pillar 2 calculations supplemented by ICG from the FCA.

Pillar 2 capital requirements are outside the scope of this disclosure document. The Group does not foresee any significant change in the level of capital required to satisfy prudential regulations.

5.2 Capital ratios

Since 1st January 2014, the UK Consolidation Group and all qualifying regulated entities within the Group are required to meet the general own funds requirement under Pillar 1 in accordance with Article 92 of the CRR. Institutions shall at all times satisfy the following own funds requirements:

a) A Common Equity Tier 1 capital ratio of 4.5%
b) A Tier 1 capital ratio of 6%
c) A total capital ratio of 8%

CRDIV requires these ratios to be calculated using total exposure values, which are the Pillar 1 requirements multiplied by 12.5.

5.3 Pillar 1 minimum capital requirement calculation

Under CRD IV the Group calculates its Pillar 1 capital requirement as the higher of its fixed overhead requirement and the sum of the credit risk capital requirement, market risk capital requirement and settlement risk capital requirement.

Pillar 1 minimum capital requirement	UK Consolidation Group as at 30 June 2015 - £000's	
	Pillar 1 - 8% own funds requirement (£)	Risk weighted assets- Pillar 1*12.5 (£)
Risk weighted exposure amounts for credit risk (see section 6.2)	10,525	131,565
Total risk exposure amount for operational risk (OPR)	-	-
Total credit risk exposure amount for settlement/delivery (see section 6.3)	663	8,286
Total market risk exposure amount for position, foreign exchange and commodities risks (See section 7.4)	4	49
Additional risk exposure due to fixed overheads (Note 1)	4,256	53,203
Pillar I requirement – fixed overhead requirement	**15,448**	**193,103**
Total UK Consolidation Group regulatory capital resources	**101,132**	
Excess of own funds over Pillar I capital requirement	**85,684**	

Table 3: Pillar 1 capital requirement calculation

Note 1: Additional risk exposure due to fixed overheads is calculated as the fixed overhead requirement less credit risk, market risk and settlement risk.

The Group's total capital ratio as at 30 June 2015 was 52.4% (regulatory capital resources/risk weighted assets)

6 Credit Risk

6.1 Credit risk overview

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

Within the Group's stockbroking operations, the Group is exposed to credit risk from counterparties to a securities transaction during the period between the trade date and the settlement date. This period is generally three business days. The Group has credit exposure that extends beyond the original settlement date if the counterparty fails either to make payment or to deliver securities. These transactions are with financial institutions and clients.

Settlement risk is substantially mitigated as a result of the delivery versus payment mechanism whereby if a counterparty fails to make payment, the securities would not be delivered to the counterparty. In that instance, the securities could be sold in the market and therefore the economic substance of the transaction is that securities serve as collateral in the case of delivery versus payment for trade receivables. Client side settlement risk is mitigated by the procedures and controls operated within the settlements function. As a result, the risk exposure is effectively limited to trades that are past the due settlement date and an adverse movement between the agreed settlement price and current market value. Also, in general, deal sizes are relatively small (average deal size in the year to 30 June 2015 was £2,878) therefore the firm's exposure to large deals is limited.

Other regulatory credit risk within the Group is primarily attributable to fixed assets and other trade receivables. The majority of these trade receivables represent balances due from other regulated financial institutions where there is an ongoing relationship between the Group and institution. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Cash is held with banks or building societies who have been authorised to accept deposits in the UK, and are regulated by the Prudential Regulation Authority therefore recognised as under the protection of the Financial Services Compensation Scheme. The Group considers the credit risk on liquid funds to be limited. The Group takes what it considers to be a conservative approach to treasury management and its selection of banking counterparties, and carries out frequent reviews of all its banks' and custodians' ratings in addition to ongoing monitoring of treasury policy and suitability of banking counterparties.

Credit risk is calculated under the standardised approach as per Article 107. The exposure value of an asset is its accounting value after credit risk adjustments. The credit risk adjustments, shown in table 4, include intangible assets (deducted from tier 1 capital), goodwill (deducted from tier 1 capital) and unsettled trades.

6.2 Analysis of the capital requirement and risk weighted assets for credit risk as at 30 June 2015

Analysis of the Groups credit risk capital requirement	FCA category	Balance sheet	Dormant and Trustee Co's	UK Consolidation Group	Credit Risk Adjustments (Note 1)	Credit Risk exposure	20%	75%	100%	150%	250%	Total
Goodwill	N/A deducted in full from CAT1	1,333	0	1,333	(1,333)	0	0	0	0	0	0	**0**
Other Intangible assets	N/A deducted in full from CAT1	4,614	0	4,614	(4,614)	0	0	0	0	0	0	**0**
Property, Plant & Equipment	Other items	11,990	0	11,990	0	11,990	0	0	11,990	0	0	**11,990**
Deferred tax assets	Central governments	6,118	0	6,118	0	6,118	0	0	0	0	6,118	**6,118**
Trade and other receivables	Corporates	5,255	0	5,255	0	5,255	0	0	5,255	0	0	**5,255**
	Institution	90,664	(859)	89,806	(66,225)	23,581	0	0	23,581	0	0	**23,581**
	Retail	287,815	0	287,815	(244,203)	43,612	0	43,612	0	0	0	**43,612**
	Other items	27,970	0	27,970	(27,889)	81	81	0	0	0	0	**81**
Cash and cash equivalents	Institution	216,753	(7,602)	209,151	0	209,151	209,151	0	0	0	0	**209,151**
Investments		909	0	909	(152)	756	0	0	493	263	0	**756**
Total		**653,422**	**(8,461)**	**644,962**	**(344,417)**	**300,545**	**209,232**	**43,612**	**41,320**	**263**	**6,118**	**300,545**
Total risk weighted assets							41,846	32,709	41,320	395	15,295	**131,565**
Total credit risk capital requirement at 8%							3,348	2,617	3,306	32	1,224	**10,525**

Table 4: Credit risk capital requirement and risk weighted assets as at 30 June 2015 reconciled to audited financial statements balance sheet assets

Note 1: Credit risk adjustments in trade and other receivables relate to trades that are due to settle via Delivery Versus Payment ("DVP").

External Credit Assessment Institutions (ECAI)

The Group uses S&P to assess the credit quality of exposures which have an external credit rating. These are used for Institutional cash and cash equivalents.

Credit Quality Step	Credit Rating	Exposure Value (£)
1	AAA to AA-	15,000
2	A+ to A-	194,151
3	BBB+ to BBB-	0
Cash & Cash equivalents Total		**209,151**
Unrated		91,394
Total		**300,545**

Table 5: Exposure values as at 30 June 2015

6.3 Capital requirement for settlement/delivery risk:

The risk exposure amount for settlement/delivery risk relates to trades that are past the agreed settlement date and is calculated as the price difference between the agreed settlement price of the security and its current market value, where the difference could involve a loss for the Group (Article 378 CRR). As at 30 June 2015 the settlement/delivery risk requirement was £663k.

6.4 Capital requirement for 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 Licence Group, the Group is not required to hold capital at Pillar 1 under the FCA's standardised approach to operational risk (IFPRU 5.1.1) and has not done so.

6.5 Concentration risk

Concentration risk is a component of credit risk, resulting from a concentration of exposures in particular sectors or geographic areas. Large exposures are few and far between in the Group's books, particularly since its main non-trading book counterparty exposures are incurred in the ordinary course of settlement.

The business of the Group is undertaken within the financial services sector and predominantly with UK based clients and financial institutions. The risks arising are therefore concentrated within this business sector and geographical location. The client base is broad without significant exposure to any individual client or group of clients.

The Group is exposed to risks arising from a concentration of own funds within banking institutions. The risk is carefully monitored and assessed by the Executive Treasury Committee, in line with the Treasury Policy agreed by the Board. This risk is modelled in our Pillar 2 calculations and an appropriate amount of capital is held.

7 Market Risk

7.1 Market risk overview

Market risk is the risk of an impact on the Group's financial position due to movements in interest rates, exchange rates or other stock market movements affecting the value of its trading book or any investments held.

The Group is exposed to business risk arising from a downturn in stock markets and the subsequent fall in revenue from assets under administration.

7.2 Interest rate risk in the non-trading book

The Group is exposed to interest rate risk. Interest rate risk is the risk that the Group will sustain a loss of revenue from adverse movements in its interest bearing assets. There is an exposure to interest rates on banking deposits held in the ordinary course of business. At 30 June 2015 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £217 million comprising cash and cash equivalents. Exposure to interest rate risk arising on the Group's cash deposits is mitigated by cash deposits generally being held on terms that allow for repayment on demand.

The Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings.

As a source of revenue is based on the value of client cash under administration, the Group has an indirect exposure to interest rate risk on cash balances held for clients. These balances are not on the Group balance sheet.

The Group is also exposed to business risk arising from the impact of interest rates on the wider investment market as the Group derives revenue from assets under administration.

7.3 Foreign exchange risk

The Group is not exposed to any material foreign exchange risk.

7.4 Trading book position risk

The Pillar 1 market risk requirement is based on trading book positions undertaken by the Group. None of the subsidiary companies trades as principal and therefore the Group has little direct exposure to market risk. The only position held is in the books of Hargreaves Lansdown Fund Managers Ltd ("HLFM"), this being the "manager's box" which is required as a day to day trading balance for the creation and cancellation of units. This position is assigned a 32% risk weighting in accordance with Article 348 (1) CRR and as at 30 June 2015 the market risk requirement was £4k.

7.5 Non-trading book exposures in equities

At 30 June 2015, the Group had £0.9m of equity investments in the non-trading book classified as available for sale. £0.6m were listed investments and the remaining £0.3m were unlisted investments held at cost value.

8 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal and financial crime risks, but does not include strategic, reputation and business risks. The Group seeks to mitigate operational risk in accordance with its risk management process outlined in section 3.

As a Limited Licence Group, the Group is not required to hold capital at Pillar 1 under the FCA's standardised approach to operational risk and has not done so. However, in assessing each of our Principal Risks, some have an operational impact, particularly in relation to technology, IT and systems and areas that can give rise to regulatory issues. The financial and reputational impact of these risks has been assessed and stressed as part of our Pillar 2 analysis to calculate an appropriate capital figure. The Group maintains insurance against a number of major operational risks.

9 Reputational risk

Reputational risk is the risk that any event or circumstance occurs that could adversely impact the Group's reputation. The effect could be a loss of confidence in the business by clients which would ultimately affect the ability to generate income.

The Group's reputation has been built up over many years and is a contributing factor to attracting and retaining clients. This covers brand damage, negative media coverage or poor PR, although many risks may carry an element of reputational risk. The Group may suffer reputational damage through the materialisation of any of the risks in this document; therefore a separate appetite for reputational risk has not been set. For Pillar 2 purposes, reputational risk has been assessed akin to our most severe reverse stress test as the entry point to our wind down plan.

10 Business risk

Business risk is the exposure to uncertainty in the macroeconomic environment. Business risk is managed with a long-term focus, assisted by appropriate management oversight and a corporate governance framework.

The most significant business risk exposure to the Group is a severe and prolonged downturn in financial markets. The Group assesses a Pillar 2 capital requirement in respect of this risk by projecting the effects of this scenario and also by considering the mitigating action which could be taken to reduce the effect.

11 Liquidity risk

Liquidity risk is defined as the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Group assesses liquidity risk in the ICAAP by modelling the impact of stress testing and scenarios, in particular relating to the operational risks identified, against the base case cash flow forecast. The timing of cash outflows and inflows is relatively fixed and the majority of capital is represented by cash and hence can be considered a readily realisable asset.

The Group has always maintained a healthy surplus of financial resources, which are represented to a large extent by cash or readily realisable assets. Liquidity risk is managed within the scope of the firm's appetite for liquidity risk and the Group Treasury Policy. The liquidity management process and framework, linked to the risk management framework, enables the Group to identify, measure, monitor and manage liquidity risk.

12 Remuneration Code Disclosure

The Remuneration Committee is responsible for the framework or broad policy for the fair remuneration of the "Material Risk Takers" (as defined in accordance with the FCA's Remuneration Code ("the Code")) as well as their performance management. The policy is determined with due regard to the interests of the Group and the shareholders. The Committee makes recommendations to the Board. No individual plays a part in any discussion about his or her own remuneration.

The Remuneration Committee meets at least twice per year and is governed by formal Terms of Reference, which are reviewed annually. The Remuneration Committee is comprised of three independent Non-executive Directors and the Non-executive Chairman of the Group. The Committee appointed and received advice from:

Deloitte LLP: advice regarding remuneration legislation changes and review of the Remuneration Report.

The Committee's purpose is to:

- determine and recommend to the Board the remuneration policy for the Directors;
- ensure the level and structure of remuneration is designed to attract, retain, and motivate the Directors needed to run the Group; and
- monitor the level and structure of remuneration for senior management, to include Directors and Material Risk Takers.

The performance measurement of the Directors is undertaken by the Committee. The Committee also determines the annual remuneration for Directors, and agrees the remuneration for all

Material Risk Takers, with consideration given to their performance for the period. The Committee also ensures that the remuneration relationship between the Directors and senior employees of the Group is appropriate. Any exceptional remuneration arrangements for senior employees are advised to the Committee.

The principles of the Hargreaves Lansdown Remuneration Policy for Directors is as follows:

- Attract and retain Directors of the calibre needed to maintain the Group's position as a market leading financial services company.
- Reward Directors for enhancing shareholder value and acting in the long-term interests of the Group.
- Pay a market competitive total remuneration package.
- Provide significant performance related opportunity for variable remuneration.
- Achieve long-term retention through direct share ownership and long-term incentives.
- Provide a modest provision for retirement with the opportunity for Directors to contribute more through salary and/or bonus sacrifice.

Directors may be paid a discretionary Performance Bonus for each financial year of the Group. Performance Bonuses are determined based on performance in the year assessed against a number of key areas of performance. Annual Performance Bonuses are non-pensionable. Performance Bonuses will be materially affected if either the Group or an individual falls short of performance expectations. No Performance Bonus will be paid should the Committee consider it inappropriate.

There is a deferral element to the Performance Bonus. For the year ended 30 June 2015, 30% (30 June 2014 – 20%) of all Performance Bonuses were waived in favour of deferred awards. The deferred awards will ordinarily be over shares on which dividends (or dividend equivalents) are earned. However, providing the Director satisfies the minimum shareholding target with reference to base salary, the option is given for deferred awards to be in shares on which dividends (or dividend equivalents) are earned, in cash on which no interest will be earned, or a mixture of shares and cash. The right to exercise deferred awards will vest after three years provided the individual remains employed by the Group.

Criteria for the annual performance bonus are determined by the Group's performance and personal performance as follows:

Group performance:

- Success in gathering profitable client assets
- Improving and maintaining long-term profitability
- Robustness, sustainability and scalability of operations
- Risk management
- Compliance
- Client satisfaction

Personal performance:

- Setting direction
- Executing new initiatives
- Improving and protecting the client base
- Cost control
- Process improvement
- At least 3 role-specific objectives

Long term incentives are provided by the Long Term Incentive Plan ("LTIP") under which regular grants are made each year at market value at the time of the grant. The extent to which a number of performance tests are met over a period of three years will determine the proportion of the share options that can be exercised by Directors.

Malus provisions exist on the deferred element of the annual Performance Bonuses and unvested awards made under the LTIP, and clawback provisions exist for the 2015 LTIP awards, and to the annual bonus earned for the year ending 30 June 2016.

In the performance year ended 30 June 2015, on the basis that Hargreaves Lansdown is one business unit, there were 43 Code Staff (2014 – 28) who received total remuneration of £11,187,663 (2014 – £7,921,705)

Hargreaves Lansdown is a Tier 3 firm for Remuneration Code purposes.